

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**None FOREIGN FOOD AID DONATION PROGRAM****I. PROGRAM OBJECTIVES**

The United States Agency for International Development (USAID) donates agricultural commodities to foreign countries under Title II of the Agricultural Trade Development and Assistance Act of 1954 (Pub. L. No. 480, Title II) (7 USC 1722). This program includes donated commodities, monetization from the sale of commodities, and payments referred to as Section 202(e) grants (7 USC 1722(e)).

II. PROGRAM PROCEDURES**General Overview**

As the primary conduit of humanitarian assistance for USAID, the Bureau of Humanitarian Response (BHR) is charged with the overall responsibility for USAID's response to humanitarian crises, both natural and complex. The Office of Food For Peace (FFP) manages Pub. L. No. 480, Title II (Title II) provisions for agricultural commodities food assistance that is channeled to foreign countries. Food assistance is also authorized and delivered under Titles I and III of Pub. L. No. 480, as well as under other legislation. This Supplement covers only food assistance delivered under Title II.

USAID may transfer agricultural commodities to address famine or other urgent or extraordinary relief requirements; combat malnutrition, especially in children and mothers; carry out activities that attempt to alleviate the causes of hunger, mortality and morbidity; promote economic and community development; promote sound environmental practices; and carry out feeding programs. Agricultural commodities may be provided to meet emergency food needs through foreign governments and private or public organizations, including intergovernmental organizations. Agricultural commodities also may be provided for non-emergency assistance through private voluntary organizations or cooperatives which are, to the extent practicable, registered with USAID, and through intergovernmental organizations.

Cooperating Sponsor is the term used to define the organization entering into an agreement with USAID for the use of agricultural commodities or funds. Non-governmental Cooperating Sponsors include private voluntary organizations, cooperatives, or public agencies. Title II assistance is provided to U.S. based Cooperating Sponsors for (a) development programs, and (b) emergency programs. Activities under development programs include pilot programs for smallholder agriculture, supporting market liberalization through policy change, nutrition and other child survival programs, community development such as water and sanitation and environmental restoration, or small-scale infrastructure development. A portion of Title II commodities can be monetized by Cooperating Sponsors to fund complementary development interventions to enhance the impact of food programs and contribute to food security. Emergency programs include direct feeding activities to respond to short-term, unanticipated food shortages. Monetization of food aid under emergency programs occurs to fund complementary activities such as distribution, repackaging, and wet feeding in refugee camps.

Program Operation

General

Each Cooperating Sponsor is required to submit an Operational Plan which includes a description of each of the programs it sponsors or proposes to sponsor to USAID for approval. This plan includes program purposes and goals; criteria for measuring program effectiveness; a description of the activities for which commodities, monetized proceeds, or program income will be provided or used; and other specific provisions as required by USAID. If a Cooperating Sponsor submits a multi-year Operational Plan that is approved by USAID, the Operational Plan provided with an Annual Estimate of Requirements (AER) each subsequent year will only cover those components which require updating or the Cooperating Sponsor proposes to change. Operational Plans are required for all nongovernmental Cooperating Sponsors' emergency programs along with the AER; however, emergency situations may not permit the same degree of detail and certainty of analysis that is expected in planning Title II development programs (22 CFR section 211.5).

USAID uses Transfer Authorization to make an award for commodities and supporting costs.

Recipient Agencies

A Cooperating Sponsor may enter into agreements with Recipient Agencies (e.g., schools, institutions, welfare agencies, disaster relief organizations, and public or private agencies) for the delivery of program services. Such an agreement must be in place prior to the transfer of any commodities, monetized proceeds, or program income to the recipient agency. The agreement must require the recipient agency to compensate the Cooperating Sponsor for any assets generated by the foregoing sources that are not used for purposes expressly provided for in the agreement, or that are lost, damaged, or misused as the result of the recipient agency's failure to exercise reasonable care (22 CFR sections 211.2(s) and 211.3(c)).

Monetization

Monetization (the selling of agricultural commodities to obtain foreign currency for use in U.S. assistance programs) is a critical resource for Cooperating Sponsors. The Cooperating Sponsor remains responsible for the commodities, monetized proceeds and program income in accordance with the Operational Plan or Transfer Authorization (22 CFR section 211.3(c)(3)).

Other Resources

In addition to commodities (including ocean and inland freight costs) and monetization proceeds, cash grants are made available to Cooperating Sponsors for establishing new programs and meeting the specific administrative, management, personnel, and Internal Transportation, Storage and Handling (ITSH) costs of the program. These costs are commonly referred to as Section 202(e) grants (7 USC 1722 (e)).

Source of Governing Requirements

This program is authorized under Title II of the Agricultural Trade Development and Assistance Act of 1954 (Pub. L. No. 480, Title II) (7 USC 1722). Implementing regulations are found at 22 CFR part 211.

Availability of Other Program Information

USAID maintains on the Internet a page titled "Pub. L. No. 480 Title II: Food for Peace Programming Documents" (http://www.info.usaid.gov/hum_response/ffp/ffp.htm), which provides program laws, regulations, and other general information.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. *Use of Funds*
 - a. *General* - The Operational Plan and Transfer Authorization set forth the description of the activities for which commodities, monetized proceeds, or program income shall be used.
 - b. *Section 202(e) Grants* - Funds provided by USAID under this provision of Title II may be used for activities including: (a) direct program costs of a Title II program—administrative, management, distribution, and other program implementation costs; (b) improving the impact of food aid—baseline studies and technical assistance; and (c) costs of implementing audit and evaluation recommendations.
 - c. *Internal Transportation, Storage and Handling* - Emergency programs to cover ITSH costs (7 USC 1736).
2. *Use of Commodities and Monetization Proceeds*
 - a. Except as USAID may otherwise agree in writing, agricultural commodities donated by USAID shall not be distributed, handled or allocated by any military forces (22 CFR section 211.5(e)).
 - b. Within the limits of the total amount of commodities and monetized proceeds and program income as approved by USAID in the Operational Plan or Transfer Authorization, the Cooperating Sponsor may increase or decrease by not to exceed 10 percent the amount of commodities,

monetized proceeds, or program income allocated to approved program categories or components of the Operational Plan (22 CFR section 211.5(a)).

- c. A Cooperating Sponsor is required to provide proper storage, care, and handling of commodities. In determining whether there was a proper exercise of the Cooperating Sponsor's responsibility, USAID considers normal commercial practices in the country of distribution and the problems associated with carrying out programs in developing countries (22 CFR section 211.9(d)).
- d. Cooperating Sponsors are not required to monitor, manage, report on or account for the distribution or use of commodities after title to the commodities has passed to buyers or other third parties pursuant to a sale under a monetization program and all sales proceeds have been fully deposited in the special interest-bearing account established by the Cooperating Sponsor for monetized proceeds (22 CFR section 211.5 (j)).
- e. Monetized proceeds may not be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions (22 CFR section 211.5 (k)(4)).

J. Program Income

Program income means gross income earned by the Cooperating Sponsor from activities supported under the approved program during the program period, including, but not limited to, interest earned on deposits of monetized proceeds, revenue from income generating activities, funds accruing from the sale of containers and nominal voluntary contributions by recipients made on the basis of ability to pay. Monetized proceeds are not considered program income (22 CFR sections 211.2(o) and 211.2(s)).

Program income may be used by Cooperating Sponsors for activities specified in 22 CFR section 211.5 (k), among these being for the transport and distribution of the donated commodities; to implement income generating community development, health, nutrition, and other developmental activities; to make investments with USAID approval; and to improve their financial and other management systems (22 CFR section 211.5 (k)).

Program income may not be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions (22 CFR section 211.5 (k)(4)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable

- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable
- e. *Annual Results Report (OMB No. 0412-0557)* This report is submitted annually and contains both performance and financial information. The auditor is only expected to test the financial data contained in Appendix B, Comprehensive Budget Comparison.

2. Performance Reporting

- a. *Monthly Commodity Status Report (OMB No. 0412-0555)* - This report is submitted monthly by Cooperating Sponsors to track the commodities for each program.
- b. *Monetization Report (OMB No. 0412-0556)* - This report provides information on commodities monetized by cooperating sponsors transaction.

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Recipient Agencies

Compliance Requirement - Cooperating Sponsors are responsible for determining that Recipient Agencies to whom they distribute commodities are eligible in accordance with the Operational Plan or Transfer Authorization and 22 CFR section 211.

Prior to the transfer of commodities, monetized proceeds or program income to a Recipient Agency, the Cooperating Sponsor is required to enter into a written agreement that (a) describes the approved uses of resources provided, (b) requires the Recipient Agency to pay the Cooperating Sponsor the value of any resources that are used for purposes not permitted under the agreement or that are lost, damaged or misused as a result of the recipient's agency's failure to exercise reasonable care of transferred resources, and (c) incorporate by reference or otherwise the terms and conditions set forth in 22 CFR part 211 (22 CFR section 211.3(c)).

In entering into agreements with Recipient Agencies for the transfer of commodities, monetized proceeds or program income, the Cooperating Sponsor remains responsible for such resources transferred in accordance with the Operational Plan or Transfer Authorization and 22 CFR part 211 (22 CFR section 211.3(c)(3)). In monitoring Recipient Agencies, the Cooperating Sponsor is required to provide adequate supervisory personnel for the efficient operation of the program, including personnel to (a) plan,

organize, implement, control, and evaluate programs involving distribution of commodities or use of monetized proceeds and program income; (b) make warehouse inspections, physical inventories, and end-use checks of food or funds, and (c) review books and records maintained by Recipient Agencies that receive monetized proceeds and/or program income (22 CFR section 211.5(b)).

Audit Objective - Determine whether: (1) the Cooperating Sponsor entered into written agreements with the Recipient Agencies; (2) the use of the Recipient Agencies was consistent with the Operational Plan and Transfer Authorization; and (3) the Cooperating Sponsor monitored the activities of Recipient Agencies to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

Suggested Audit Procedures

- a. Select a sample of Recipient Agencies and ascertain if:
 - 1) The Cooperating Sponsor entered into a written agreement with the Recipient Agency.
 - 2) The Cooperating Sponsor's use of the Recipient Agency was consistent with the Operational Plan and Transfer Authorization.
 - 3) The Cooperating Sponsor appropriately monitored the activities of the Recipient Agency to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.