

---

---

**GENERALLY  
ACCEPTED  
COMMODITY  
ACCOUNTABILITY  
PRINCIPLES**

---

---

**FAM**

Food Aid Management (FAM) is an association of thirteen United States private voluntary organizations (PVO's) formed in 1989 to improve the efficiency and effectiveness of food aid through collaborative effort. FAM's primary role is to provide services that facilitate the sharing of information and ideas among its members. Among its activities, FAM develops PVO guidelines and operating standards such as the Generally Accepted Commodity Accountability Principles (GACAP), sponsors briefings and seminars, publishes a bi-monthly newsletter, *Food Forum*, and maintains a library of food security materials.

FAM is funded by the Agency for International Development under its institutional support grant program.

300 I Street, NE, Suite 212  
Washington, DC 20002  
202/544-6972  
202/544-7065 Fax  
foodam@aol.com

Adventist Development & Relief Agency - Africare - Agricultural  
Cooperative Development International - CARE - Catholic Relief Services -  
Feed the Children - Food for the Hungry International - OIC International -  
Project Concern International - Save the Children Federation - TechnoServe  
- World SHARE - World Vision Relief & Development

**FAM**

## TABLE OF CONTENTS

### **PREFACE**

### **CHAPTER I - ORGANIZATION**

- Principle 1 - Food Aid Policy
- Principle 2 - Commodity Responsibilities
- Principle 3 - Organizational Arrangements
- Principle 4 - Functional Responsibility Statements
- Principle 5 - Commodity Accountability Policies and Procedures Manual

### **CHAPTER II - FINANCIAL ACCOUNTABILITY**

- Principle 1 - Chart of Accounts
- Principle 2 - Commodity Values
- Principle 3 - Documents and Records
- Principle 4 - Records and Documents Safeguards
- Principle 5 - Commodity Transaction Recording
- Principle 6 - Commodity Accounting Staffing

### **CHAPTER III - INTERNAL CONTROLS AND AUDIT**

- Principle 1 - Internal Control Systems
- Principle 2 - Separation of Duties and Responsibilities
- Principle 3 - Internal Audit
- Principle 4 - External Audit
- Principle 5 - Compliance

### **CHAPTER IV - COMMODITY INVENTORY MANAGEMENT**

- Principle 1 - Inventory Control
- Principle 2 - Storage and Handling
- Principle 3 - Inventory Records
- Principle 4 - Inventory Verification
- Principle 5 - End Use Checks
- Principle 6 - Accountability and Liability Limits
- Principle 7 - Loss and Claim Documentation Procedures
- Principle 8 - Commodity Reporting

### **GLOSSARY**

## PREFACE

The Generally Accepted Commodity Accountability Principles, GACAP, is a set of professional standards relating to the management, handling, tracking, and reporting on the use of food commodities in international development and relief programs. Although similar in name, GACAP should not be confused with the Generally Accepted Accounting Principles, or GAAP, published by the Financial Accounting Standards Board. GAAP is a group of standards or guides used in presenting financial accounting reports.

Food Aid Management (FAM), an association of PVOs engaged in international food aid programming, compiles and publishes the Generally Accepted Commodity Accountability Principles. FAM is dedicated to improving the efficiency and effectiveness of food aid activities.

GACAP was first issued in 1991 as the Generally Accepted Commodity Accounting Principles. In 1993, a working committee of PVOs and NGOs revised these principles and changed the name to the Generally Accepted Commodity Accountability Principles. This new name encompassed the broader area of commodity accountability rather than the more narrowly defined area of commodity accounting. In 1995, the principles were again revised by another working committee and several new principles were added.

"Commodity Accountability" concerns the responsibility of PVOs and NGOs to ensure that the commodities entrusted to them are brought under accounting control, are physically safeguarded, and are used for the purposes intended.

Commodities include raw foods such as whole grains and processed foodstuffs. These commodities usually are made available to PVOs and NGOs by private donors, U.S. or other governments and international organizations. The commodities are distributed internationally through member private organizations, international organizations, and foreign governments for humanitarian and development purposes.

The essential reason for developing and publishing GACAP is the recognition that commodities and the way they are acquired, distributed, and used present unique accountability problems not found in other types of financial transactions.

GACAP is intended to provide a set of useful commodity accountability principles that organizations involved in international commodity handling can use as a reference guide for their operations. We encourage the use and application of these principles because we believe that they will help achieve greater physical and monetary control over commodities as well as increase the operating efficiency of organizations.

The principles presented cannot address all the situations for which organizations may seek information and guidance. GACAP is expected to evolve as a working document as experience is gained with its use and is subject to periodic revision. Users and other interested parties, therefore, are encouraged to contact FAM with suggested changes or for further assistance.

GACAP is organized in a chapter format with: (1) a statement of the commodity accountability principle; (2) the rationale for the principle; and (3) an elaboration with illustrations or examples. Chapter I contains principles relating to the organization of PVOs and NGOs. Chapter II contains principles of financial accountability. Chapter III contains principles on internal controls and audits. Chapter IV's principles concern inventory management.

USAID Regulation 11 allows GACAP to be used for commodity accounting purposes. Using GACAP can result in a departure from GAAP and, therefore, require disclosure in the organization's financial statements. This type of disclosure should have no bearing on the acceptability of an A-133 audit report submission.

If GACAP is to continue to be a helpful and useful tool contributing to the efficient management of food aid, we need to incorporate the experience of those who are using it. We encourage all users to contribute to the improvement of GACAP by providing us with their insights, suggestions, and questions.

Food Aid Management  
300 I Street, NE, Suite 212  
Washington, DC 20002

November 1995

N.B. Readers are advised to review the glossary in order to familiarize themselves with the terms used in this document.

# CHAPTER I

## ORGANIZATION

---

### Principle I-1 FOOD AID POLICY

**Commodity management organizations should develop and publish for their own use and that of the public and the donor organizations clear statements of the organization's purpose and operating principles guiding the use of food aid.**

---

Rationale - Food aid can be used to achieve various organizational objectives. A statement of these objectives and their guiding principles should be available so that organizations served by PVOs and NGOs or those interested in providing assistance are fully aware of what the organization intends to achieve and how it will pursue its objectives.

---

Elaboration - Food aid can be used, among other things, to feed the hungry, to address emergency situations such as droughts and famines, and to support development. Each of these objectives may attract a variety of sympathetic organizations. For example, some donors may be willing to provide assistance to relieve the victims of droughts and famine, others to relieve the suffering from civil disturbance. Others may be interested in allowing the sale of commodities to obtain local currency for development projects. Clear statements of organizations' food aid policies and guiding principles provide a definitive sense of purpose to in-house staff, donors, international organizations, and counterparts.

---

### Principle I-2 COMMODITY RESPONSIBILITIES

**Commodity management organizations should establish systems that will enable them to exercise accountability for commodities until the commodities are issued for consumption to target recipients, even if disbursement and logistical control over the commodities are exercised by subrecipient commodity management organizations.**

---

Rationale - The program or project objectives sought by PVOs and NGOs in the distribution of food aid must often be achieved by turning over the commodities to subrecipient organizations or other agencies for further distribution to the target groups. PVOs and the NGOs have a continuing responsibility to the beneficiaries and the donors to ensure that the food aid reaches the intended beneficiaries and the desired impact is achieved.

---

Elaboration - Often PVOs and NGOs are several steps removed from directly assisting the ultimate beneficiaries and being able to measure the impact of the assistance. This distancing, however, does not relieve PVOs and NGOs of their fundamental responsibility to the beneficiaries and the donors to pursue the achievement of programmatic goals and objectives. Organizations must have information systems in place that will allow them to record and report on the distribution, or operational, results.

---

### **Principle I-3 ORGANIZATIONAL ARRANGEMENTS**

**Commodity management organizations should establish comprehensive, up-to-date organizational systems for commodity matters that define staff responsibilities with lines of authority clearly delineated.**

---

Rationale - Individuals involved in commodity accountability matters need to understand their role and its relationship to those of others in effectively carrying out stated policy objectives.

---

Elaboration - The overall system established by the organization to conduct its affairs should be reflected in an up-to-date organizational chart. The chart should identify the various organizational units such as personnel, finance, operations, and resource management and show how these units relate to one another in terms of operating the organization. Thus, personnel involved in commodity accountability matters can readily learn the lines of authority and responsibility that exist with key members of the organization.

To illustrate, in the commodity inventory management area the position of warehouse manager would be shown on the organizational chart as reporting to a supervisor linked in the chain of command to the country director. The chart would also show that the warehouse manager position was responsible for the supervision of inventory clerks, and custodial staff below that position. The individual job descriptions provided employees occupying warehouse positions would detail these arrangements.

---

## **Principle I-4**

### **FUNCTIONAL RESPONSIBILITY STATEMENTS**

**Commodity management organizations should provide staff involved in commodity accountability with a clear description of their individual job requirements and responsibilities.**

---

Rationale - Employees who understand what is required of them, how they are expected to perform, and how they relate to other members of the organization are likely to contribute more effectively to the achievement of the organization's food aid goals and objectives.

---

Elaboration - Employees must know and understand precisely what is expected of them in the position they occupy if they are to contribute meaningfully to achieving the goals of the organization. This is done, in part, by developing and providing to employees detailed descriptions of each position in the organizational system discussed in Principle I-2. The detailed job description, or statement of functional responsibilities, is part of the organization's personnel management system. It provides a basis

for assessing the employee's performance for job retention and promotion. It places specific responsibilities for job performance on the employee by letting employees know what their essential function is, how they are expected to carry it out, and how it relates to fulfilling a larger objective. The job description should also specify to whom the employee reports and the limits of his or her responsibility and authority.

---

## **Principle I-5**

### **COMMODITY ACCOUNTABILITY POLICIES AND PROCEDURES MANUAL**

**Commodity management organizations should maintain Commodity Accountability Policies and Procedures Manuals which describe the organization's policies and procedures.**

---

Rationale - The policies and procedures governing the commodity accountability operations of the organization should be published so that all staff are aware of them and guided by them in day-to-day operations.

---

Elaboration - A policy and procedures manual provides employees the philosophical and ethical context within which to operate. Accordingly, the Commodity Accountability Policies and Procedures Manual should be reviewed and revised regularly. It should contain an appropriate organizational chart with lines of authority and responsibilities, clear statements on the organization's food aid policies, purposes, principles, and operating procedures. Operating procedures should be defined in sufficient detail to enable employees to use the manual as a guide in carrying out their job responsibilities. Job responsibilities cover the duties for the positions shown on the organizational chart and reflected in individual job descriptions.

The Manual would explicitly state the organization's governing policies in inventory management and describe the specific procedures to be followed to carry out these policies and to achieve its objectives.

# CHAPTER II

## FINANCIAL ACCOUNTABILITY

---

### Principle II-1 CHART OF ACCOUNTS

**Commodity management organizations should maintain a Chart of Accounts that describes the accounts used to record commodity transactions and provides a basis for fairly presenting financial data in published statements and reports.**

---

Rationale - Commodity transactions must be accounted for according to prescribed accounting procedures using financial accounts that accumulate transaction data in an orderly, logical and verifiable fashion thereby facilitating management reporting responsibilities.

---

Elaboration - Individual accounts are a means of collecting and organizing information (data) to fulfill internal and external management and reporting responsibilities. Once the organization has defined its information needs, accounts can be created to capture the required data. Financial transactions, for example, can be recorded in the accounting records of the organization to document the receipt, issue, payment, and remaining asset values (or balances) of commodities according to specific donors. This information can then be used to satisfy management's reporting responsibilities to the donors.

Financial accounts used to record these transactions should be fully described to facilitate recording of events according to generally accepted accounting principles.



should address how gains and losses from commodity swaps or sales, exchange rate transactions, thefts, and deterioration are to be handled for recording and tracking purposes.

---

### **Principle II-3**

## **DOCUMENTS AND RECORDS**

**Commodity management organizations should maintain documents and records that accurately reflect all transactions involved in the receipt and disposition of all commodities up to the point where the commodities are issued for distribution or issued for consumption.**

---

Rationale - Organizations have a responsibility to account for and efficiently use the commodities entrusted to them for the purposes intended.

---

Elaboration - Organizations receive commodities and other assets from donors to be used for agreed-upon purposes. These assets, therefore, while under the control of the recipient organization should be accounted for through an integrated system of financial record keeping at the field and headquarters levels. The books and records at these levels must be: (1) accurately kept; (2) reflect at all times the quantities on hand and the amounts disbursed; and (3) meet the needs of internal and external audits. (See also, Principle III-1, Inventory Control and Principle III-2, Inventory Records).

---

### **Principle II-4**

## **COMMODITY RECORDS AND DOCUMENTS SAFEGUARDS**

**Commodity management organizations should establish and implement procedures for adequately safeguarding commodity records and documents.**

---

Rationale - Commodity records and supporting documentation are the official database records of the organization and are used in the preparation of a variety of financial and administrative reports that detail the performance of the organization over time. These records must be safeguarded against improper access and loss and must be retained for established periods as required.

---

Elaboration - Commodity records such as inventory ledgers, accounting journals, bills of lading, waybills, and transfer and disbursement authorizations make up the official records of the organization. They record the organization's performance and are used to develop many management and financial reports that are used in the operations of the organization. Steps must be taken to ensure that the records are available only to specifically authorized personnel, and that the records are not lost, stolen, or destroyed.

Control over the records can take many forms but most common controls are physical restraints such as locked or secured commodity or document storage areas, limited excess areas or restricted use or password-controlled computerized accounting systems. Organization records must be retained for specified periods to comply with government requirements. Thus, organizations must also formulate official record retention policies and ensure that these policies are followed throughout the organization.

Whenever corrections are made in commodity records, such entries should be countersigned by supervisory personnel.

The system adopted for safeguarding records and documents should be described in the commodity management organization's commodity accountability policy and procedures manual.

---

## **Principle II-5**

### **COMMODITY TRANSACTION RECORDING**

**Commodity transactions should be recorded in a timely manner so that the organization's financial records provide the current status of commodity inventory balances, issuances, and value.**

Rationale - Current information enhances the basis for making management decisions affecting the financial operations of the organization.

---

Elaboration - Management decisions affecting various aspects of the organization are made on a daily basis. To help management in making the most informed decisions possible, the financial records need to be maintained on a timely basis. Commodity transactions, therefore, should be recorded daily. This requirement should be reflected in established accounting systems and recording procedures. Written procedures should be included in the organization's commodity accountability policies and procedures manual or some similar publication of instructions.

---

## **Principle II-6**

### **COMMODITY ACCOUNTING STAFFING**

**Commodity accounting should be performed by knowledgeable staff trained in commodity accounting.**

---

Rationale - Commodity accounting is a unique function with principles and rules governing the valuation and handling of commodities that may differ from usual accounting practices. The complexity of financially-based commodity transactions suggests that responsibilities for commodity transactions should be assigned to qualified staff within a designated part of the accounting department.

---

Elaboration - Commodities are often obtained from donors who place certain restrictions on the purposes for which the commodities are to be used. These conditions require separate accounting on the financial records to show the restricted or unrestricted nature of the arrangement and for subsequent reporting of activities. Private Voluntary Organizations or Non-Governmental Organizations may be permitted to sell donated commodities for local currency or transfer the commodities to other organizations in the distribution chain. Losses requiring follow-up and the filing of claims for reimbursement occur at virtually every level. These types of commodity transactions present accounting and valuation problems that are different from the usual commercial type transactions

and require accounting staff that are familiar with the processes and with the applicable private and government rules and regulations. Commodity accounting functions should be a distinct part of the organization's financial accounting system.