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# Iraq Governance Strengthening Project

## Strengthening Provincial Financial Management Systems and Identifying Improvement Opportunities

**FINAL REPORT**  
**4/2/2014**

# Iraq Governance Strengthening Project

## Strengthening Provincial Financial Management Systems and Identifying Improvement Opportunities

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Strengthening Provincial Financial Management Systems and  
Identifying Improvement Opportunities  
*Final*  
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## EXECUTIVE SUMMARY

The main objective of this consultancy is to strengthen the contractor's payment portion of the provincial financial management systems in five Iraqi provinces mainly Wasit, Karbala, Dhi Qar, Diyala and Basrah as a pilot project.

We have chosen the contractor's payment system for capital investment projects because it has a direct effect on the quality of lives of everyday citizens. A delay in the execution of infrastructure projects, such as water treatment plants or roads for transportation of goods to market will affect the quality of life for the citizens or recipients immediately.

We studied the existing contractor payment system in four provinces (Karbala, Wasit, Dhi Qar and Basrah) we were not able to study Diyala's provincial system due to the security and political situation in that province. We also provided detailed process maps for the "As Is" model and the "To Be" model, as well as recommending improvements to the existing systems.

We concluded our study by comparing the first baseline survey we took in July 2013 before our recommendations to improve the contractor payment system were implemented, with the second baseline survey that we took after implementation of our recommendations in February, 2014.

Also included is a report on the Provincial Council Operational Budget Procurement Process.

# THE PROVINCE OF BASRAH, IRAQ CONTRACTOR PAYMENT SYSTEM—CHALLENGES AND IMPROVEMENTS

## Introduction

The importance of an efficient contractor payment system for capital projects in developing countries comes from the fact that such projects touch the lives of millions of citizen who rely on these projects for their well-being. It is hard to image how life will be without power generation plants, schools, hospitals, roads or water treatment plants. A delay in the execution of infrastructure projects will affect the quality of life for the recipients immediately.

The province of Basrah, one of the biggest and richest Iraqi provinces, faces the same contractor payment challenges that other provinces faces, e.g. a long time for processing payments to contractors which in return impacts the time to complete the development projects in the province.

## Summary of Basrah Contractor Payment System Cycle or Elements (The “As Is” Model)

The Taqadum Team mapped the “As Is” model for each province.

The province of Basrah contractor payment system has four different payment stages as follows:

1-Contractor advance. 2- Progress billing payment 3-Initial final payment 4-Final payment

### **I-Contractor advances**

It is a common practice for contractors to receive an advance payment upon their acceptance and signing of a contract. The percentage of the advance payment in Iraq is about 10% of the project price. In Basrah the advance payment will go through the following cycle before the contractor receives payment from the finance department:

1. The contractor submits the request for advance payment to the finance department in accordance with the signed contract between him and the province
2. Registering the request for payment in contractor payment journal
3. The project accountant brings the contractor file from the archive of the finance department
4. The project accountant examines the contractor file and the request for payment for completeness and returns the request for payment to the contractor if any information is missing or a correction is needed
5. The project accountant sends the request for payment and the contract file to the chief accountant for approval. The chief accountant returns the request of payment and the contractor file to the project accountant if any information is missing or a correction is needed
6. The chief accountant sends the request for payment and the contractor file to the finance department manager for final department approval. After reviewing the contract file and the request for payment, the finance department manager sends the request for payment and the contract file to the internal audit department, otherwise he returns the request for payment and the contract file to the chief accountant if information is missing or a correction is needed.
7. The internal audit department examines the request for payment and the contract file and if the request did not satisfy the contract, the internal audit department returns the payment request to the finance department for correction, otherwise the internal audit department

approves the request for payment and returns the contract file and the request for payment to the finance department

8. Finance department prepares a request for payment and sends it to the governor or whomever the governor has designated to sign approval
9. Finance department prepares and writes request for payment check and sends it to internal audit department for approval before governor's signs
10. Governor or whomever may be designated signs the check

## **2- Progress billing payment**

The progress billing payment of the contractor payment system in Basrah has the following accounting cycle:

1. A request for payment is received from the beneficiary department or unit within the province
2. Register the request for payment in the contractor journal
3. The project accountant examines the contract file and prepares a payment request form for the requested amount of the payment and sends the contract file and form to the chief accountant
4. The chief accountant reviews the contract file and the payment request form and sends it to the finance department manager for department approval. The chief accountant returns the contract file and the payment request form to the project accountant if a correction is needed
5. Finance department manager reviews the contract file and the payment request form and send it to the internal audit department for approval. The finance department manager returns the contract file and the payment request form to the chief accountant if a correction is needed
6. Internal audit department examines and reviews the contract file and the payment request form and return it back to finance department manager after approval, otherwise returns the payment request form the contract file to project accountant for corrections.
7. Finance department prepares the request for payment and send it to the governor for approval
8. Finance department prepares and write request for payment checks and send it to internal audit department for approval before governor's signature
9. Governor signs the check
10. Contractor receives the check

## **3- Initial final payment**

The initial final payment is the stage when the contractor completes the project and delivers ownership of the project to the beneficiary unit. But, there may still be some warrant obligations for the project (always a period of time). This payment stage has the following payment cycle:

1. A request for initial final payment received from the beneficiary department or unit within the province
2. Registering the request for initial final payment in the contractor file journal
3. Project accountant reviews and examines the contract file and prepares an initial payment request form and sends the contract file and initial final payment form to the chief accountant
4. Chief accountant reviews the contract file and the initial final payment form and sends it to the finance department manager for department approval or returns the form and the contract file to the project accountant if a correction is needed



5. Finance department manager reviews the contract file and initial final payment form and sends it to the internal audit department or returns it back to the project accountant if a correction is needed
6. Internal audit department reviews and examines the initial final payment form and the contract file and returns it back to finance manager or to the project accountant if a correction is needed
7. Finance department prepare a payment request and sends it to the governor for approval, a copy of the payment request will be sent to the beneficiary department or unit
8. Finance department prepares and writes initial final payment check and sends it to internal audit for approval before governor's signature
9. Governor signs the check
10. Contractor receives the check

#### **4-Final payment**

The final payment stage is when the contract warranty expires and has the following accounting cycle:

1. A request for final payment received from the beneficiary department or unit within the province
2. Registering the request for final payment in the contractor file journal
3. Project accountant examines and reviews contract file for any outstanding loans or payments to other departments and prepares a final payment form and sends the form with the contract file to the chief accountant
4. Chief accountant reviews the final payment form and the contract file and sends the final payment form and contract file to the finance manager for department approval or returns the final payment form and the contract file to the project accountant if a correction is needed
5. Finance manager reviews and sends the final payment form and the contract file to the internal audit department or returns the final payment form and the contract file to the project accountant if a correction is needed
6. Finance department prepares a payment request and sends it to the governor for approval; a copy of the payment request will sent to the beneficiary department or unit within the province
7. Finance department prepares and writes a final check and sends it to internal audit department for final approval before governor's signature
8. Governor signs the check
9. Contractor receives the check

#### **Roles and Responsibilities Within the Accounting and Internal Audit Departments**

The finance manager is the head of the finance department and responsible for the entire department's operation.

The internal audit manager is the head of the internal audit department and responsible for running the entire departmental operation. The cooperation of both department heads is very essential in reducing the time needed to process contractor payment requests.

The chief accountant, project accountant and project internal auditor are the other decision makers responsible in the contractor payment request process.

Also the governor and his designated signer are responsible for an efficient contractor payment system.

## Baseline Survey

We established the first baseline survey last July 2013. We took a random sample of 24 contractor payment requests and we found that on average it took Basrah finance department 17.2 days to process one contractor payment request.

## Methodology Used in Establishing the Baseline Survey

1. Collect one month of contractor payments processed in Basrah
2. Select a random sample of 24 processed contractor's payments (choosing one payment from every four payments in a list containing all payments)
3. Divide the total number of days to process all the random sample-by-sample numbers.

## Key Performance Indicators (KPI)

1. Numbers of days to process a contractor payment request
2. Dollar amount of processed contractor payment request per month or week or in a year
3. Percentage of completing investment projects in time

## Analysis of the “As Is” Model

A close look at the “As Is” model will reveal the following:

- Contractor submits his request for payment to finance department directly or through the beneficiary agency. From my personal interviews with finance department staff, I found out that this was the most critical stage for delaying payments. The reason is that most of the time the request for payment was not completed and contained many errors. The project accountant returns incomplete requests or those that contains errors back to contractor.
- Original contractor files move from department to department and from hand-to-hand. There is a great risk for losing, tearing or mishandling some of the file papers.
- There is a lack of clearly defined roles and responsibilities between the finance and audit department on one hand and the contract management unit and technical unit on the other hand. There is no cooperation between these departments in coordinating advance payments and the progress billing payments.
- The Governor did not specify a particular day in the week for check signing. Contractors do not know when a check is ready for pick up.
- The internal audit department is not able to utilize its staffs effectively.
- There is a redundancy and duplication of efforts between the finance and audit department.
- No clear language from the contract department unit authorizes the finance department to pay contractors the advance payment.
- No clear language from the technical contract unit authorizes the finance department to pay contractors for progress-billing requests.

## Recommendations to Improve the Contractor's Payment System in Basrah

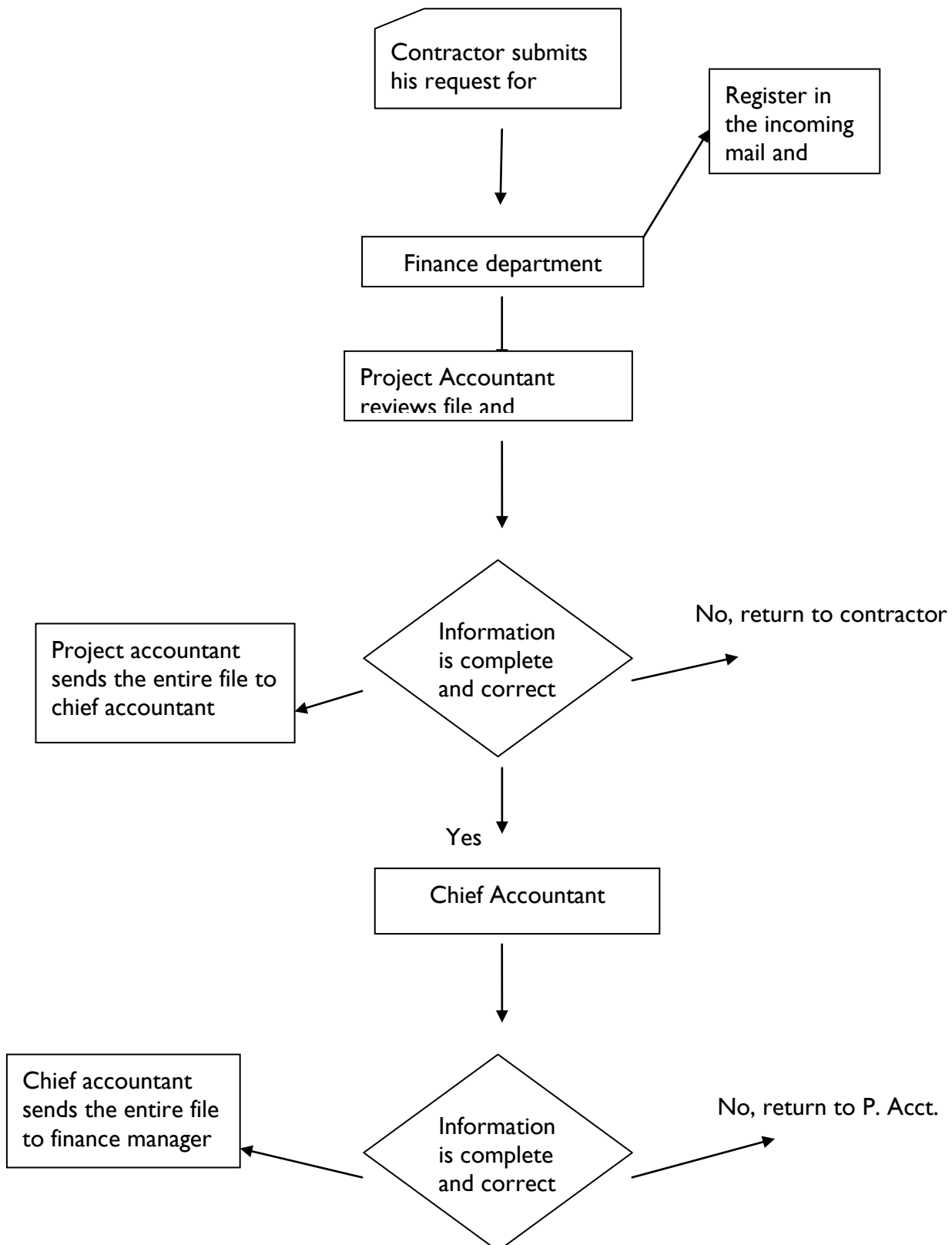
1. Agreement on a new process map that clearly define roles and responsibilities of all stake holders in the contractor payment process.
2. Internal audit department should send some auditors to technical and contract unit to make sure contract file and other documents are correct and complete before being sent to finance department for payment
3. Contractors should submit their request for payment to the contract unit and technical unit only not to the finance department.
4. Contract unit makes three copies of the original contract file and sends it to finance department, audit department and technical unit. This simple procedure will reduce risk

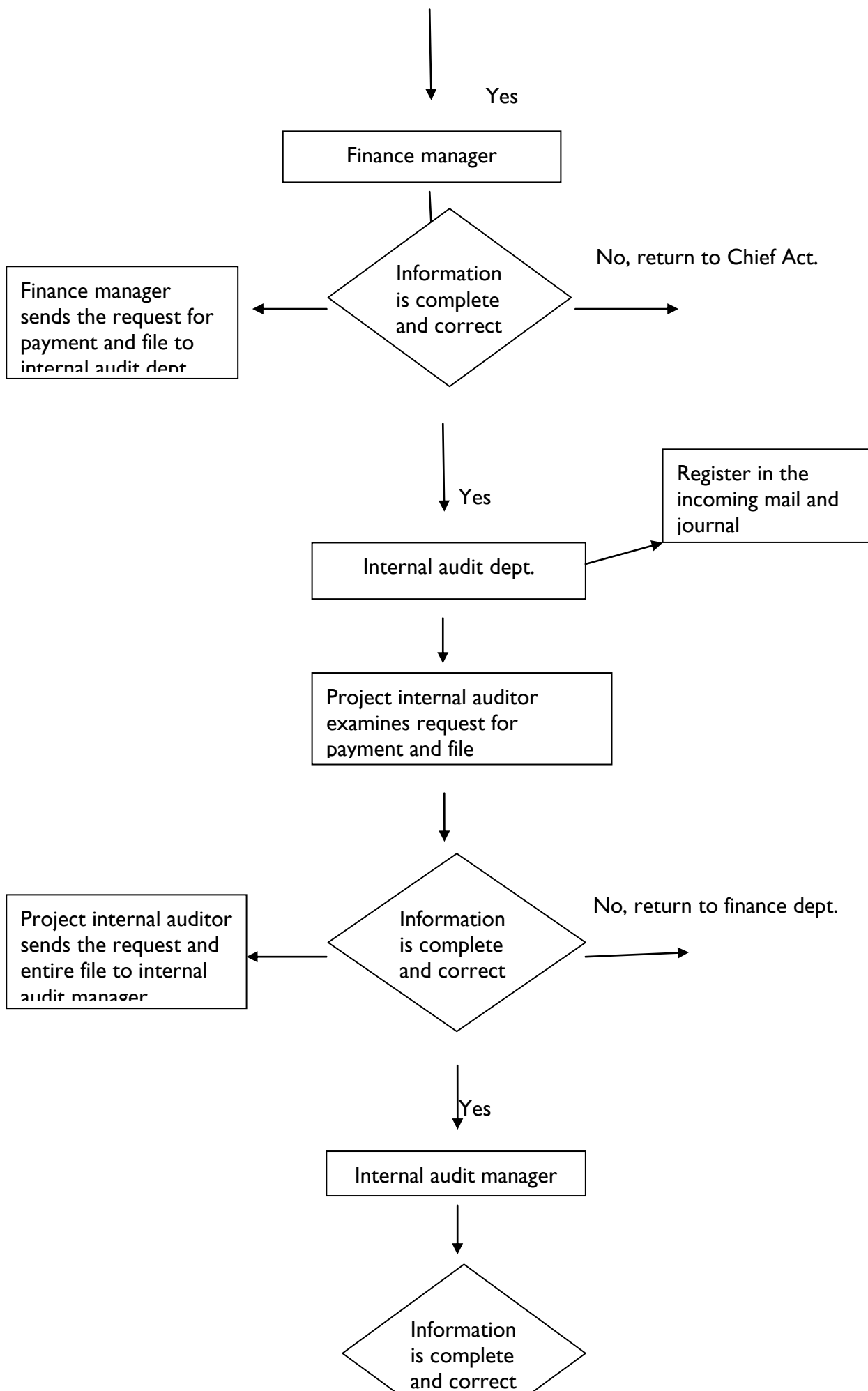
of tearing and loss and make file available to other departments before the start of the actual work.

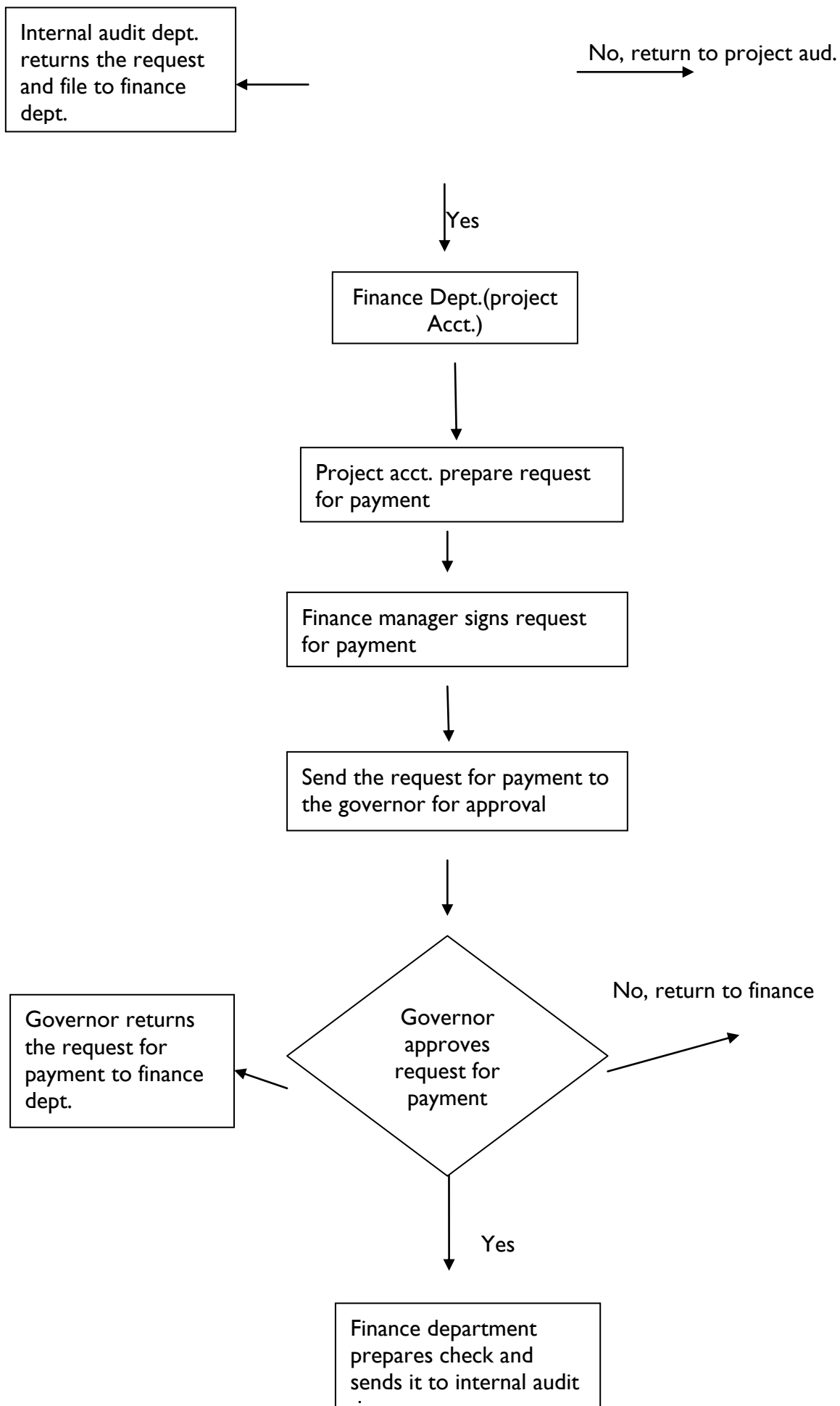
5. Finance department should only send check and supporting documents to internal audit department for examination. No need for sending the request for payment approval.
6. Governor or his designated signer should only sign check not both the check and payment order.
7. Assign a particular day in the week for check signing
8. Introduction of a certificate of payments (example follows)
9. Introduction of a checklist attached to contract file (example followsP

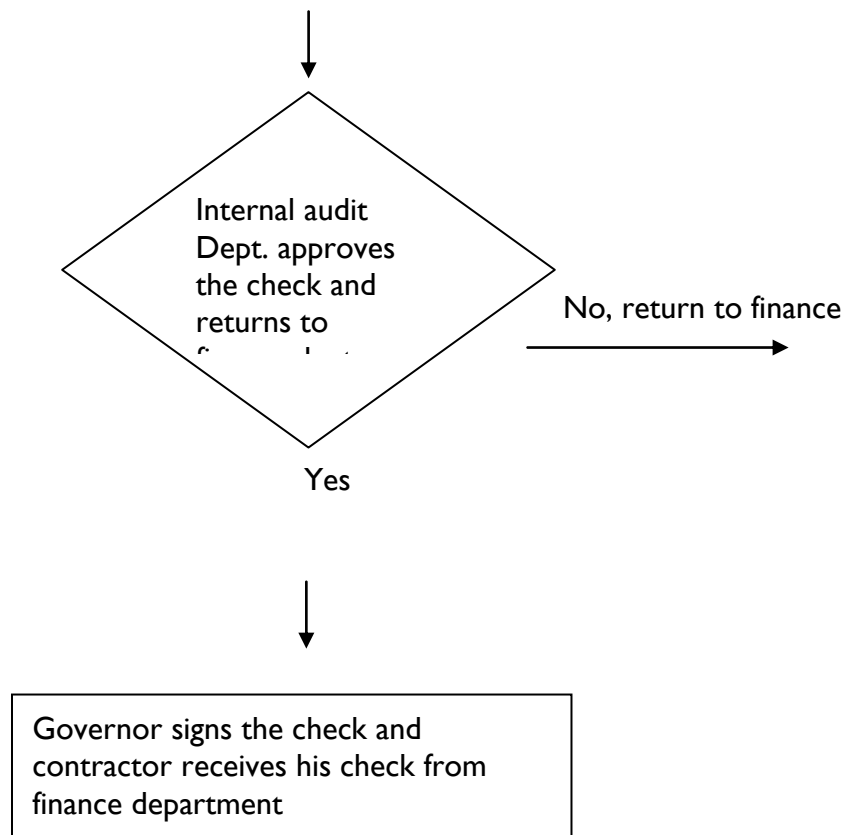
## The “As Is” Flowchart

### Contractor Advance

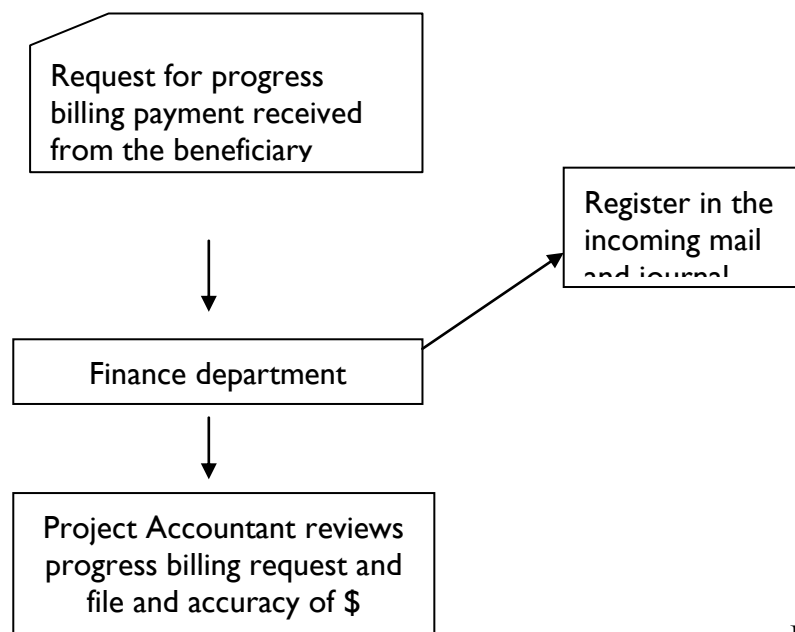


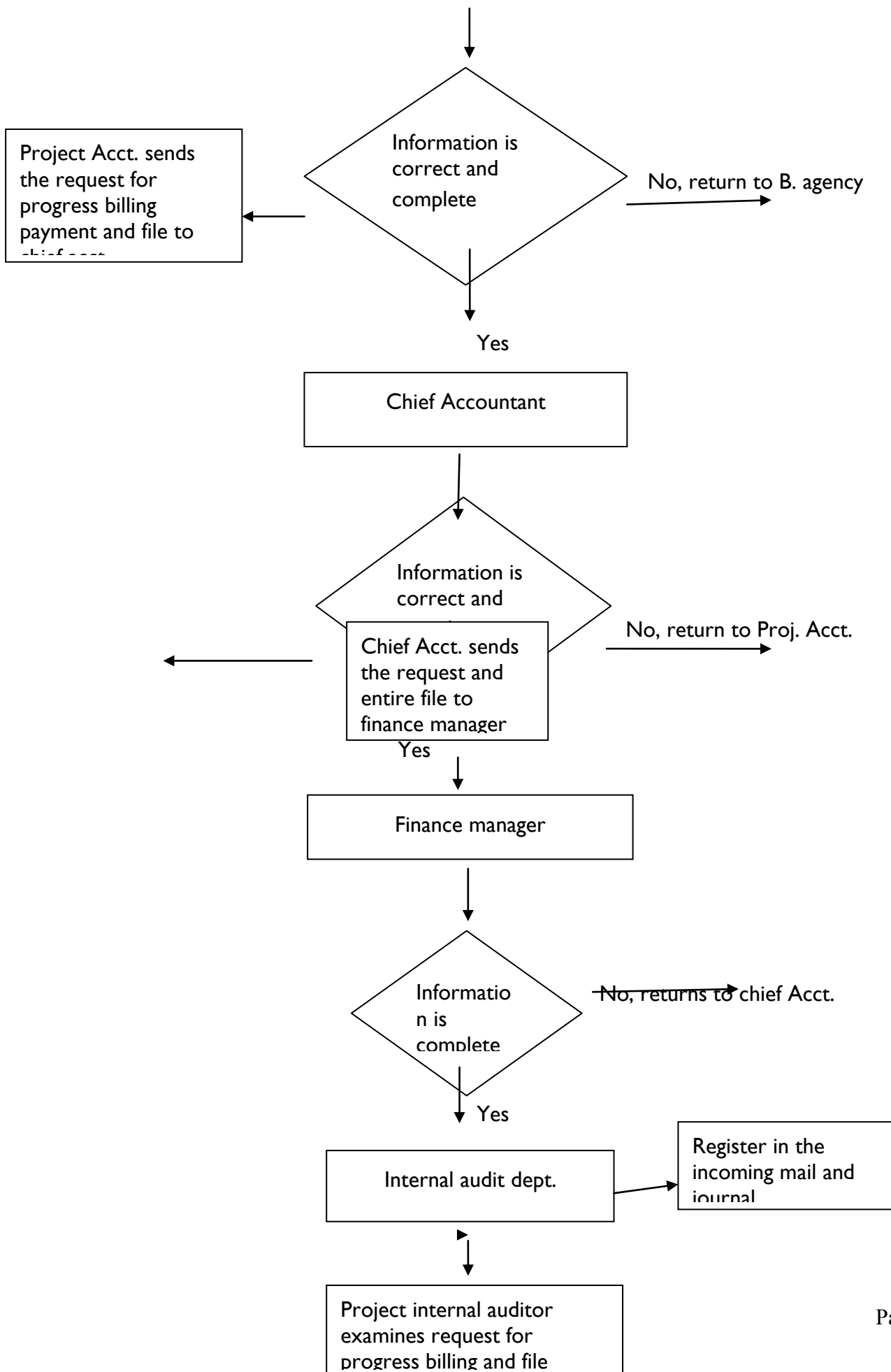




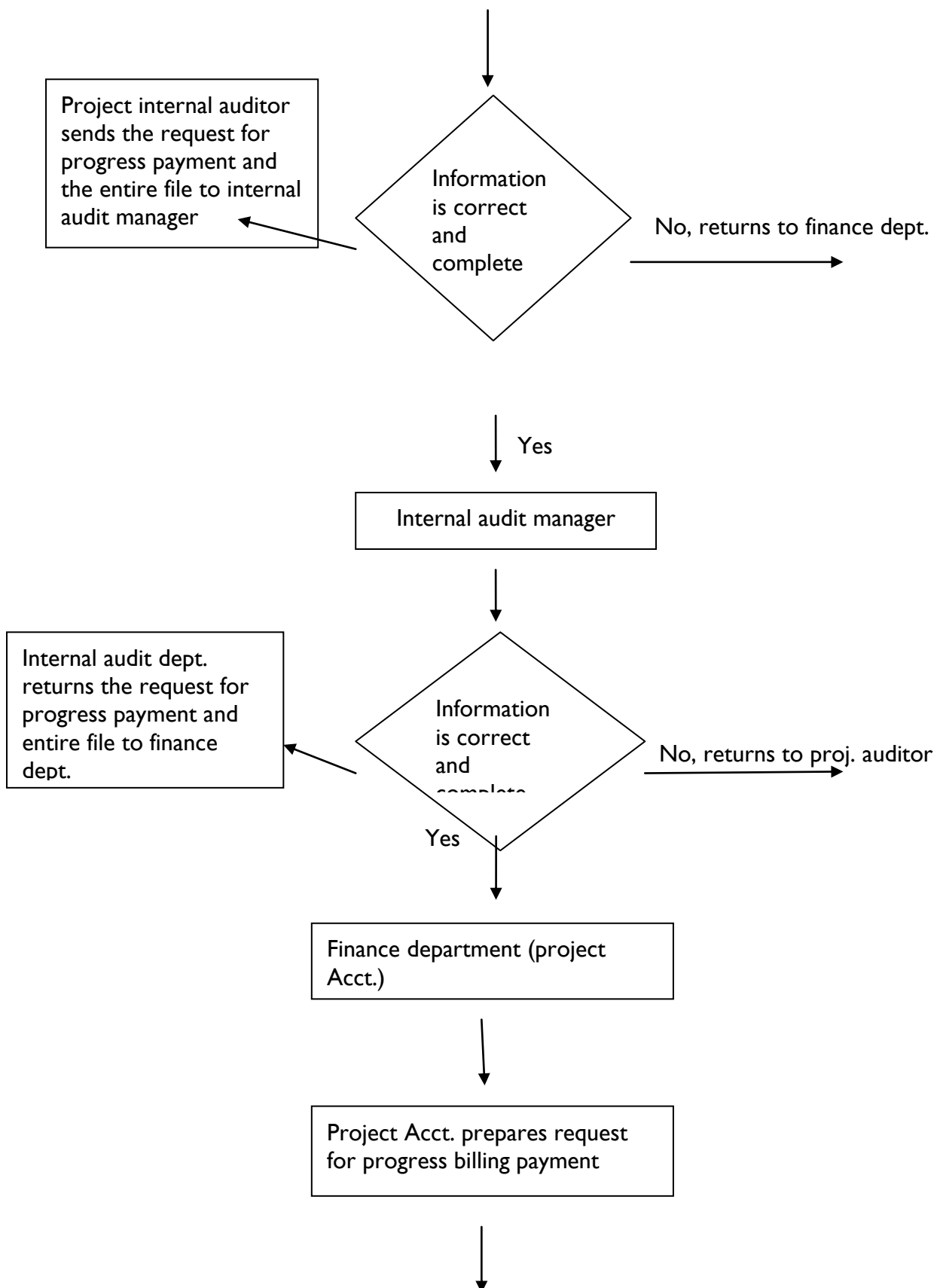


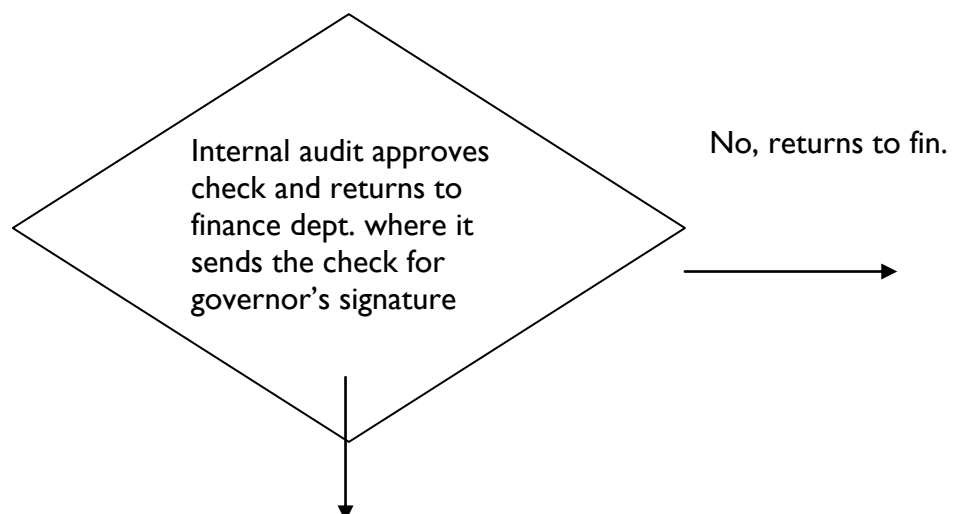
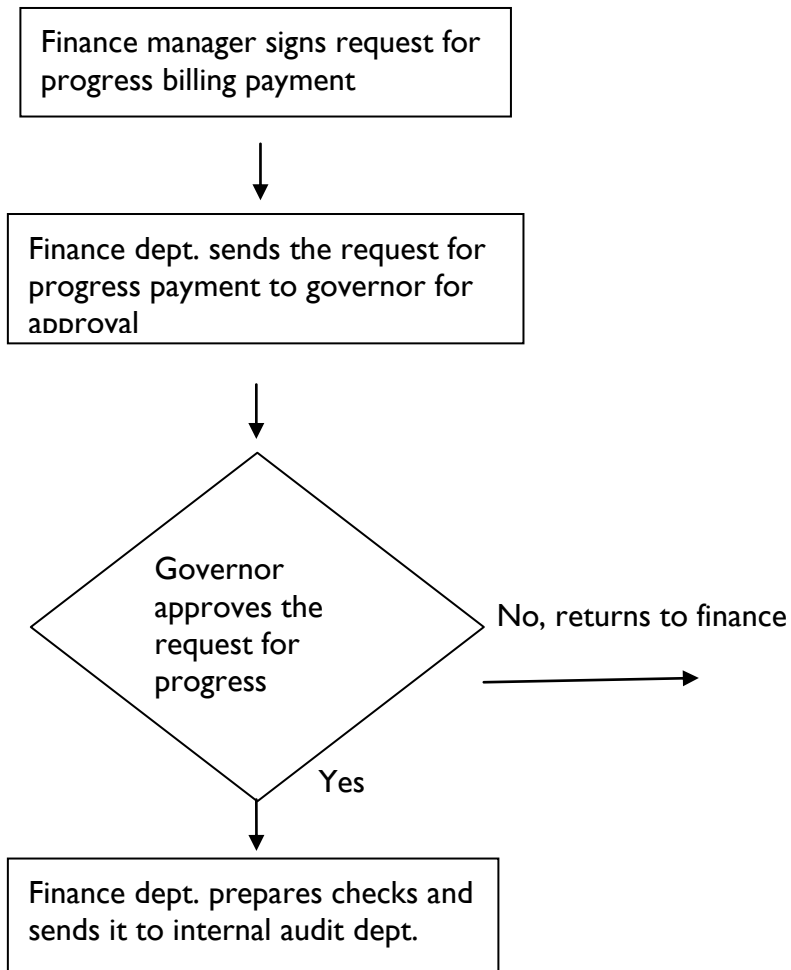
### Progress billing payment







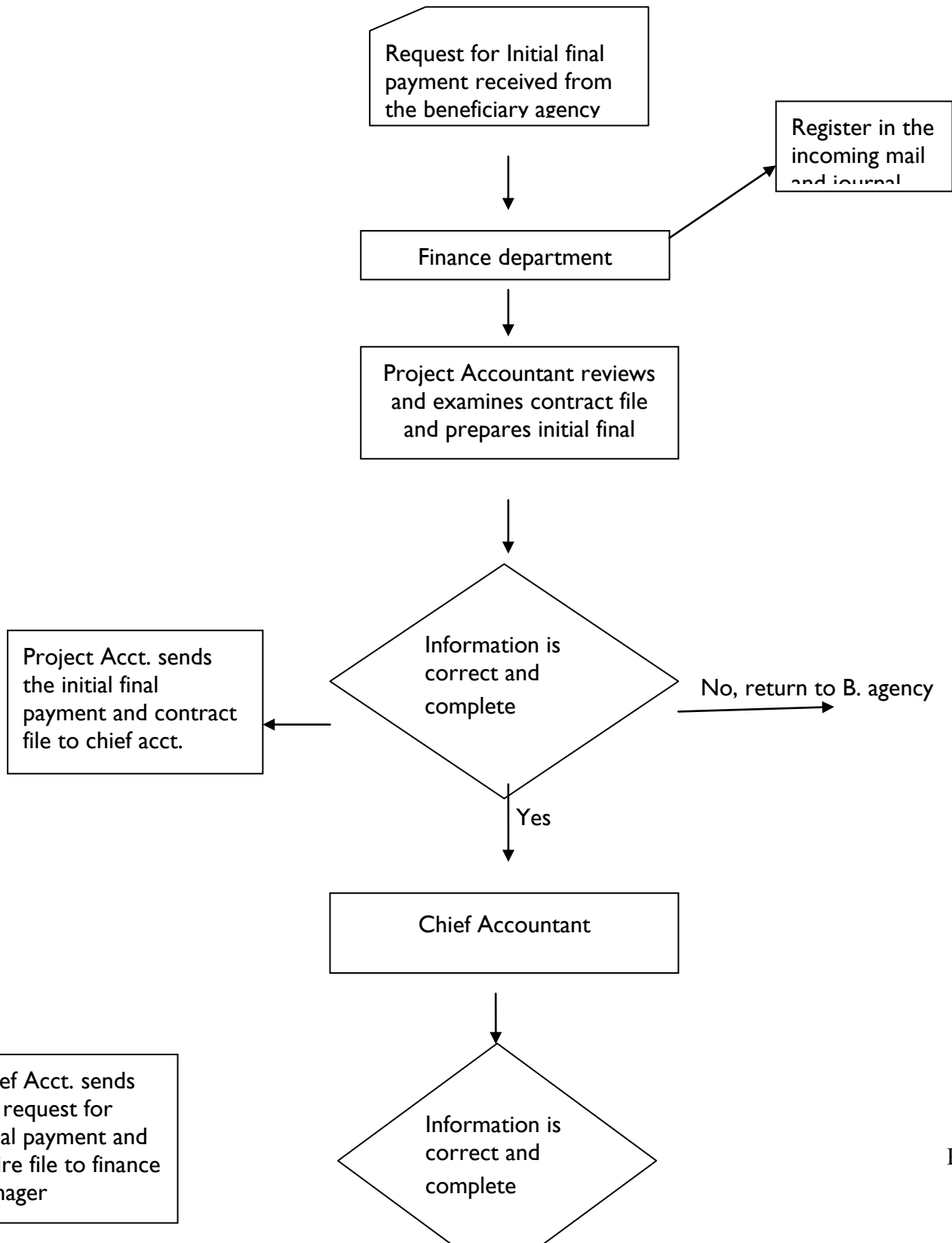


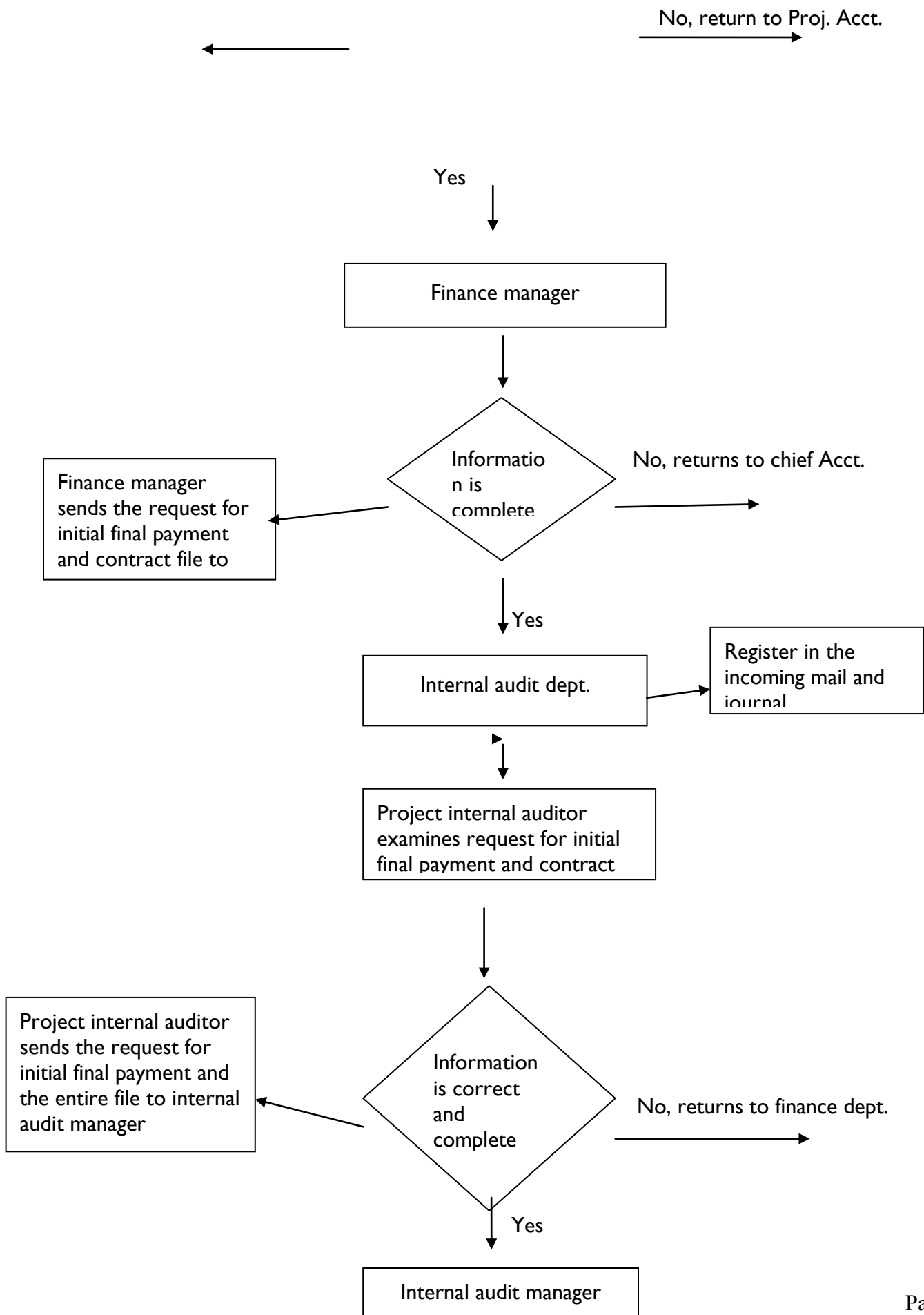


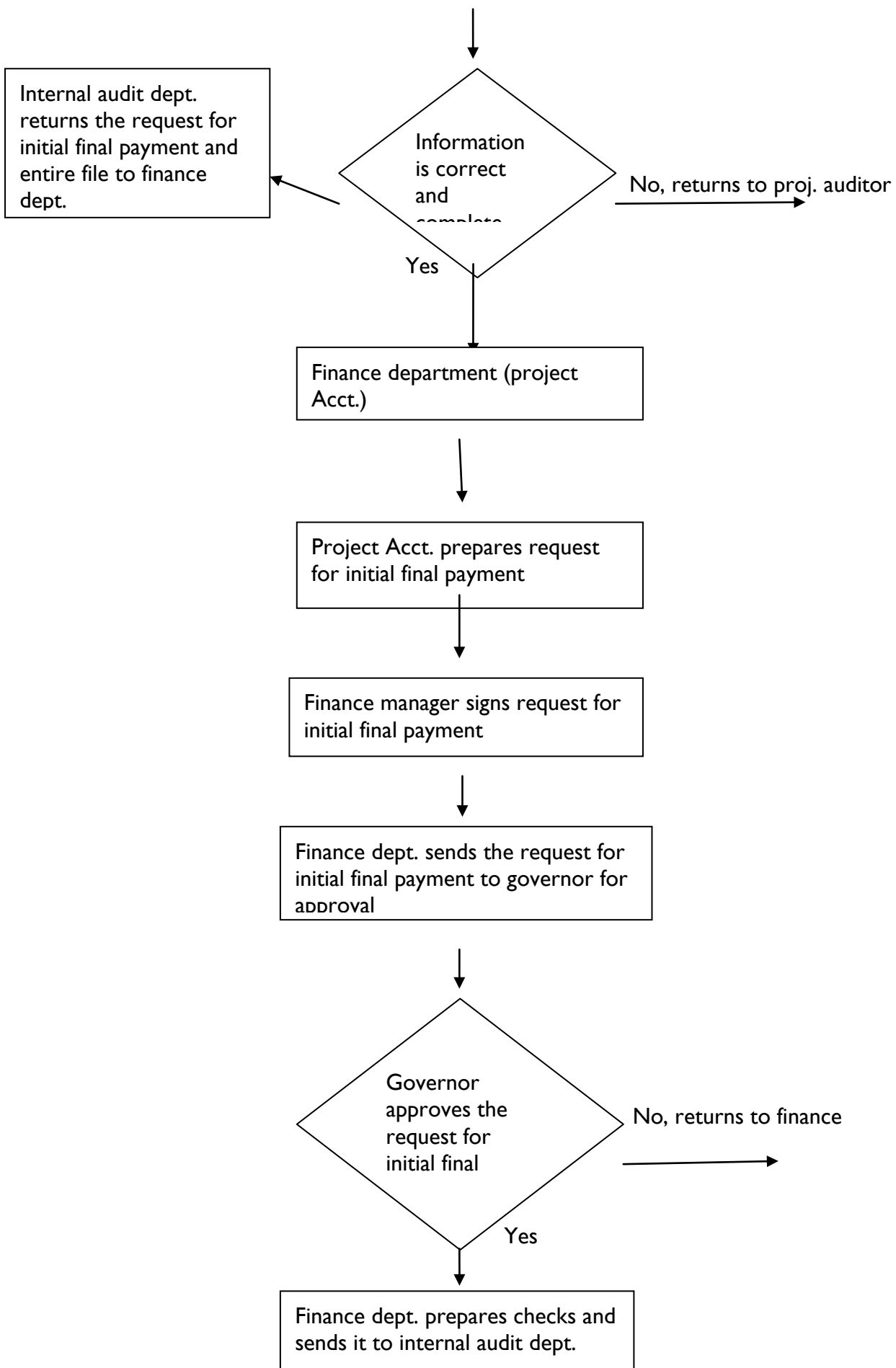
Yes

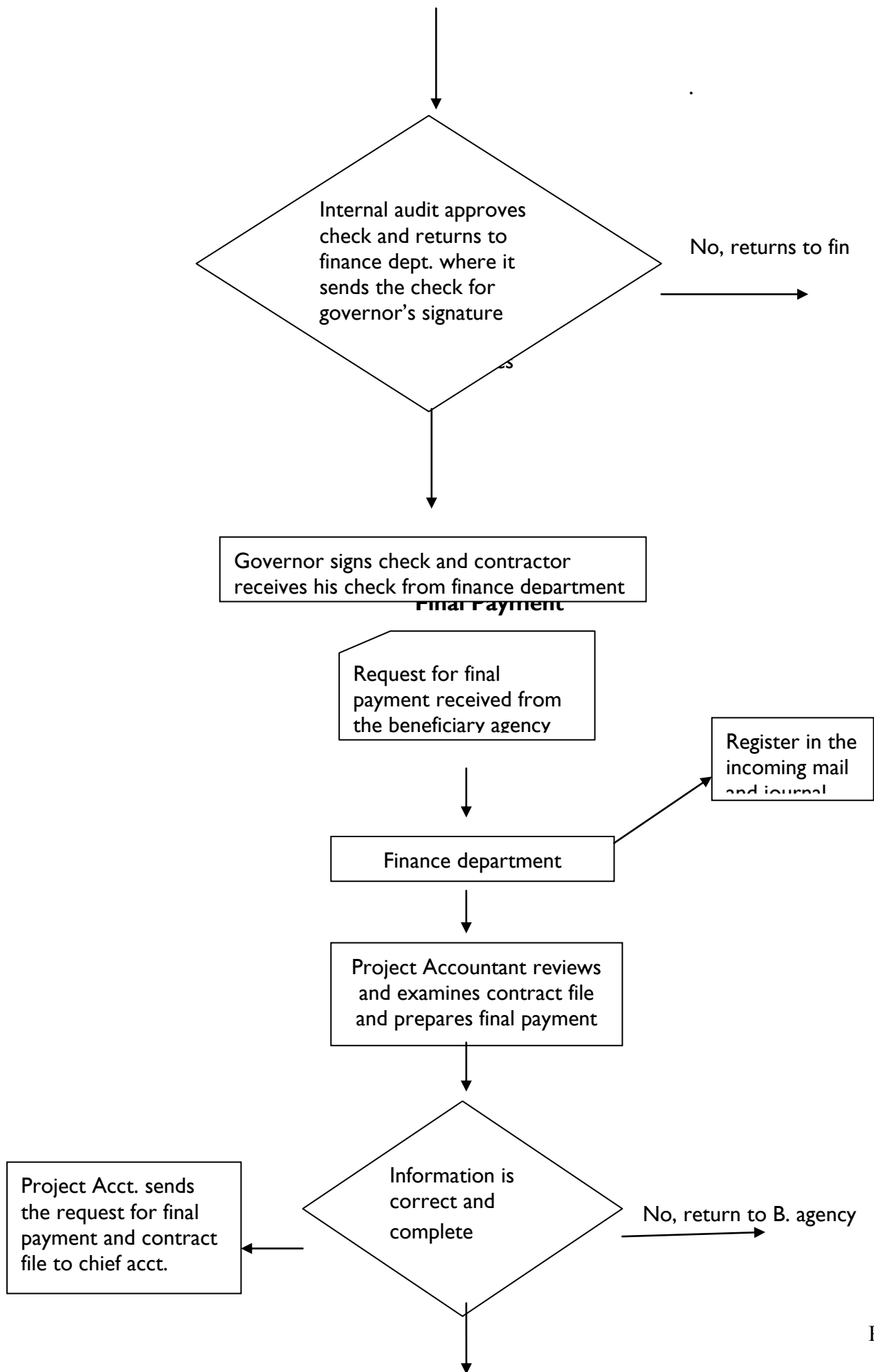
Governor signs check and contractor  
receives his check from finance department

## Initial final payment









Yes

Chief Accountant

Information is  
correct and  
complete

No, return to Proj. Acct.

Chief Acct. sends  
the request for final  
payment and entire  
file to finance  
manager

Yes

Finance manager

Information  
is complete  
and correct

No, returns to chief Acct.

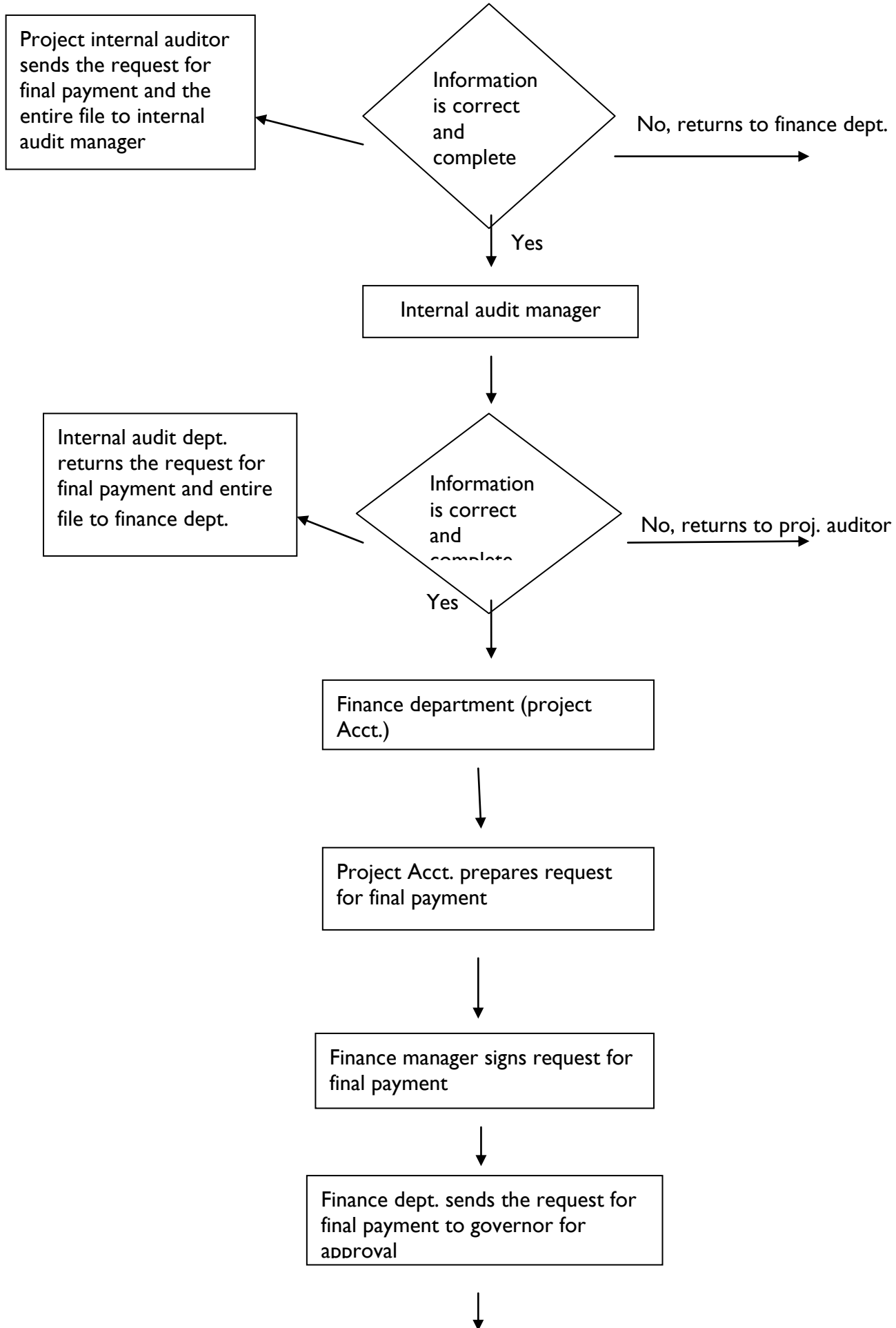
Finance manager  
sends the request for  
final payment and  
contract file to

Yes

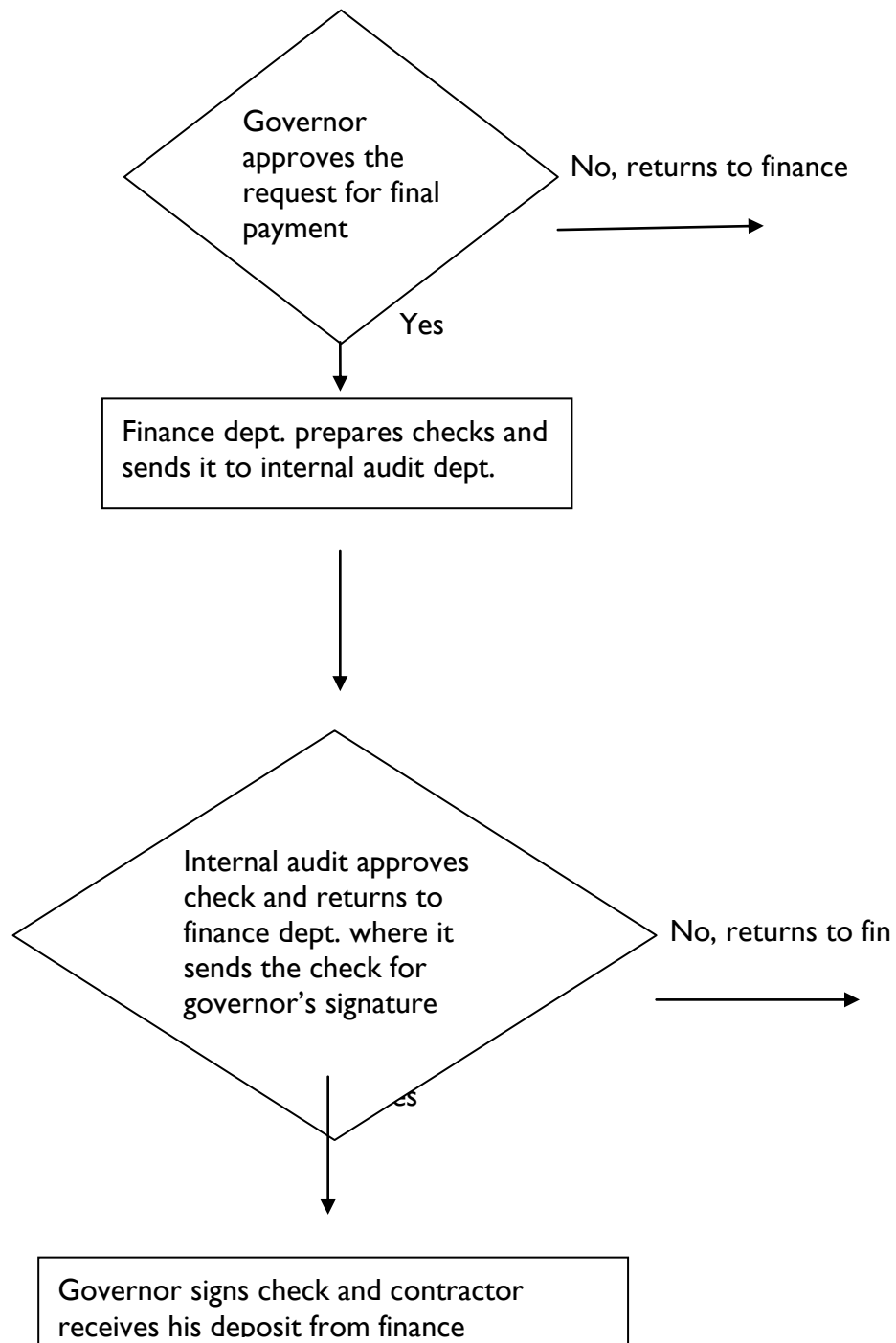
Internal audit dept.

Register in the  
incoming mail and  
journal

Project internal auditor  
examines request for final  
payment and contract file







## The “To Be” Model

### **I-Contractor advance**

1. Contractor submits his request for advance payment to the contract unit
2. Contract unit examines the request for advance payment and returns to the contractor for correction or incomplete information otherwise sends the request to finance department
3. Finance department registers the request for payment in the incoming journal and sends to project accountant
4. Project accountant examines the request for advance payment and prepares a request for payment and sends it to chief accountant for approval otherwise returns the request for advance payment to the contract unit for correction
5. Chief accountant approves the request for payment and sends it to finance manager for department approval otherwise returns to project accountant for correction.
6. Finance manager approves the request for payment and orders the project accountant to prepare a check, otherwise returns the transaction to the chief accountant for correction.
7. Project accountant prepares check and sends it to chief accountant.
8. Chief accountant checks the accuracy of the dollar amount against the payment request order and sends it to audit manager, otherwise returns to project accountant
9. Finance manager approves check and sends to internal audit department, otherwise returns to chief accountant for correction
10. Internal audit department registers the check in the incoming journal
11. Project internal auditor examines the file and check and sends to internal audit manager, otherwise returns to finance department for correction
12. Internal audit manager examines the check and file and sends the check back to finance department, otherwise returns to project internal auditor for correction
13. Finance department sends check with all supporting documents to the governor or his designated signer for signature
14. Governor or his designated signer signs check and returns to finance department or requests more information
15. Contractor receives his check from finance department

### **2-Progress billing payment**

1. Contractor submits his request for payment to technical unit
2. Technical unit examines the accuracy of the information and sends the request for progress billing payment to finance department, otherwise returns to contractor for corrections
3. Finance department registers the request for payment in the incoming journal and sends to project accountant
4. Project accountant examines the request for advance payment and prepares a request for payment and sends it to chief accountant for approval, otherwise returns the request for advance payment to the contract unit for correction
5. Chief accountant approves the request for payment and sends it to finance manager for department approval, otherwise returns to project accountant for correction
6. Finance manager approves the request for payment and orders the project accountant to prepare check, otherwise returns the transaction to the chief accountant for correction
7. Project accountant prepares check and sends it to chief accountant
8. Chief accountant checks the accuracy of the dollar amount against the payment request order and sends it to audit manager, otherwise returns to project accountant
9. Finance manager approves check and sends to internal audit department otherwise returns to chief accountant for correction
10. Internal audit department registers the check in the incoming journal

11. Project internal auditor examines the file and check and sends it to internal audit manager, otherwise returns it to finance department for correction
12. Internal audit manager examines the check and file and sends the check back to finance department, otherwise returns to project internal auditor for correction
13. Finance department sends check with all supporting documents to the governor or his designated signer for signature
14. Governor or his designated signer signs check and returns to finance department or requests more information
15. Contractor receives his check from finance department

### **3-Initial final payment**

1. The beneficiary agency submits the request for initial final payment request on behalf of the contractor
2. Finance department register the request for payment in the incoming journal and sends to project accountant
3. Project accountant examines the request for initial final payment and prepares a request for payment and sends it to chief accountant for approval, otherwise returns the request for initial final payment to the contract unit for correction
4. Chief accountant approves the request for payment and sends it to finance manager for department approval, otherwise returns it to project accountant for correction.
5. Finance manager approves the request for payment and orders the project accountant to prepare a check, otherwise returns the transaction to the chief accountant for correction.
6. Project accountant prepares check and sends it to chief accountant
7. Chief accountant checks the accuracy of the dollar amount against the payment request order and sends it to finance manager, otherwise returns to project accountant
8. Finance manager approves check and sends to internal audit department, otherwise returns to chief accountant for correction
9. Internal audit department registers the check in the incoming journal
10. Project internal auditor examines the file and check and sends to internal audit manager, otherwise returns to finance department for correction
11. Internal audit manager examines the check and file and sends the check back to finance department, otherwise returns to project internal auditor for correction
12. Finance department sends check with all supporting documents to the governor or his designated signer for signature
13. Governor or his designated signer signs check and returns to finance department or requests more information.
14. -Contractor receives his check from finance department

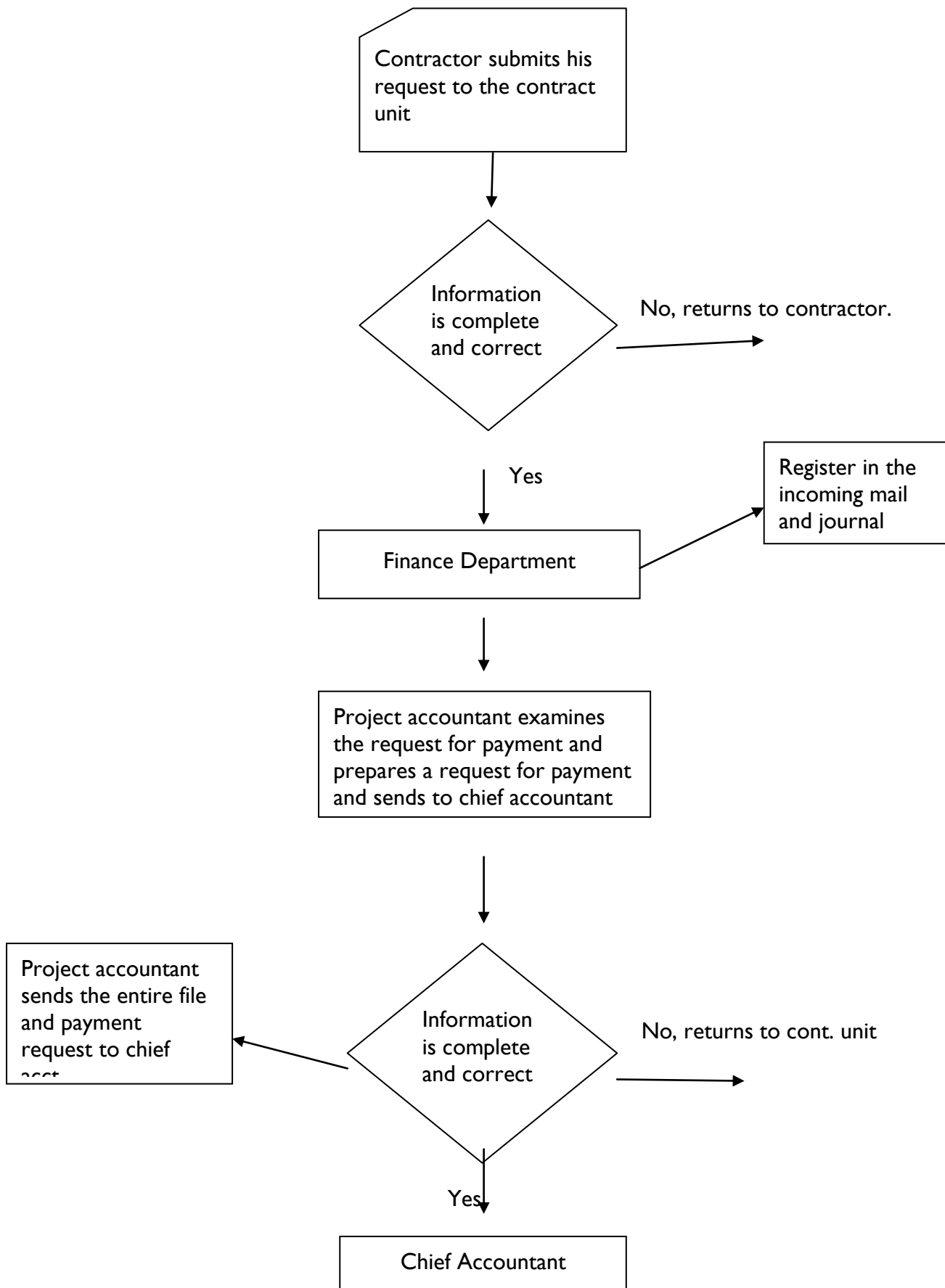
### **4-Final payment**

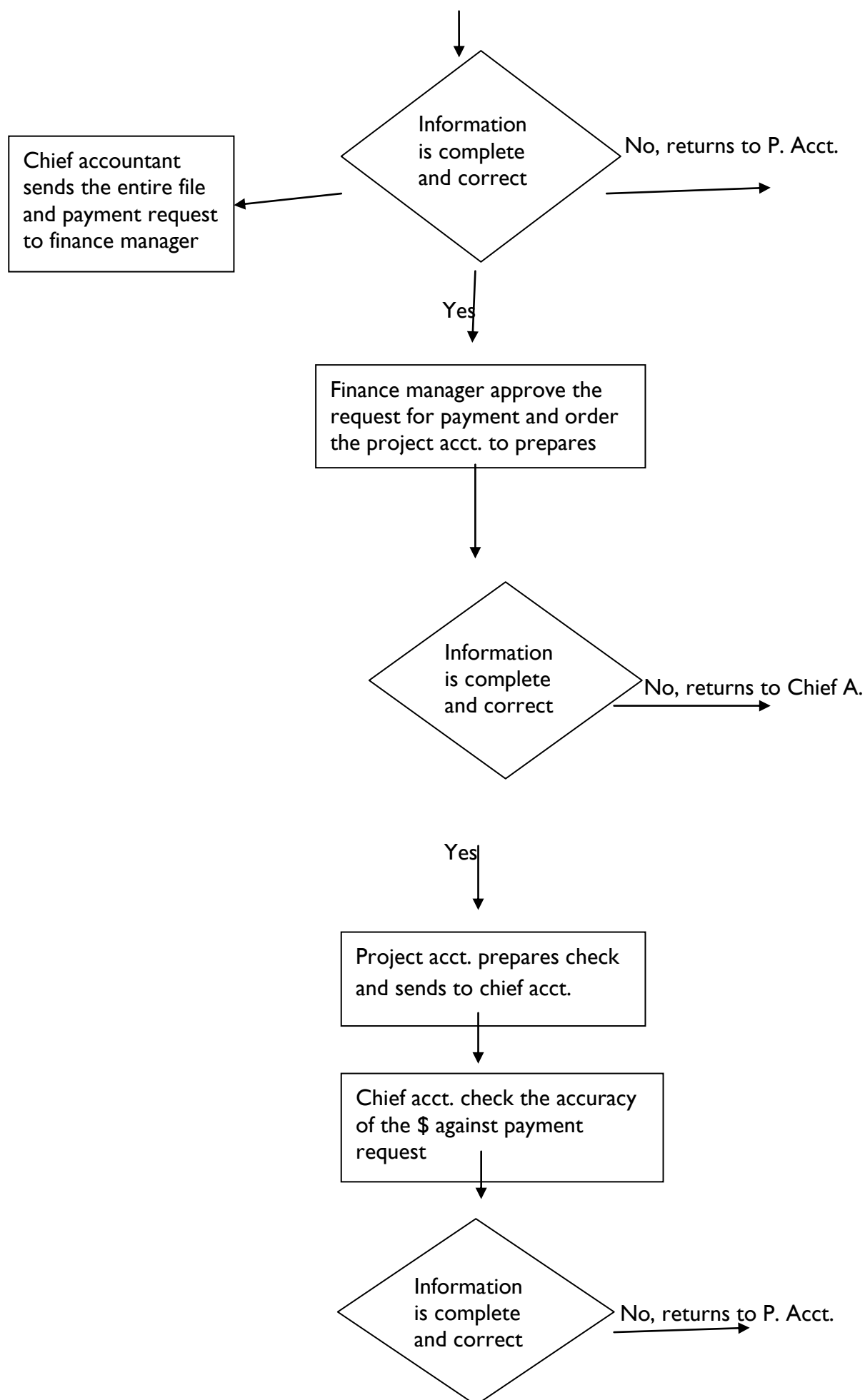
1. The beneficiary agency submits request for final payment on behalf of the contractor
2. Finance department registers the request for final payment in the incoming journal
3. Project accountant examines and reviews contract file for any outstanding loans or payments to other departments and prepares a final payment form and sends the form with the contract file to the chief accountant
4. Chief accountant reviews the final payment form and the contract file and sends the final payment form and contract file to the finance manager for department approval or returns the final payment form and the contract file to the project accountant if a correction is needed
5. Finance manager approves the request for payment and orders the project accountant to prepare check, otherwise returns the transaction to the chief accountant for correction
6. Project accountant prepares check and sends it to chief accountant

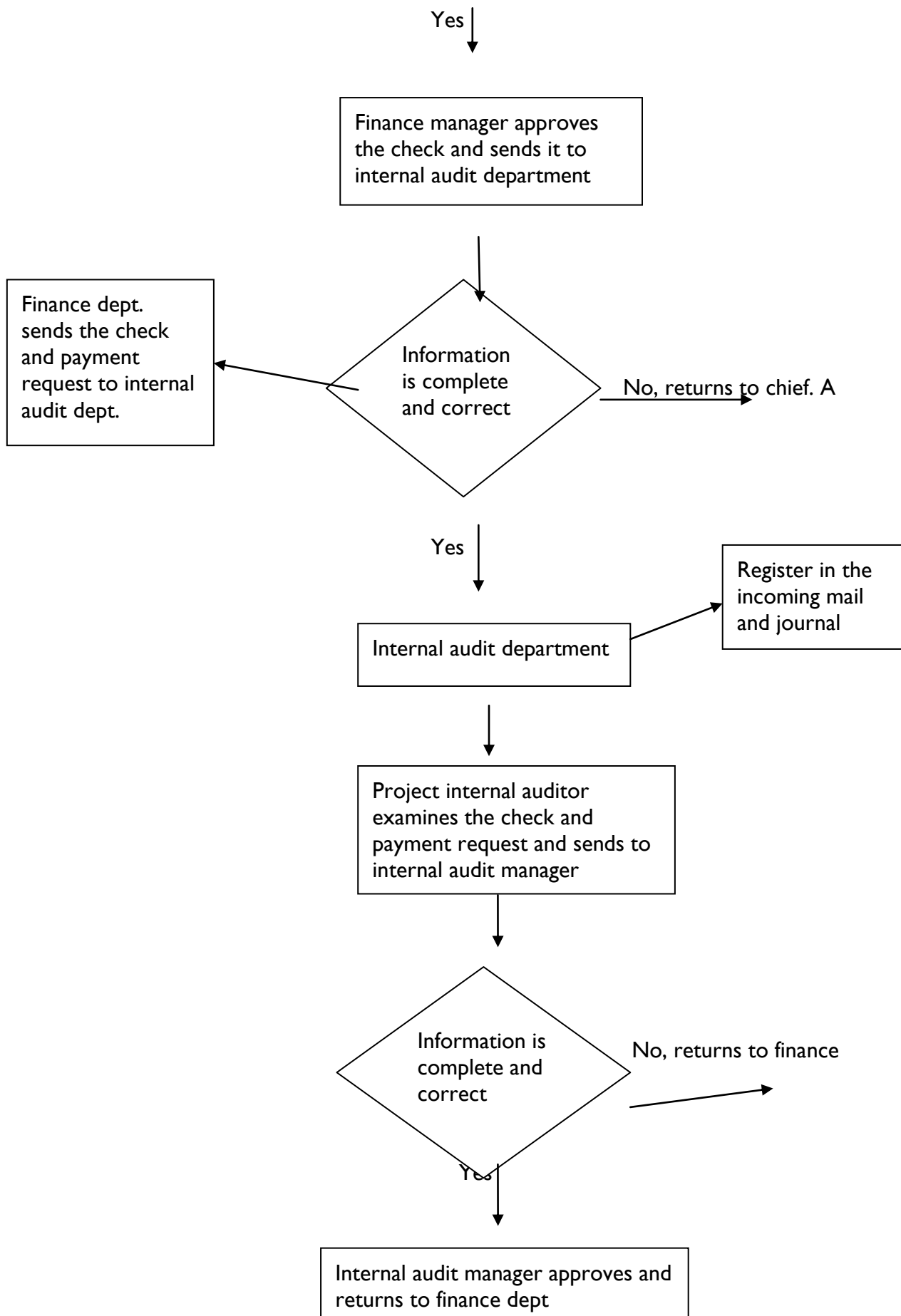
7. Chief accountant checks the accuracy of the dollar amount against the final payment request order and sends it to finance manager, otherwise returns to project accountant
8. Finance manager approves check and sends to internal audit department, otherwise returns to chief accountant for correction
9. Internal audit department registers the check in the incoming journal
10. Project internal auditor examines the file and checks and sends to internal audit manager, otherwise returns to finance department for correction
11. Internal audit manager examines the check and file and sends the check back to finance department, otherwise returns to project internal auditor for correction.
12. Finance department sends check with all supporting documents to the governor or his designated signer for signature
13. Governor or his designated signer signs check and returns to finance department or requests more information
14. Contractor receives his check from finance department

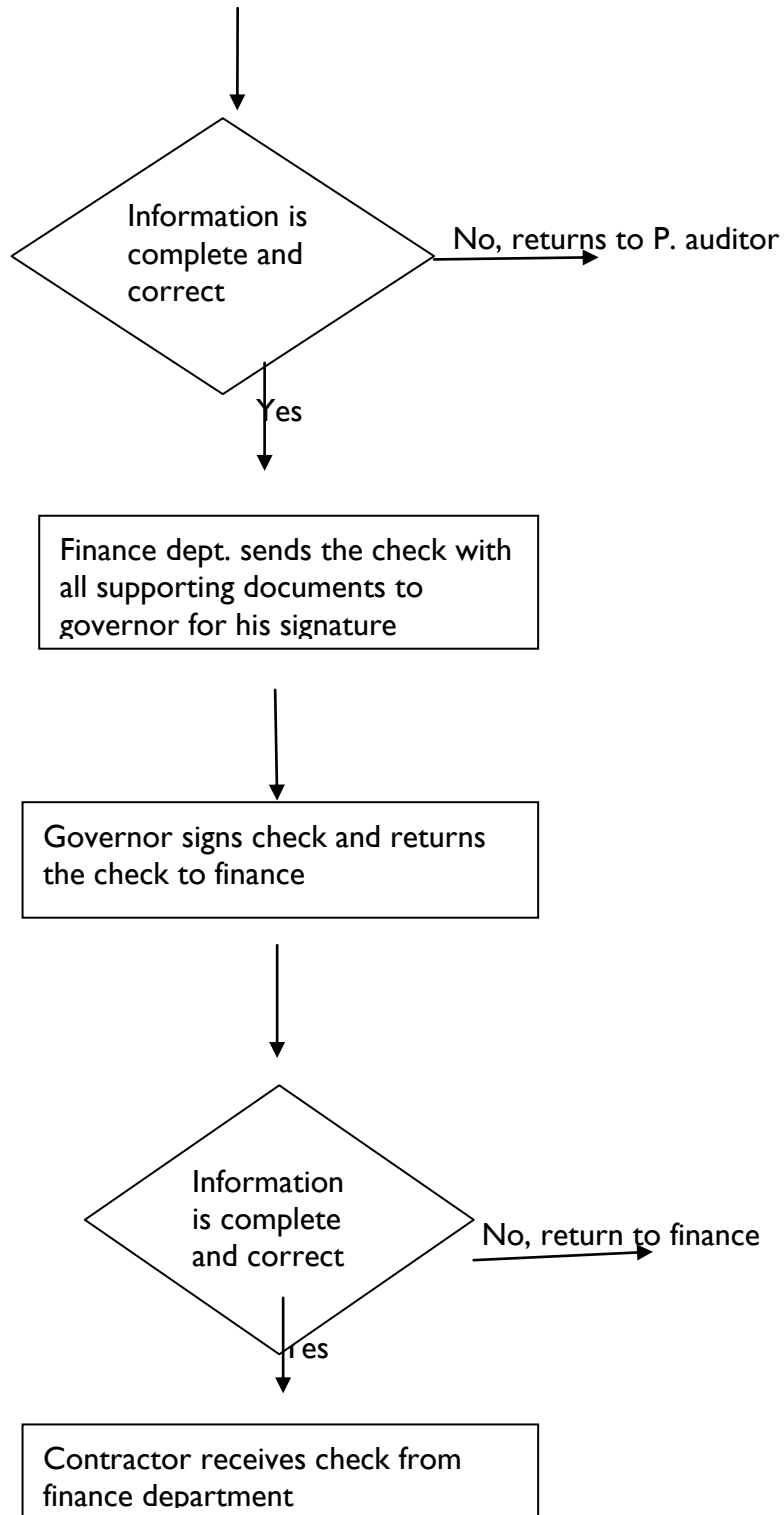
## The “To Be” Process Maps

### Contractor Advance

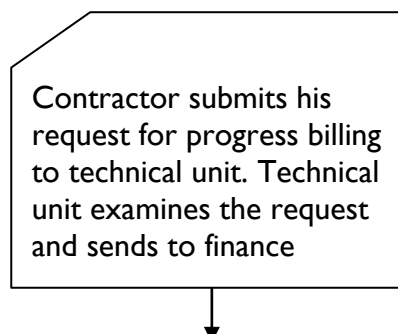




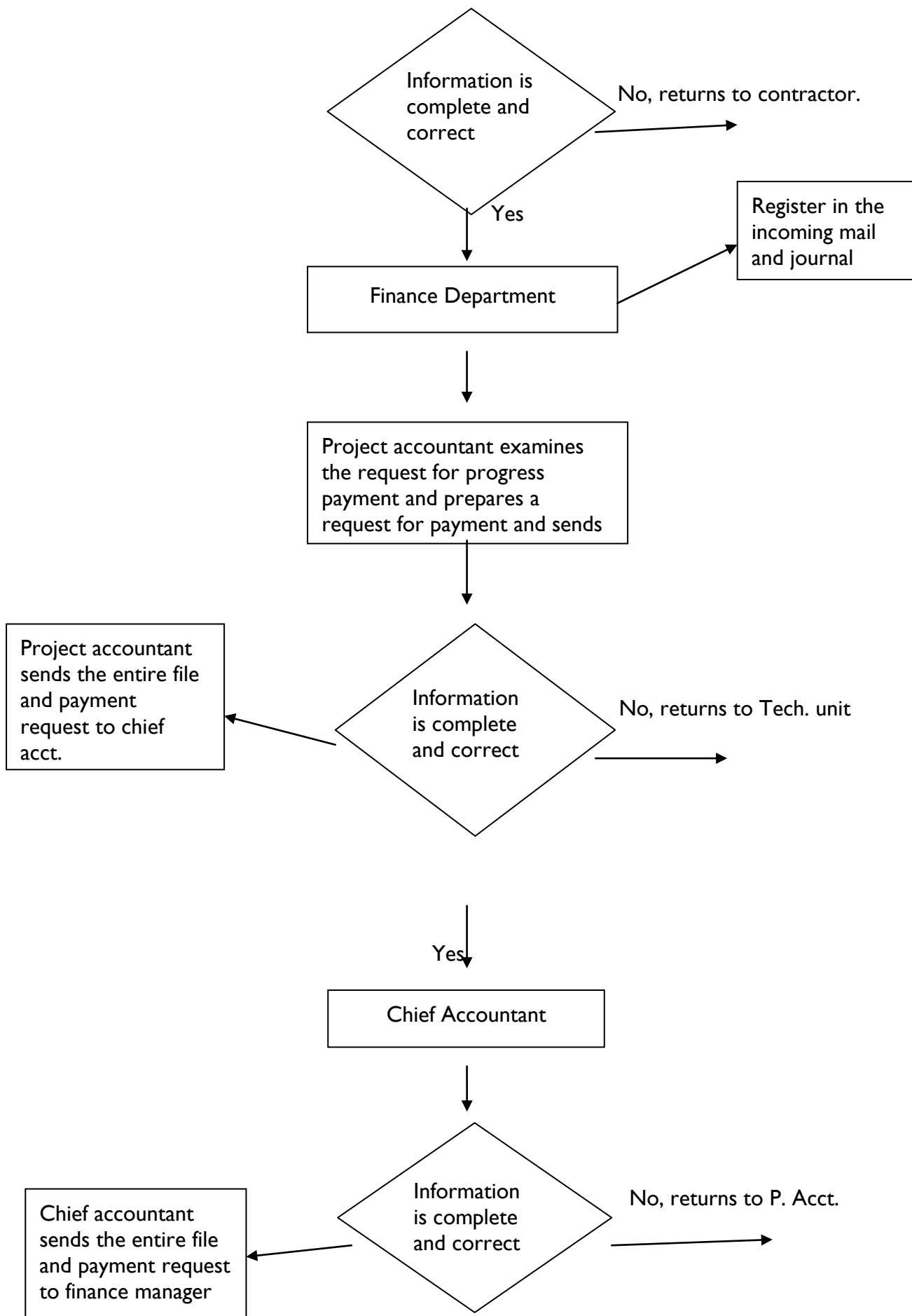


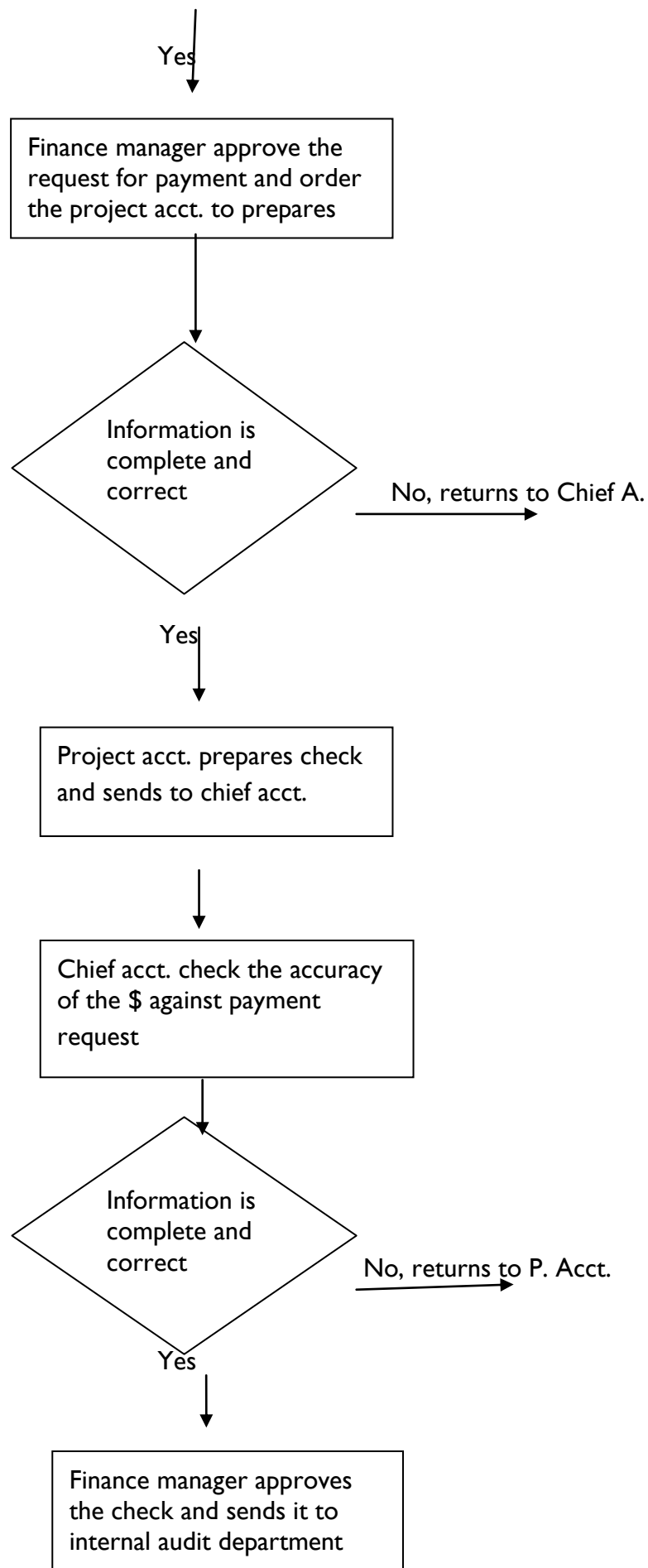


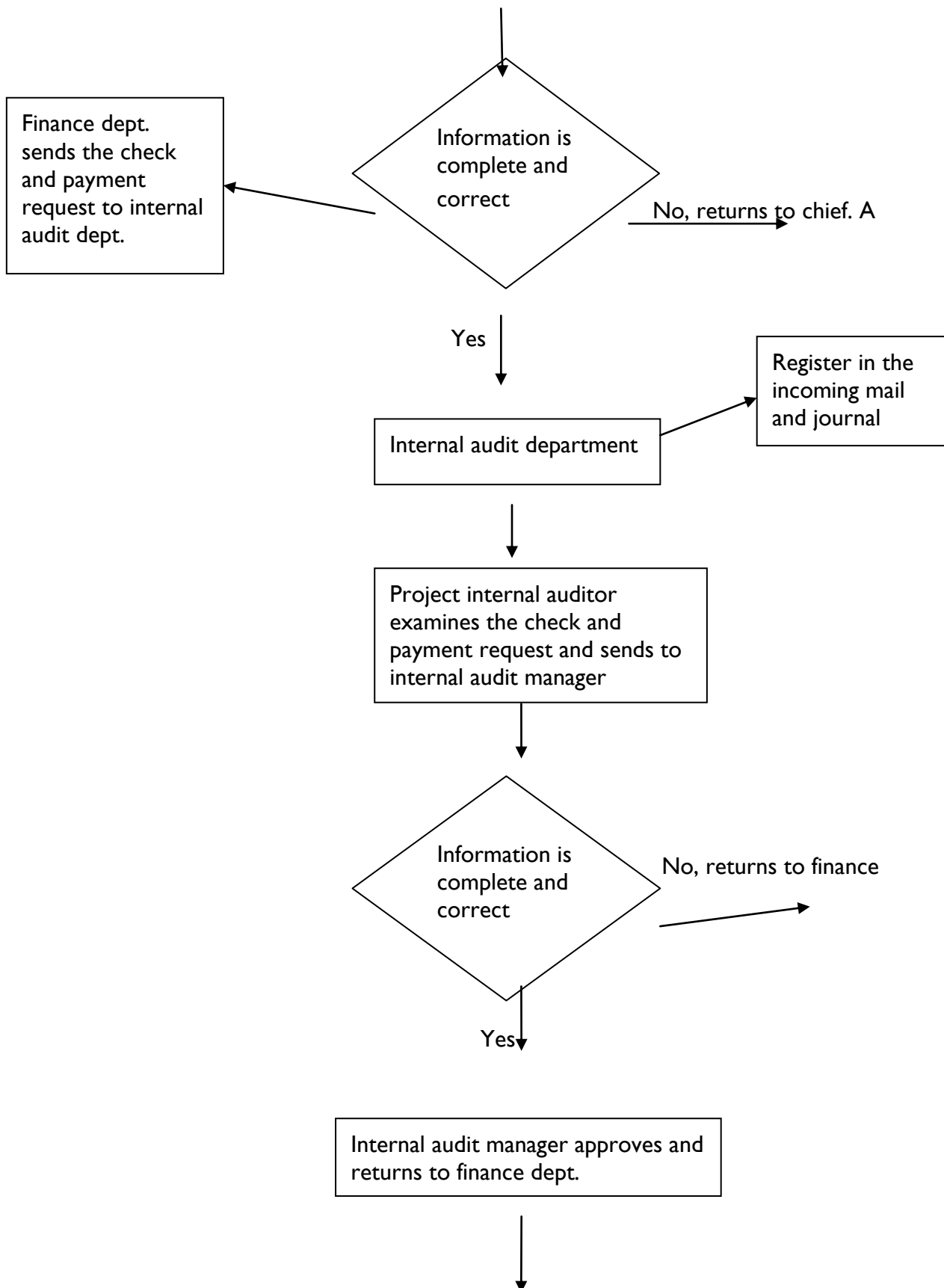
### The progress billing payment

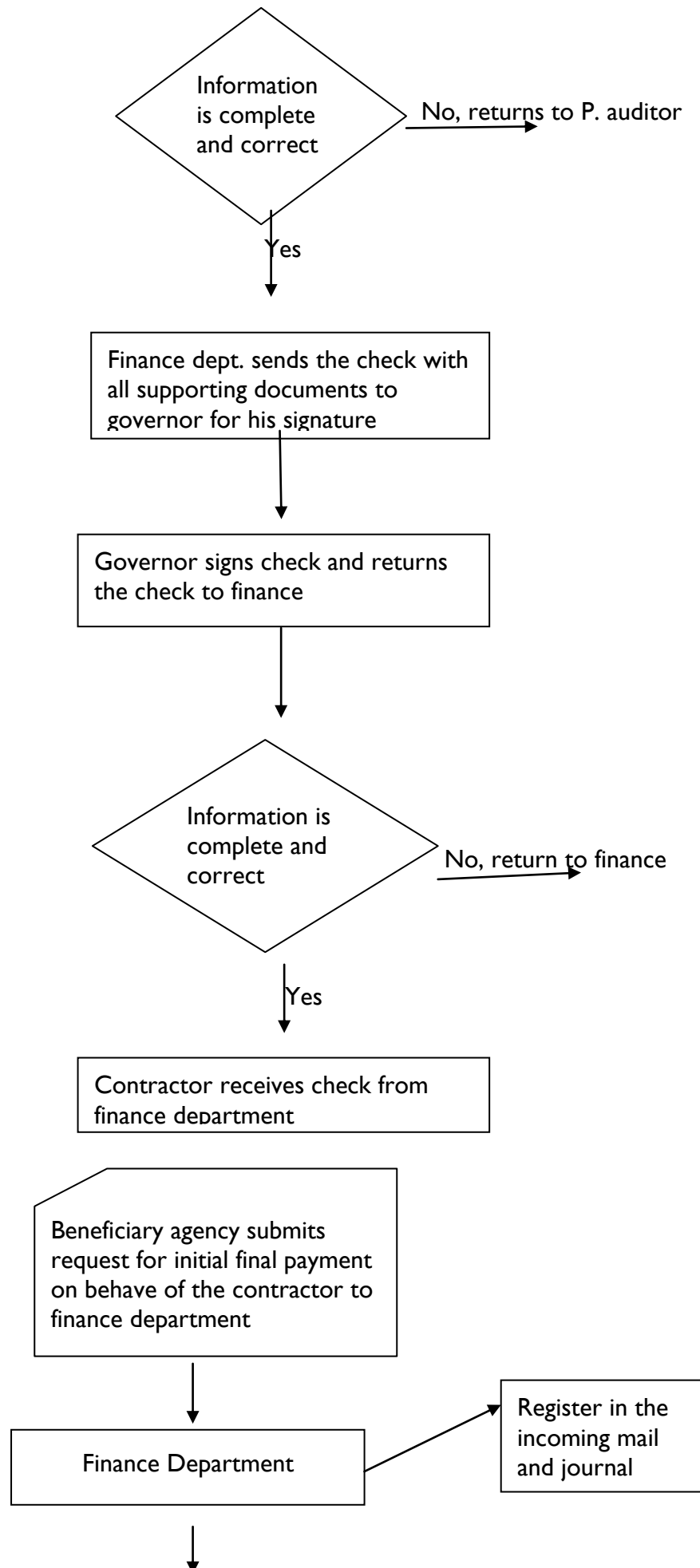


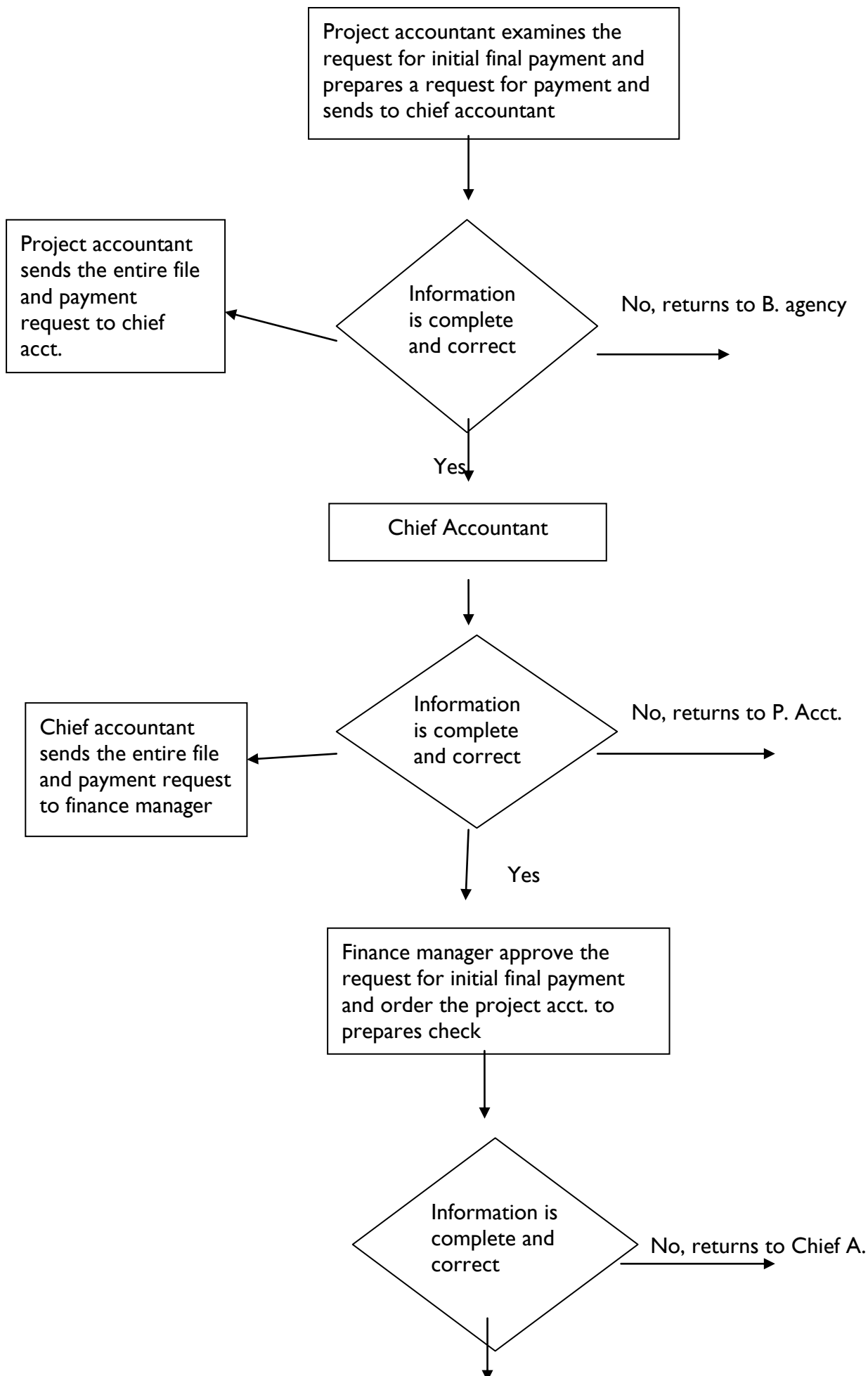




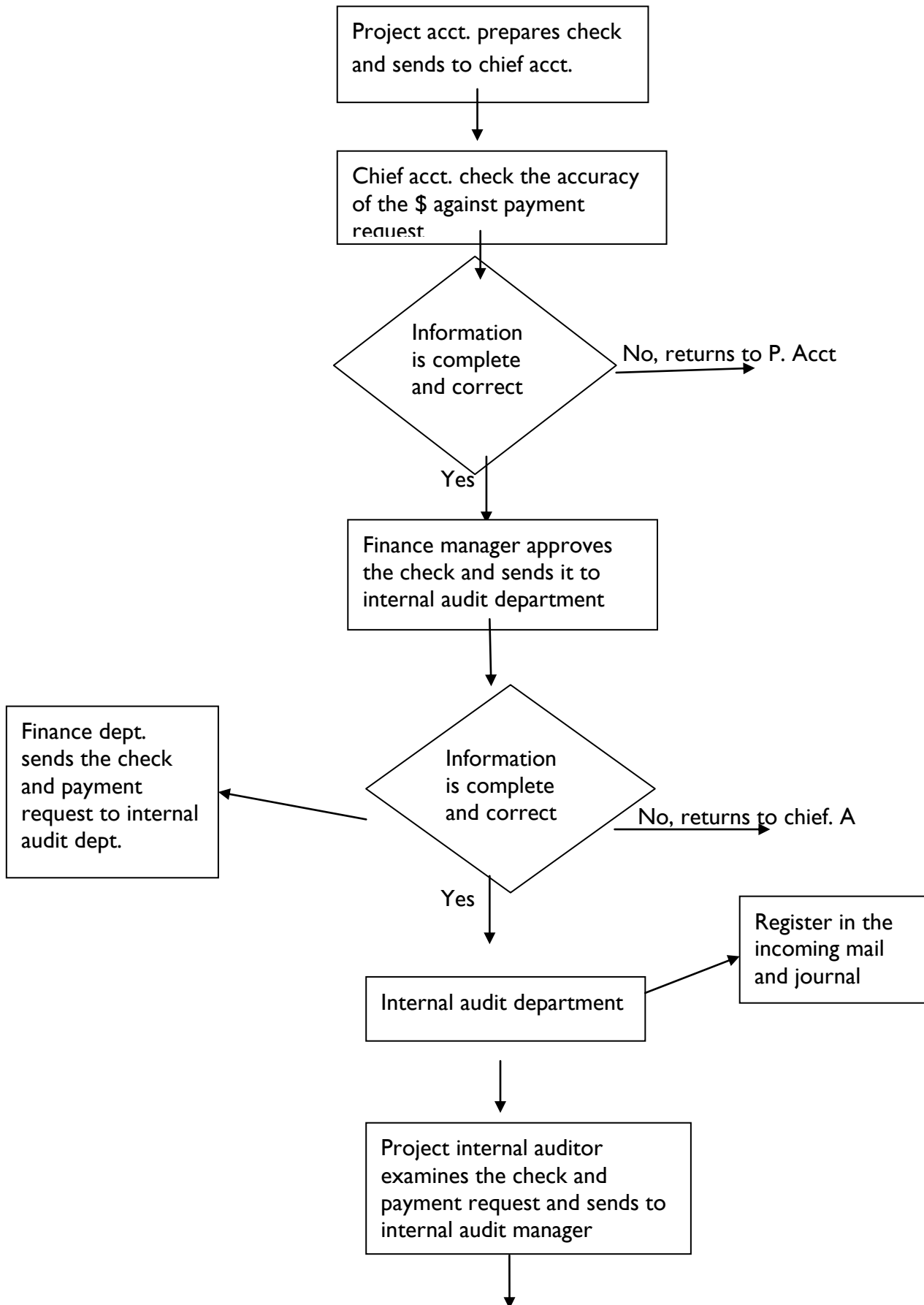


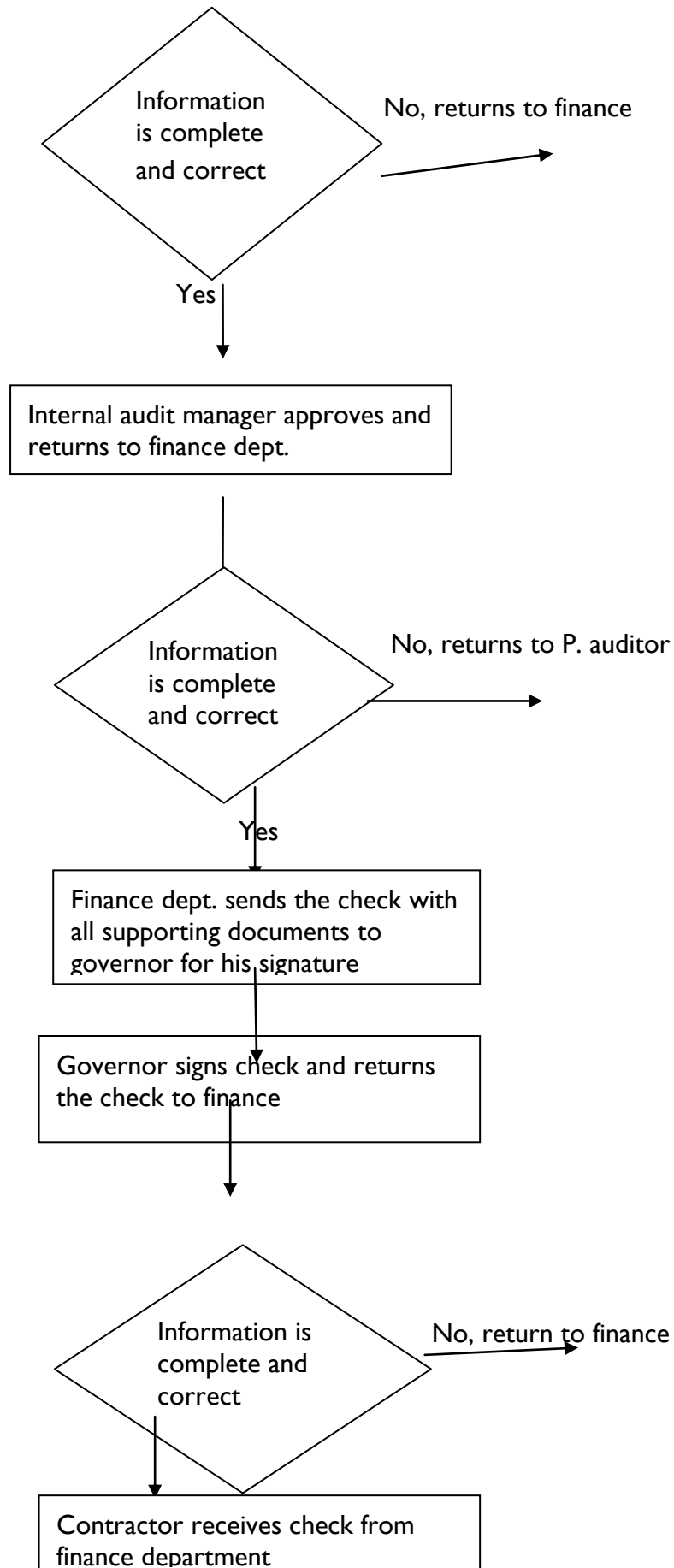




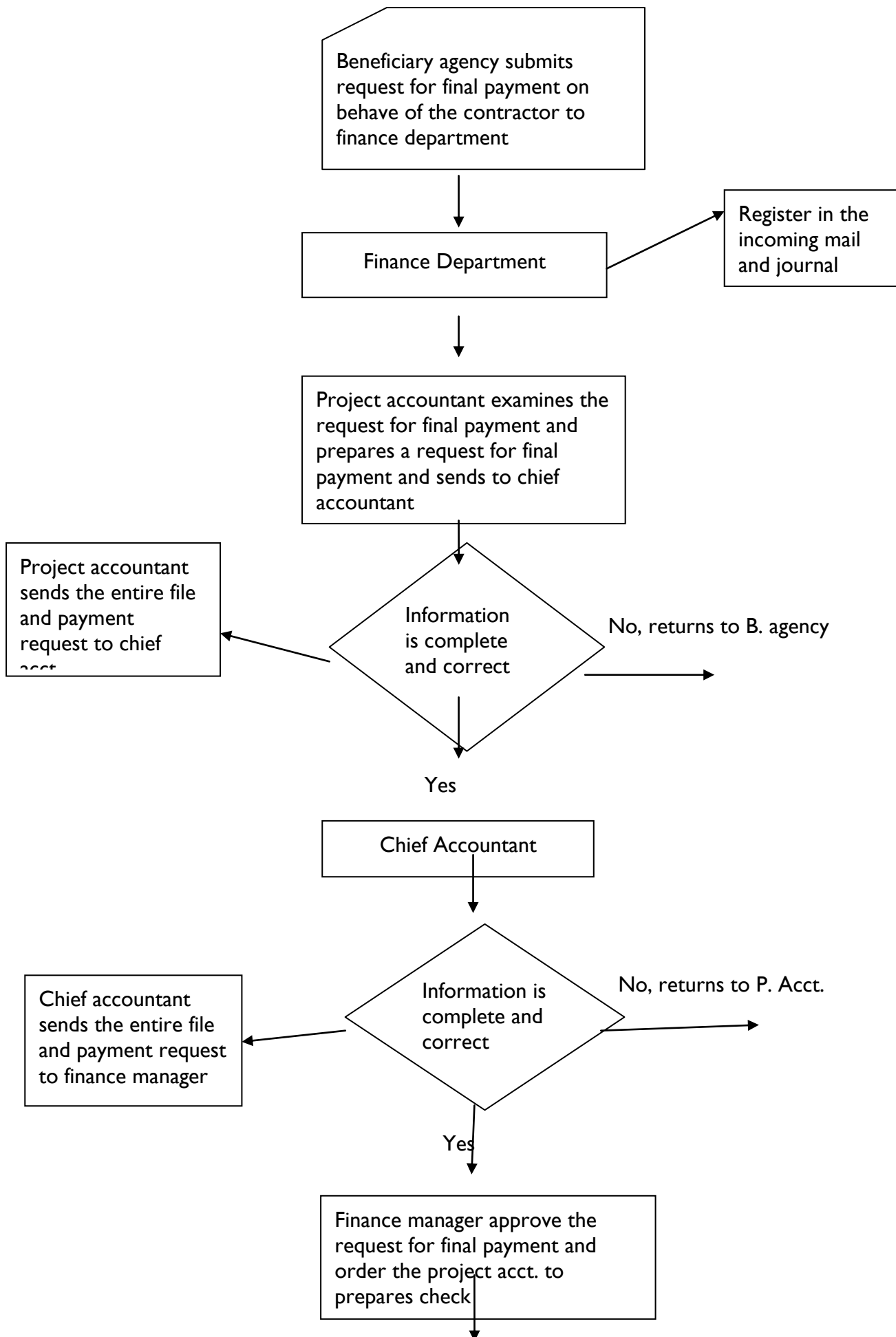


Yes

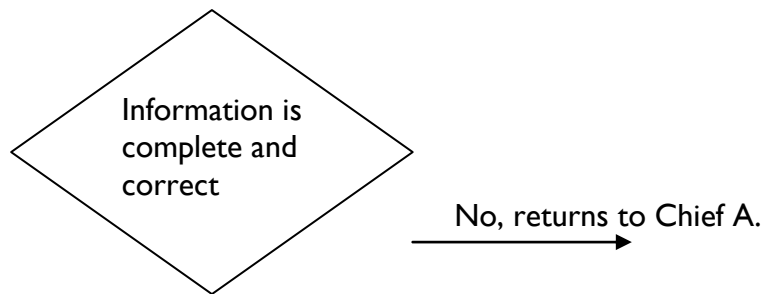




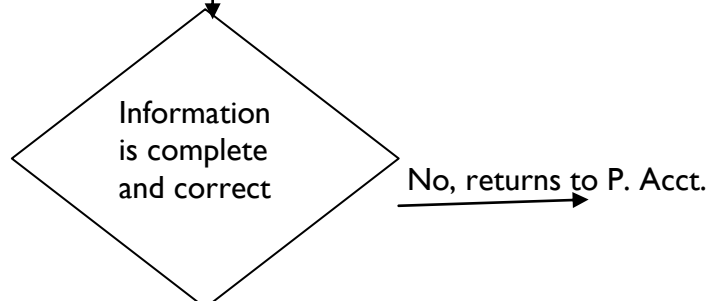
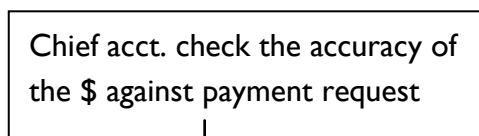
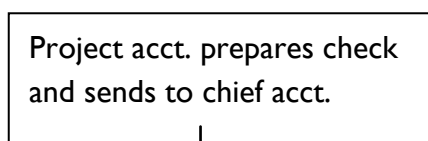
## Final payment



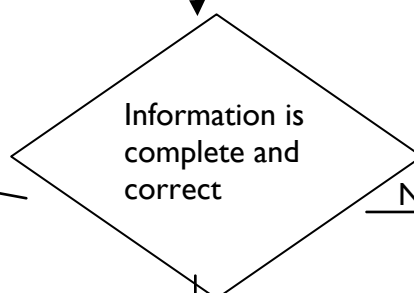
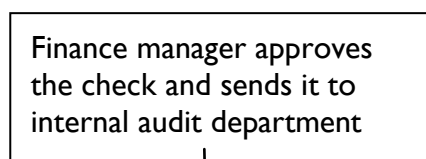




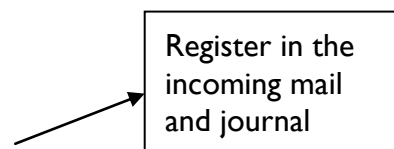
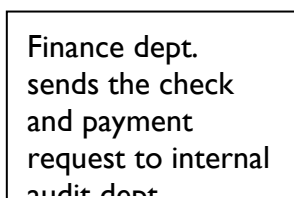
Yes

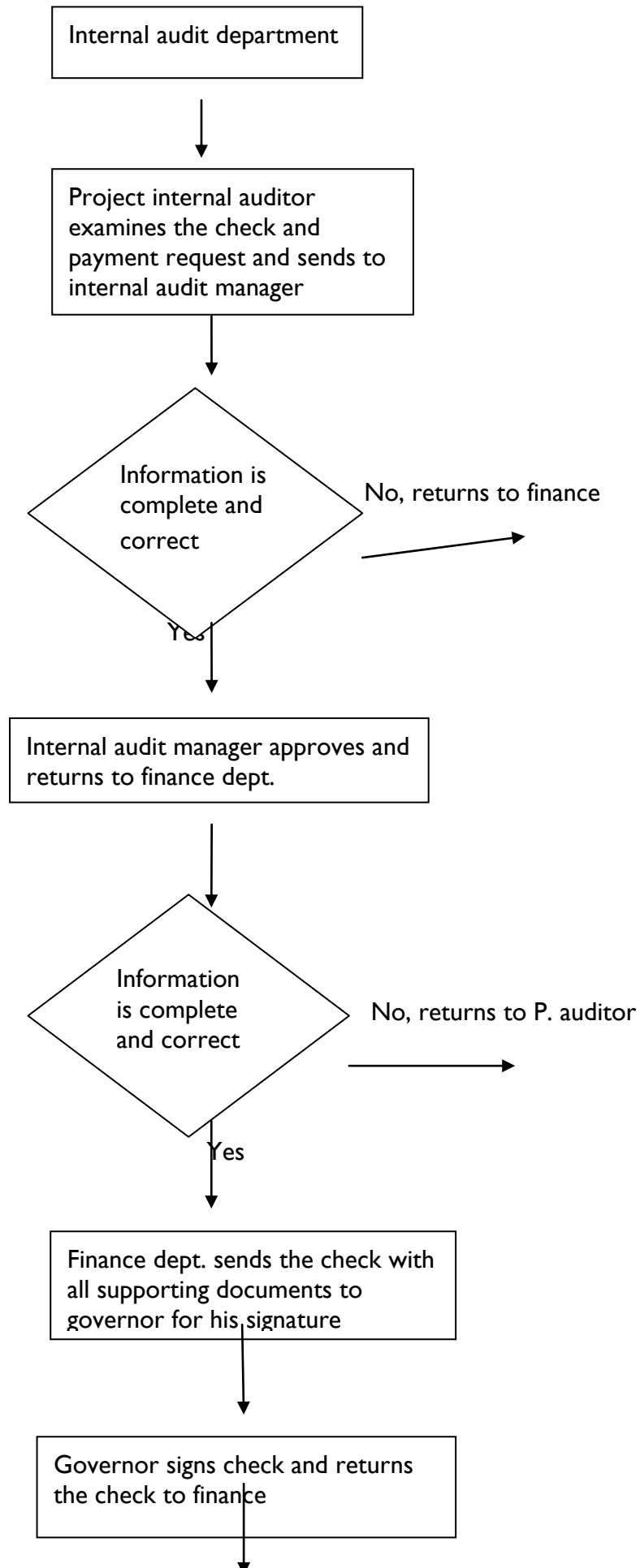


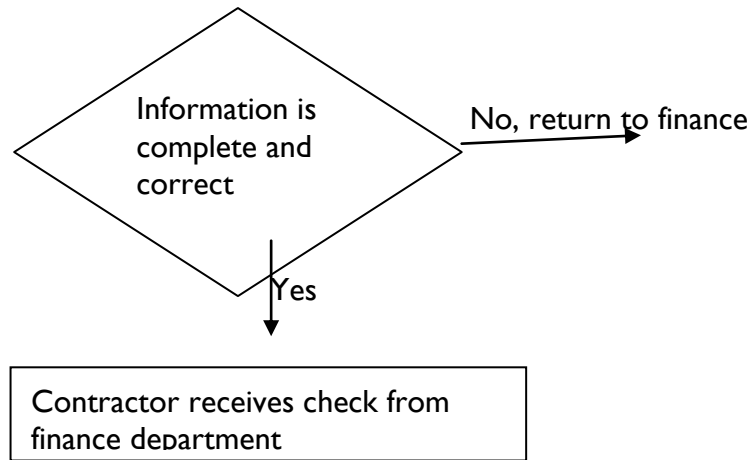
Yes



Yes







Sample of Certificate of Payment

Province of.....

The Governorate of government contracts

Contracts management unit

Name and number of the tender:

Name of contractor:

Beneficiary unit or department:

Date:

To: Finance department

Pay to the order of (name of the contractor) the sum of \$ which represents x% of the total tender price as an advance according to tender agreement.

The (name of contractor) has fulfilled all requirements for the advance payment

Thanks,

Signature

Name of Department head

Sample of Certificate of payment

Province of .....

Governorate of planning and Follow-up

Technical unit

Name and number of the tender:

Name of contractor:

Beneficiary unit or department:

Date:

To: Finance department

Pay to the order of.....name of the contractor the sum of \$ according to the attached forms

Attachments:

I- List of the performed services and the \$ amount

Thanks

Signature

Department head

## Second Survey Baseline

Our team in Basrah, with the help of the finance department, took a random sample of 49 contractor payment requests out of 150 contractor payment requests for the entire month of February 2014 and found that on average it took Basrah finance department 9 days to process one contractor payment request.

## Methodology for the Second Survey Baseline

We numbered the entire population of the 150 payment requests that have been processed in February 2014 in a spread sheet and then wrote each number on a piece of paper and folded the paper and put the entire 150 papers in a box and mixed them and randomly chose 49 folded papers. We matched the chosen number to the processed request payment in the spreadsheet list.

## Conclusion

Our recommendations to improve contractor payment system in Basrah helped the province reduce time needed to process one payment from 17 days to almost 9 days a 50% improvement.

# THE PROVINCE OF WASIT, IRAQ CONTRACTOR PAYMENT SYSTEM—CHALLENGES AND IMPROVEMENTS

The objective of this study is to strengthen the provincial financial management system and to identify improvement opportunities and to set the framework and guidelines for their implementation and use. Another objective is to identify problems related to the contractor payment system and recommend appropriate solutions to decrease the number of delayed capital projects.

## Introduction

The importance of an efficient contractor payment system for capital projects in developing countries comes from the fact that such projects touch the lives of millions of citizen who rely on these projects for their well-being. It is hard to image how life would be without power generation plants, schools, hospitals, roads or water treatment plants. A delay in the execution of infrastructure projects will affect the quality of life for the recipients immediately.

The province of Wasit, in Eastern Iraq faces the same delayed capital projects execution rate as other provinces and some of these challenges are due to obstacles in the contractor payment system in the province.

## Wasit Contractor Payment System Cycle (The “As Is” Model)

**A-Contractor advance** has the following steps:

1. Contractor submits his request for an advance payment to the finance department manager after paying a fee in the amount of 1000 Iraqi Dinar.
2. Finance department manager checks the request and supporting documents
3. Finance department manager sends the request for advance payment to the project accountant who requests a letter to validate the letter of guarantee from the issuing bank
4. Finance department sends the request for advance payment to the internal audit department
5. Internal audit department registers the request for advance payment into the incoming mail journal
6. Internal audit manager send the request for advance payment to the project internal auditor
7. Project internal auditor examines the request for advance payment and makes sure all documents and procedures are correct
8. Project internal auditor registers the request for advance payment in the journal of projects
9. Project internal auditor prepares a summary of the exact amount of the request for advance payment
10. Project internal auditor sends the request summary to the internal audit department manager for department approval
11. Internal department manager signs on the request summary and returns the request for advance payment and the summary to the finance department
12. Finance department prepares a payment request and registers it into the incoming mail journal of the internal audit department
13. Finance department manager requests the approval of the governor and the deputy governor for the payment request
14. Finance department manager requests that the project accountant prepare the payment voucher and the check
15. Project accountant and the finance department manager sign the voucher and send it along with the check to the governor for signature

16. Finance department sends the voucher to internal audit department
17. Internal audit department returns the voucher to the finance department
18. Contractor receives check from finance department

## **B- Progress billing payment**

The progress billing payment has the following steps:

1. Contractor submits his request for progress billing payment to the engineering unit department
2. Engineering department unit prepares the progress billing payment according to the actual work done by contractor
3. Engineering unit department sends the request with progress billing payment to the beneficiary agency
4. Beneficiary agency sends an official letter to the government of Wasit in accordance with the progress billing payment request from the engineering unit department and the contractor
5. Government of Wasit sends the request for progress billing payment to the finance department
6. Finance department sends the request for progress billing payment to the internal audit department
7. Project internal auditor prepares a summary of the progress billing payment and registers it into the projects journal and sends it to internal audit department manager to sign it and returns the transaction to the finance department
8. Finance department prepares payment request and sends it to the governor and his deputy for approval
9. Governor returns the payment request to finance department after his approval
10. Project accountant prepares payment voucher and check
11. Project accountant and the finance department manager sign the voucher and send the voucher and the check to the governor for signature
12. Governor signs the voucher and the check and returns them to finance department
13. Finance department sends the voucher to internal audit department for the signatures of the project internal auditor and internal audit department manager
14. Internal audit department returns the voucher to finance department
15. Contractor receives check the from finance department

## **C- Initial final payment**

The initial final payment has the following cycle:

1. On the request of the engineering unit department, the planning and follow-up department forms a handover committee.
2. The hand over committee prepares the final payment request and sends it to the finance department.
3. Finance department registers the request for initial final payment in the incoming mail journal and sends it to internal audit department.
4. Project internal auditor prepares payment summary, registers the request for initial final payment in the projects journal and sends the summary to the internal audit manager for signature and returns to finance department.
5. Finance department prepares request for payment and sends it to the governor and deputy governor for approval
6. Finance department receives the request for payment after the governor and his deputy approval

7. Finance department manager sends the request for payment to the project accountant to prepare the voucher and the check
8. Finance department manager and the project accountant sign the voucher and send the voucher and the check to the governor for signature
9. Governor signs the check and returns the check and voucher to finance department
10. Finance department sends the voucher to internal audit department for the signature of the project internal auditor and the internal audit department manager
11. Internal audit department returns the voucher to the finance department
12. Contractor receives the check from finance department

#### **D- Final payment**

The final payment has the following cycle:

1. Formation of handover committee on the request of the beneficiary agency or the contractor
2. Preparation of a final handover report that the contractor has no outstanding liabilities
3. The committee sends the final handover report to the finance department to release any contractor deposits

### **Roles and Responsibilities Within the Accounting and Internal Audit Departments**

The finance manager is the head of the finance department and responsible for the entire departmental operation.

The internal audit manager is the head of the internal audit department and is responsible for running the entire departmental operation. The cooperation of both department heads is very essential in reducing the time needed to process contractor payment requests.

The project accountant is responsible for maintaining the contractor file and preparation of payment requests, payment vouchers and checks.

The finance manager and project accountant signatures are required for all documents.

The project internal auditor is responsible for examining contractor file and checking the payment order and the voucher.

Both of the internal audit manager's and project internal auditor's signatures are required for all documents.

Governor and deputy governor both sign checks, payment orders and payment vouchers.

### **Baseline Survey**

We established the first baseline survey last July 2013. We took a random sample of 21 contractor payment requests and we found out that on average it took Wasit finance department 11.3 days to process one contractor payment request.

### **Methodology Used in Establishing Baseline Survey**

1. Collect one month of contractor payments processed in Wasit
2. Select a random sample of 21 processed contractor's payments (choosing one payment from every four payments in a list containing all payments)
3. Divide the total number of days to process all the random sample-by-sample numbers

### **Key Performance Indicators (KPIs)**

1. Numbers of days to process a contractor payment request



2. Dollar amount of processed contractor payment request per month or week or in a year
3. Percentage of completing investment project in time

### **Analysis of the “As Is” Model**

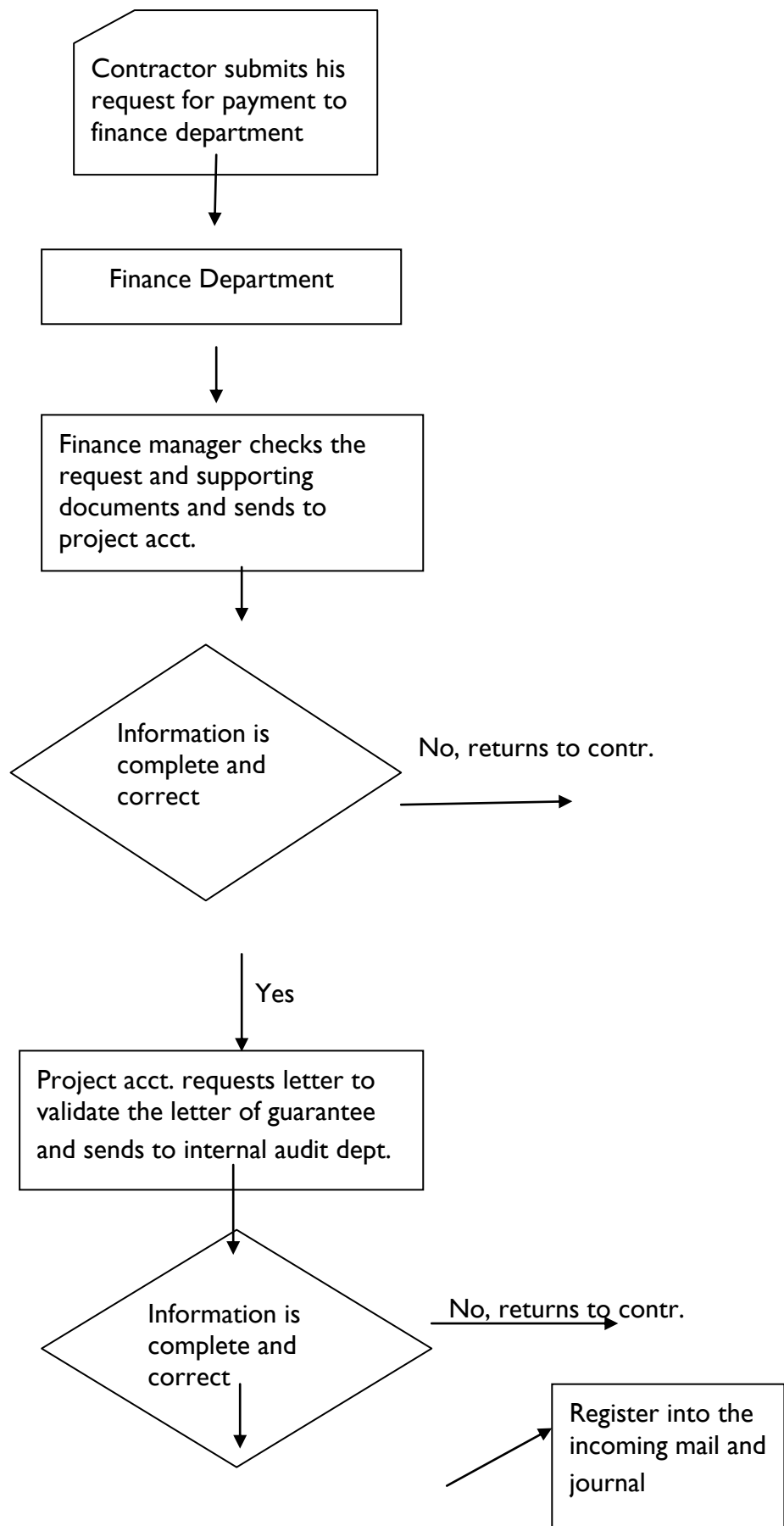
1. Internal audit department prepares the payment order, which is a duty of the finance department. The internal audit department should only check, examine, review and audit the accuracy of the information and safeguard organizational resources.
2. Governor and deputy governor both sign payment order, payment voucher and checks. This is a time consuming procedure and will not help reduce the time needed to process contractor payment requests.
3. Payment request moves from and to internal audit department more than one time

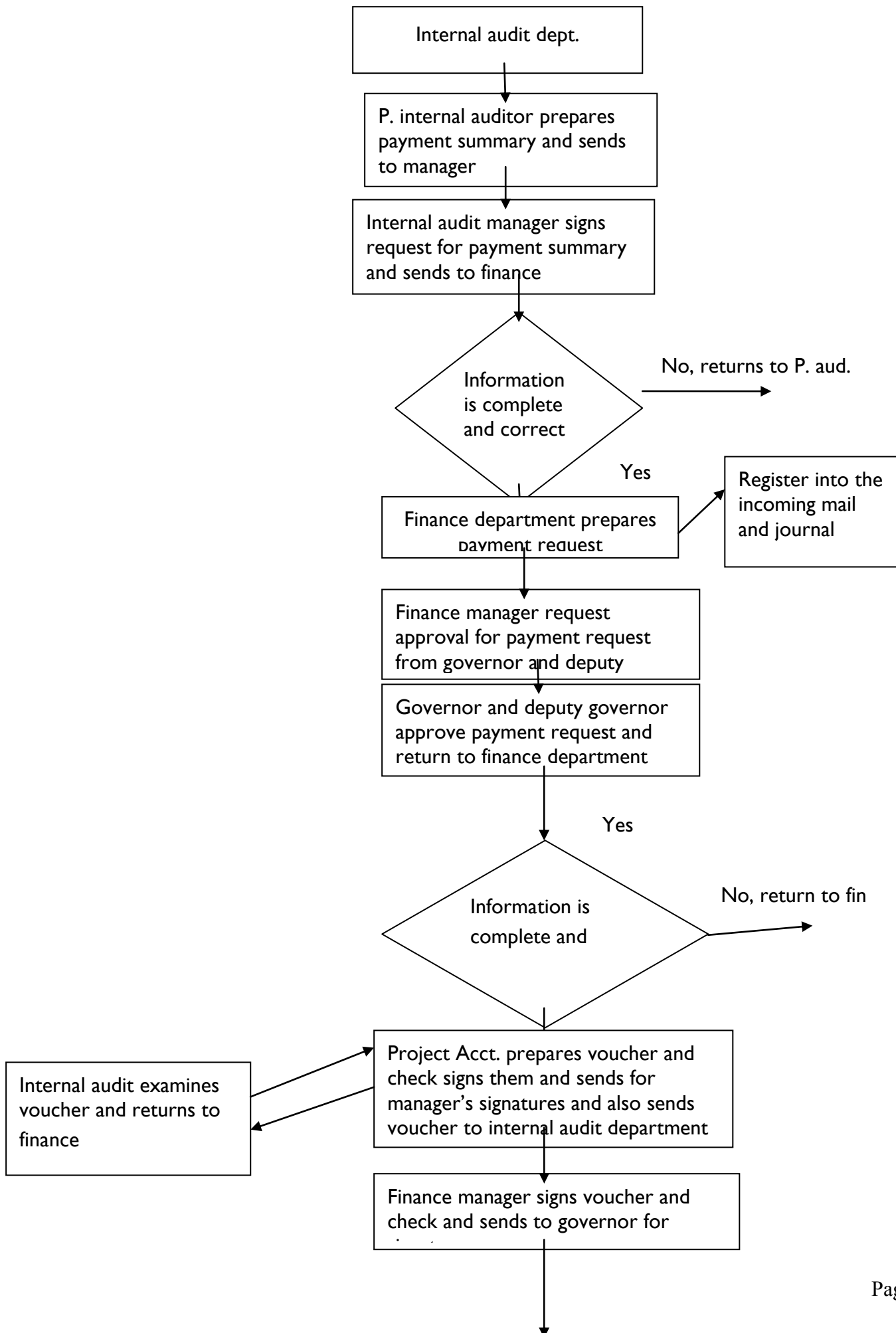
### **Recommendations to Improve the Contractor Payment System in Wasit Province**

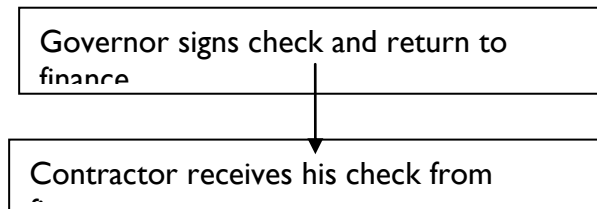
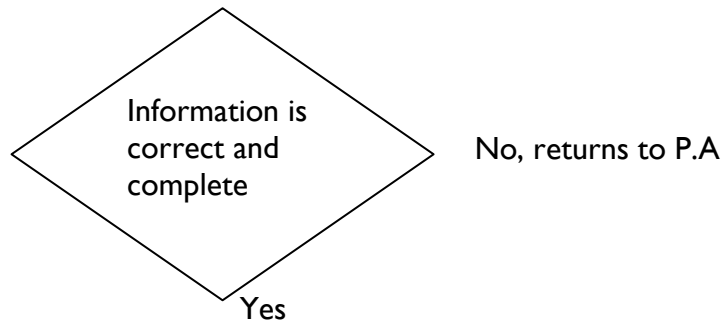
1. The finance department should prepares the payment summary and send it to the internal audit department for examination.
2. The finance department should send only the check to the governor or his designated signer not to the governor and the deputy governor.
3. The finance department should only send the check and supporting documents to the internal audit department.
4. The Governor or his designated signer should only sign the check not the check, payment voucher and request for payment approval.

## The “As Is” Process Map

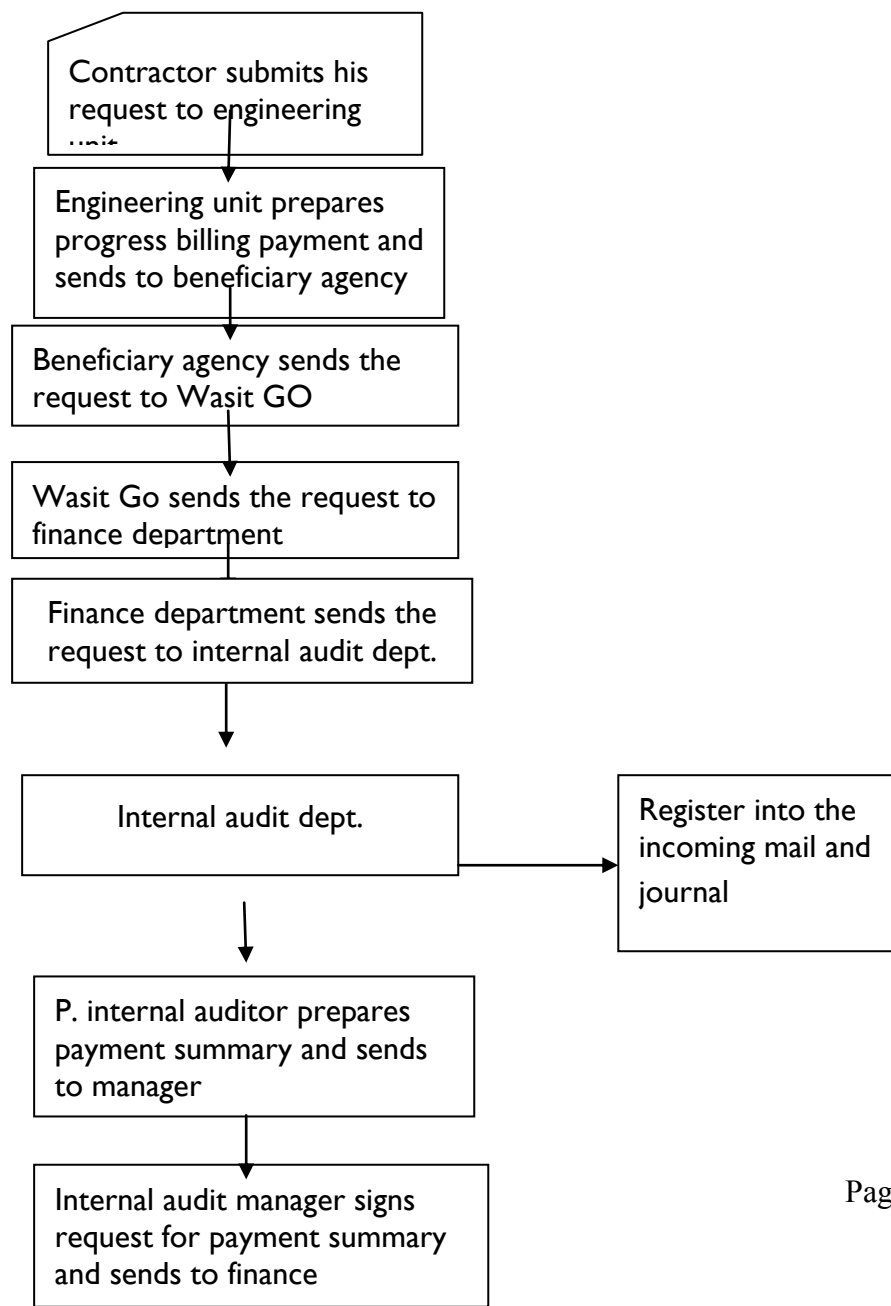
### Contractor advance

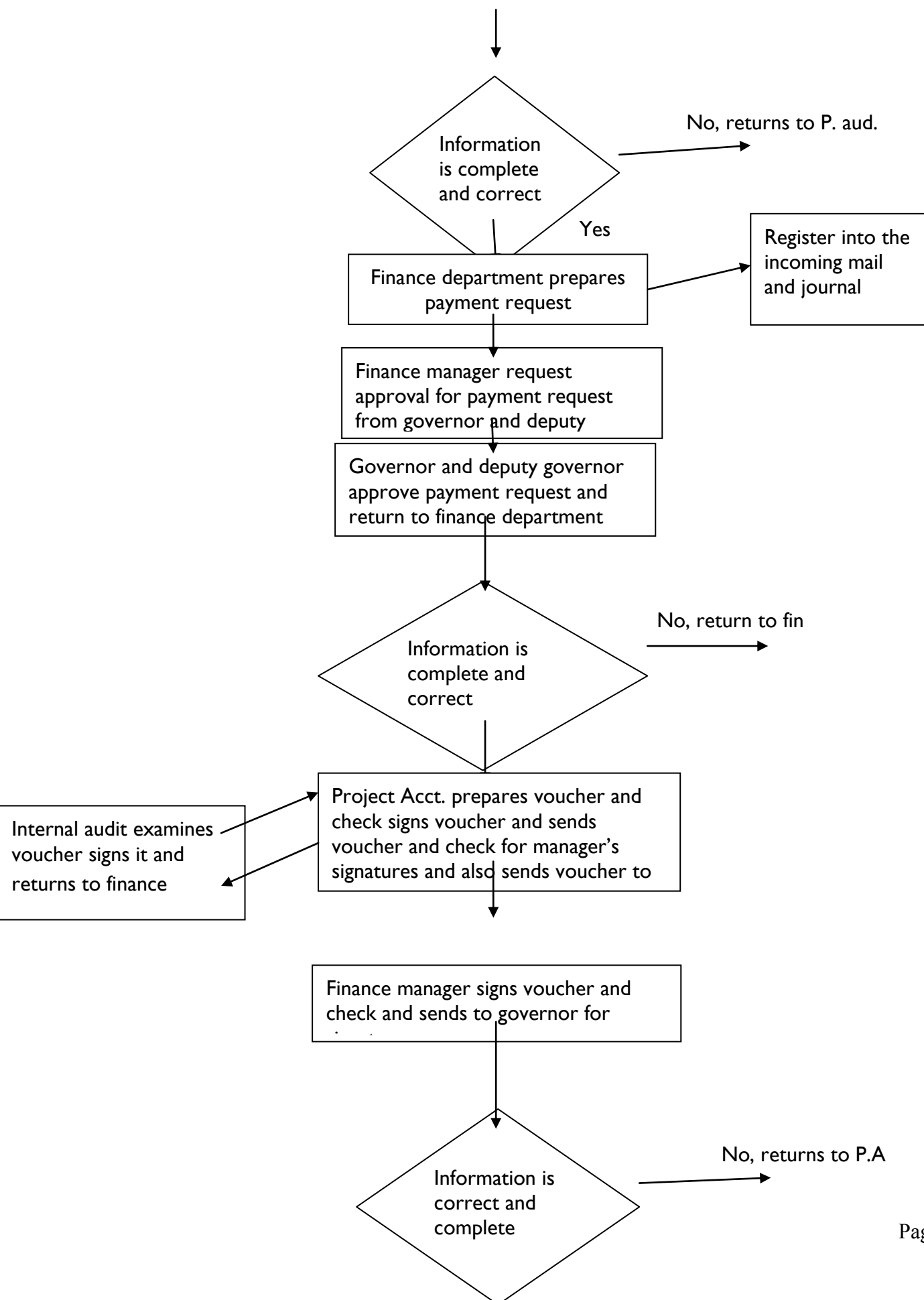


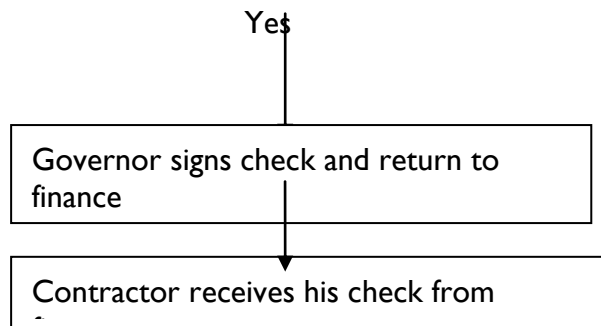




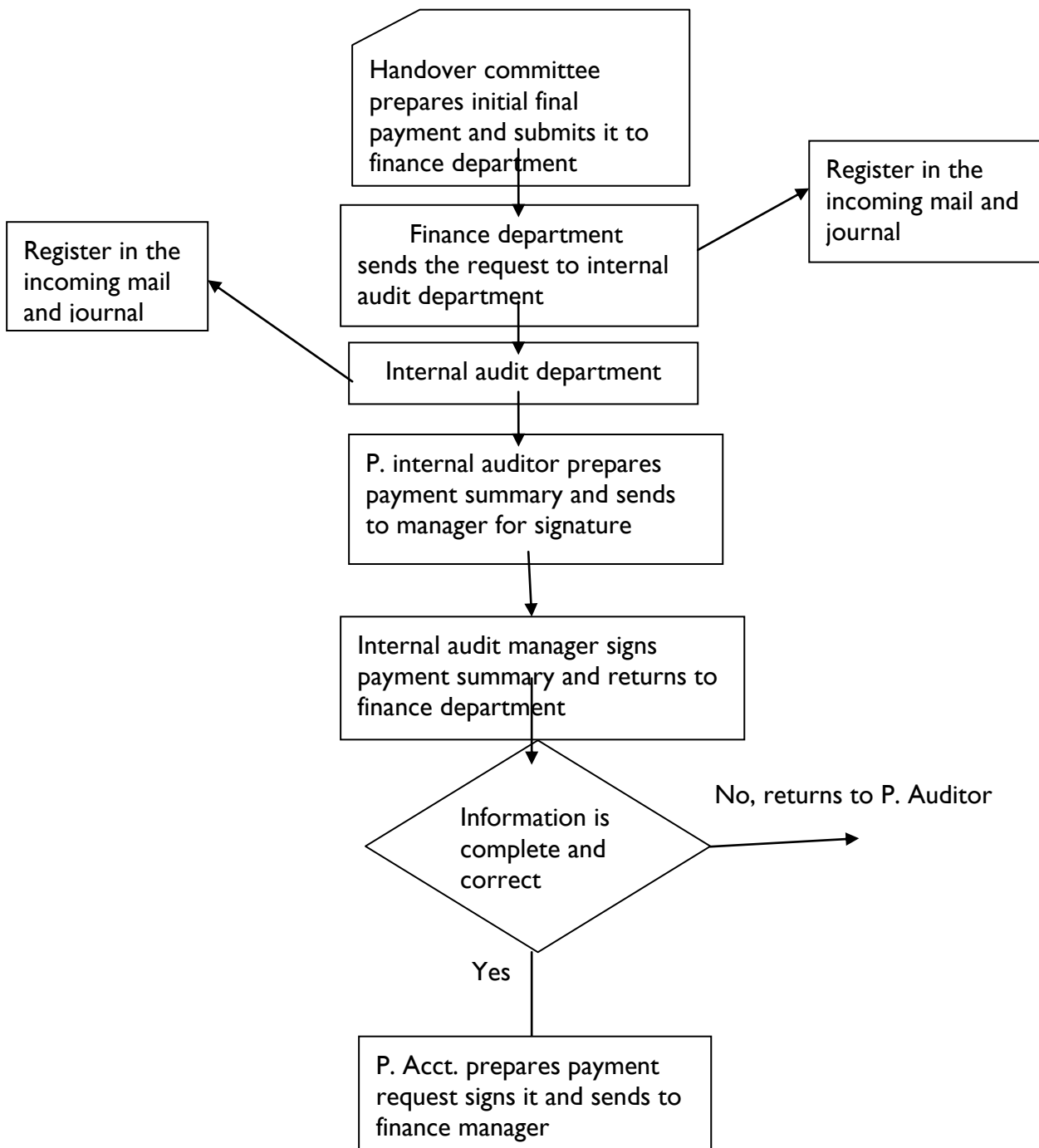
### Progress billing payment

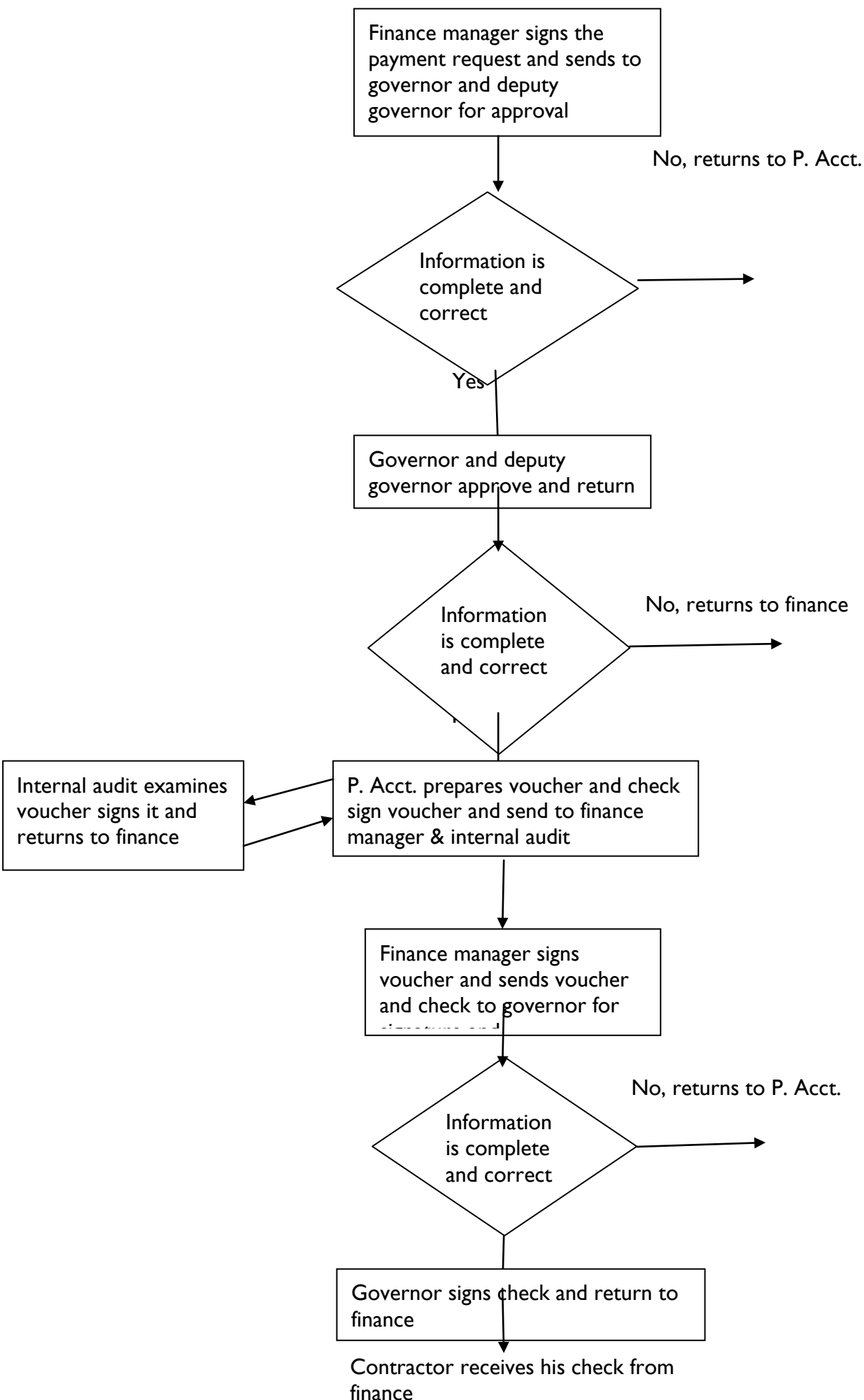






### Initial final payment





## The “To Be” Model

**A-Contractor advance** has the following steps:

1. Contractor submits his request for advance payment to finance department
2. Finance department registers the request in the incoming mail and journal
3. Project accountant checks the accuracy of the information including the letter of the guarantee from the issuing bank and prepares payment summary, voucher, check and sends to finance manager
4. Finance manager approves payment summary, signs voucher and sends to internal audit department
5. Project internal auditor checks the accuracy of the information and sends to internal audit manager for approval
6. Internal audit manager signs the voucher and returns the payment summary, voucher and check to finance department
7. Finance department sends payment summary, voucher and check for the governor to sign check
8. Governor signs the check and returns to finance department
9. Contractor receives his check from finance department

**B-Progress billing payment** has the following steps:

1. Contractor submits his request for progress billing payment to the engineering department
2. Engineering department unit prepares the progress billing payment according to the actual work done by contractor
3. Engineering unit department sends the request with progress billing payment to the beneficiary agency
4. Beneficiary agency submits the request for payment to finance department
5. Finance department registers the request in the incoming mail and journal
6. Project accountant checks the accuracy of the information and prepares payment summary, voucher, check and sends to finance manager
7. Finance manager approves payment summary, signs voucher and sends to internal audit department
8. Project internal auditor checks the accuracy of the information and sends to internal audit manager for approval
9. Internal audit manager signs the voucher and returns the payment summary, voucher and check to finance department
10. Finance department sends payment summary, voucher and check for the governor to sign check
11. Governor signs the check and returns to finance department
12. Contractor receives his check from finance department

**C-Initial final payment** has the following steps:

1. On the request of the engineering unit, the planning and follow-up department forms a handover committee
2. The handover committee prepares the final payment request and sends it to finance department
3. Finance department registers the request in the incoming mail and journal
4. Project accountant checks the accuracy of the information and prepares payment summary, voucher, check and sends to finance manager
5. Finance manager approves payment summary, signs voucher and sends to internal audit department

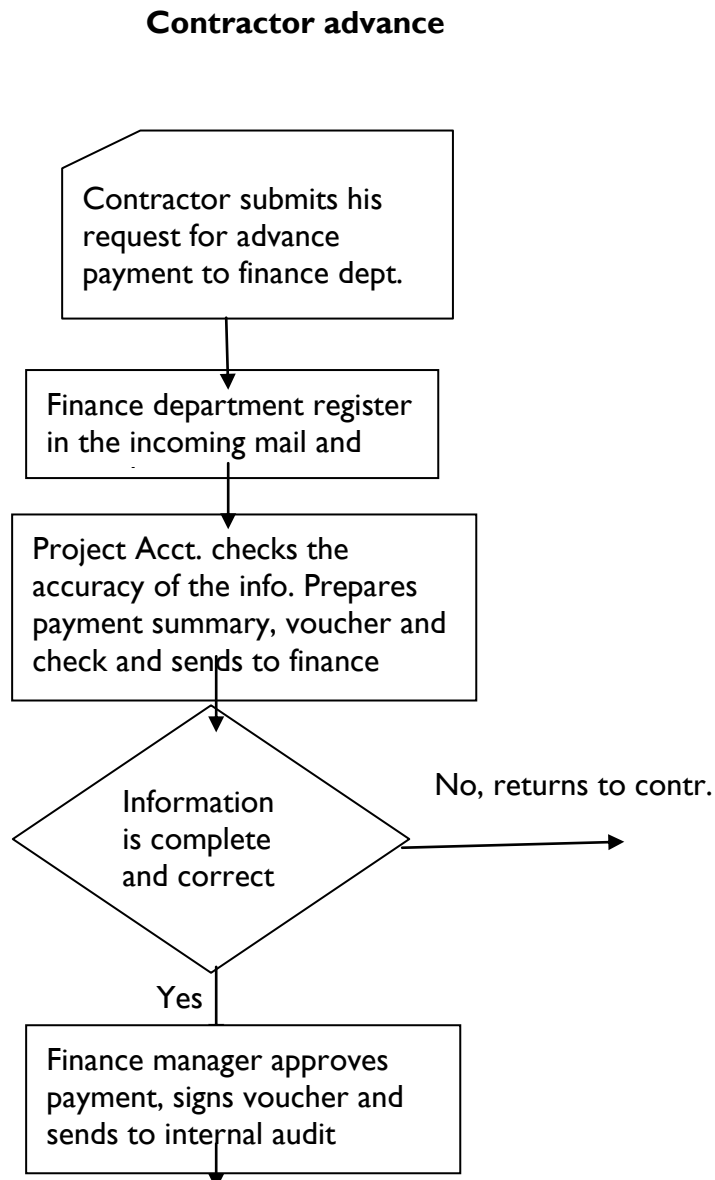


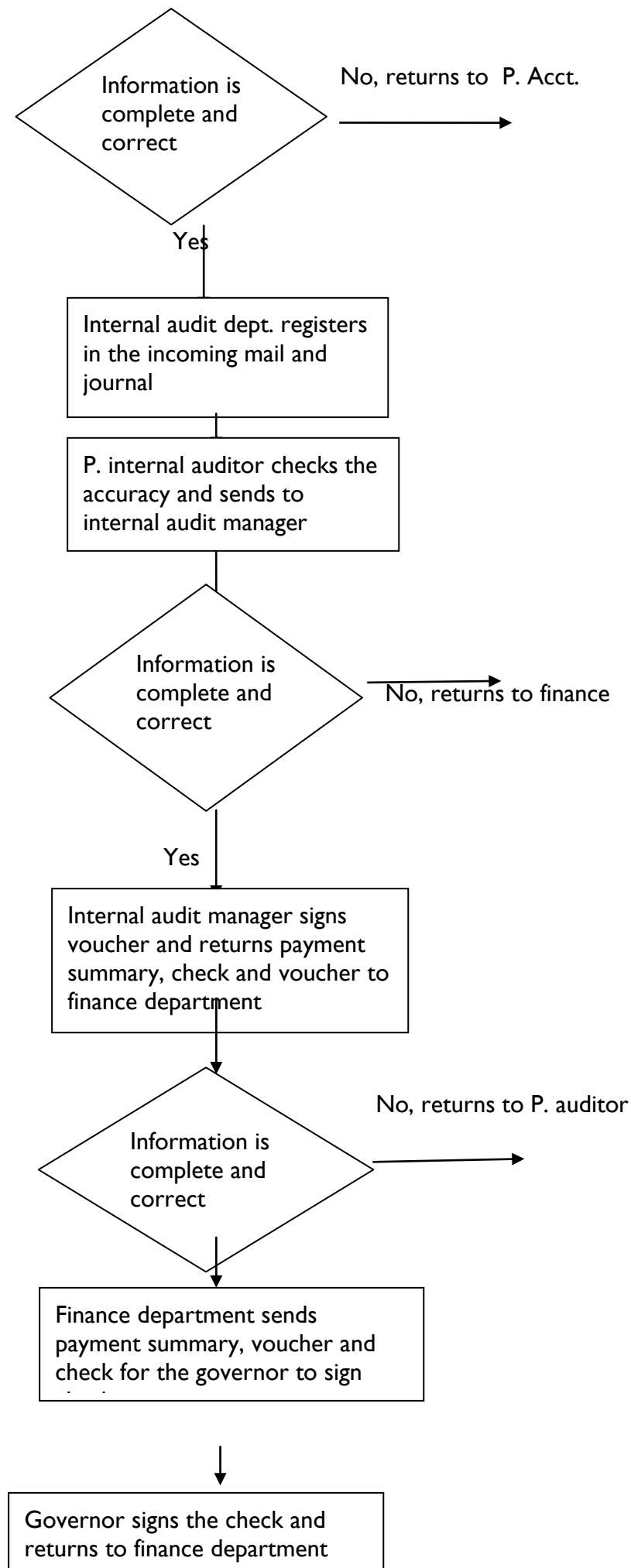
6. Project internal auditor checks the accuracy of the information and sends to internal audit manager for approval
7. Internal audit manager signs the voucher and returns the payment summary, voucher and check to finance department
8. Finance department sends payment summary, voucher and check for the governor to sign check
9. Governor signs the check and returns to finance department
10. Contractor receives his check from finance department

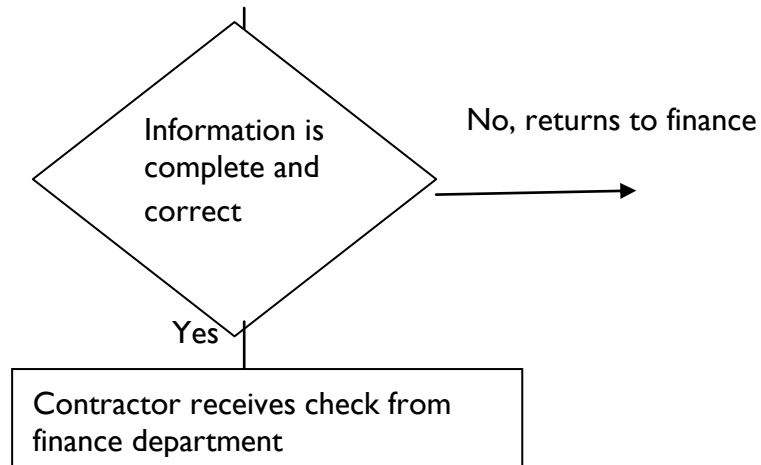
**D-Final payment** has the following steps:

1. Formation of handover committee on the request of the beneficiary agency or the contractor
2. Preparation of a final handover report that contractor has no outstanding liabilities
3. The committee sends the final handover report to the finance department to release any contractor's deposit.

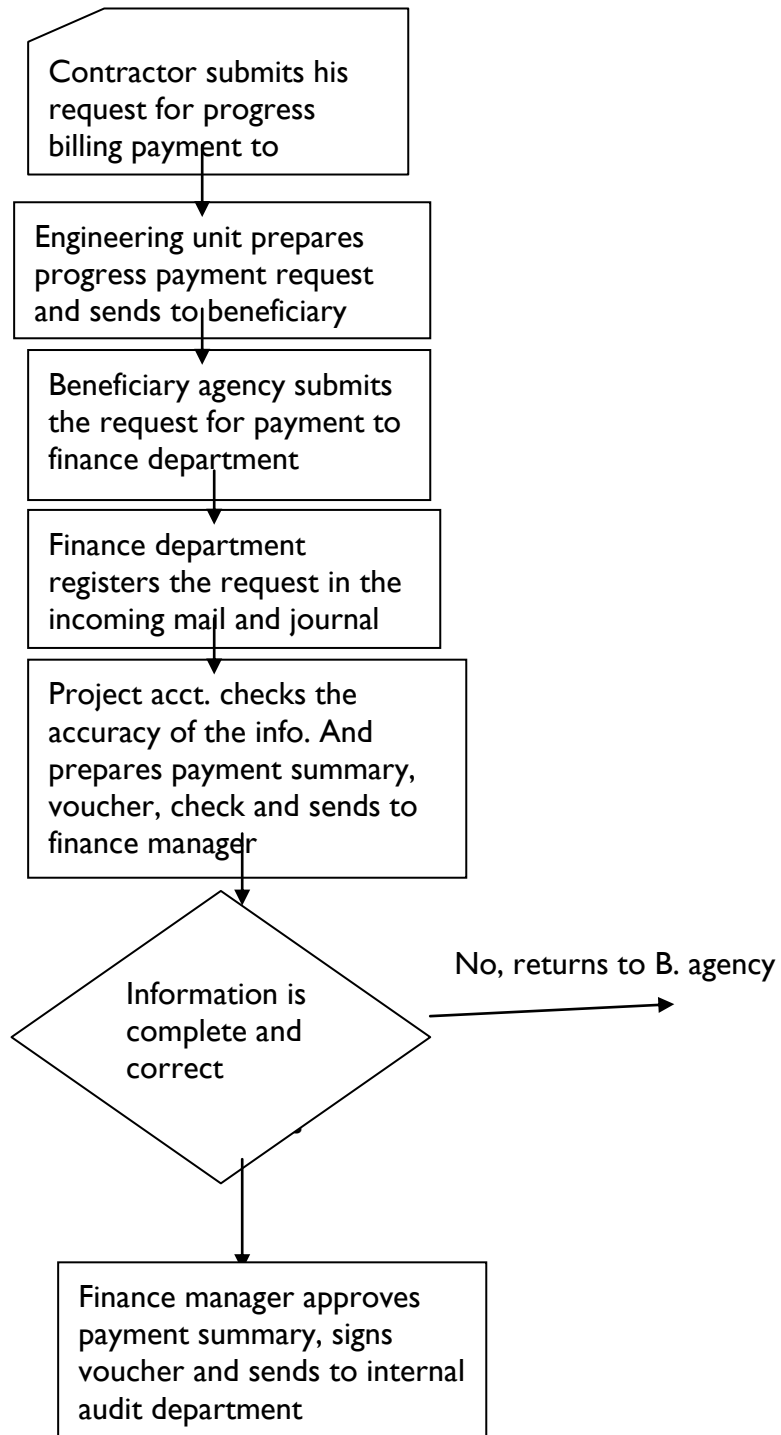
### The “To Be” Process Map

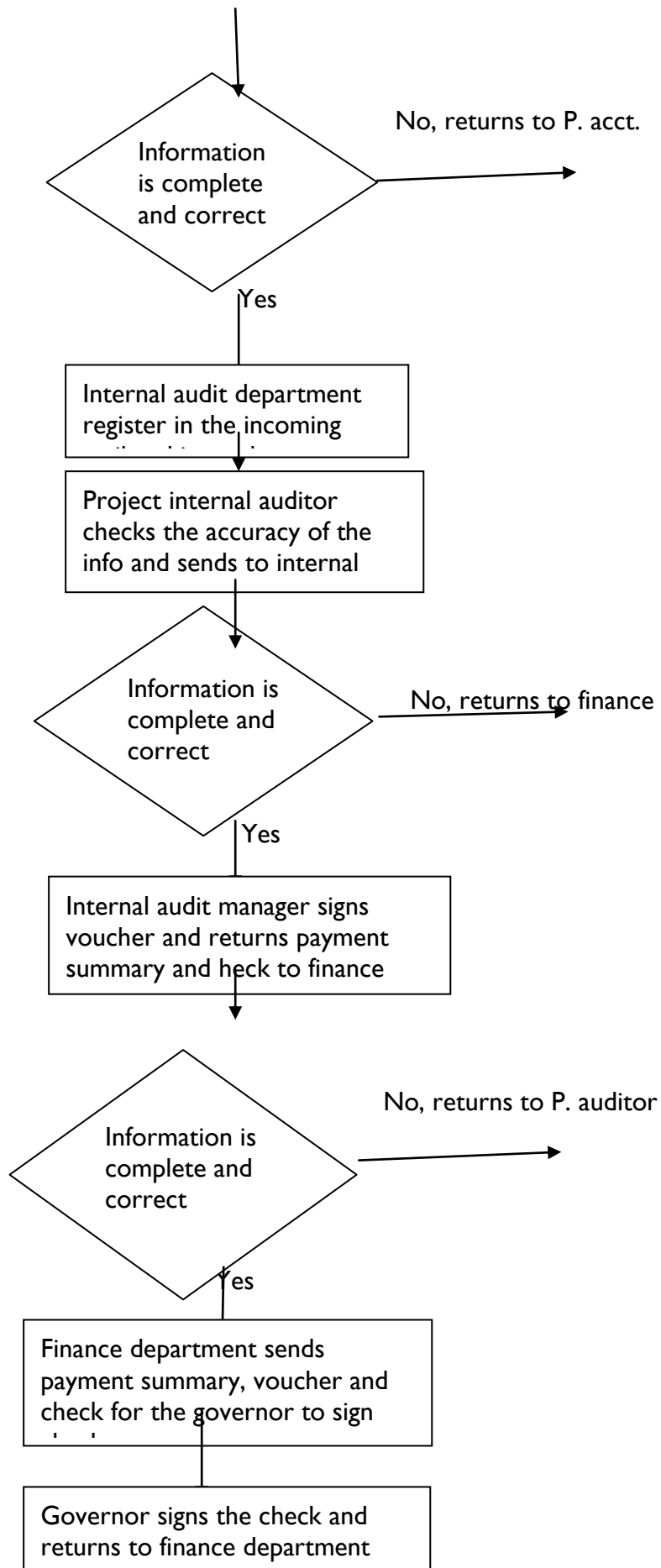


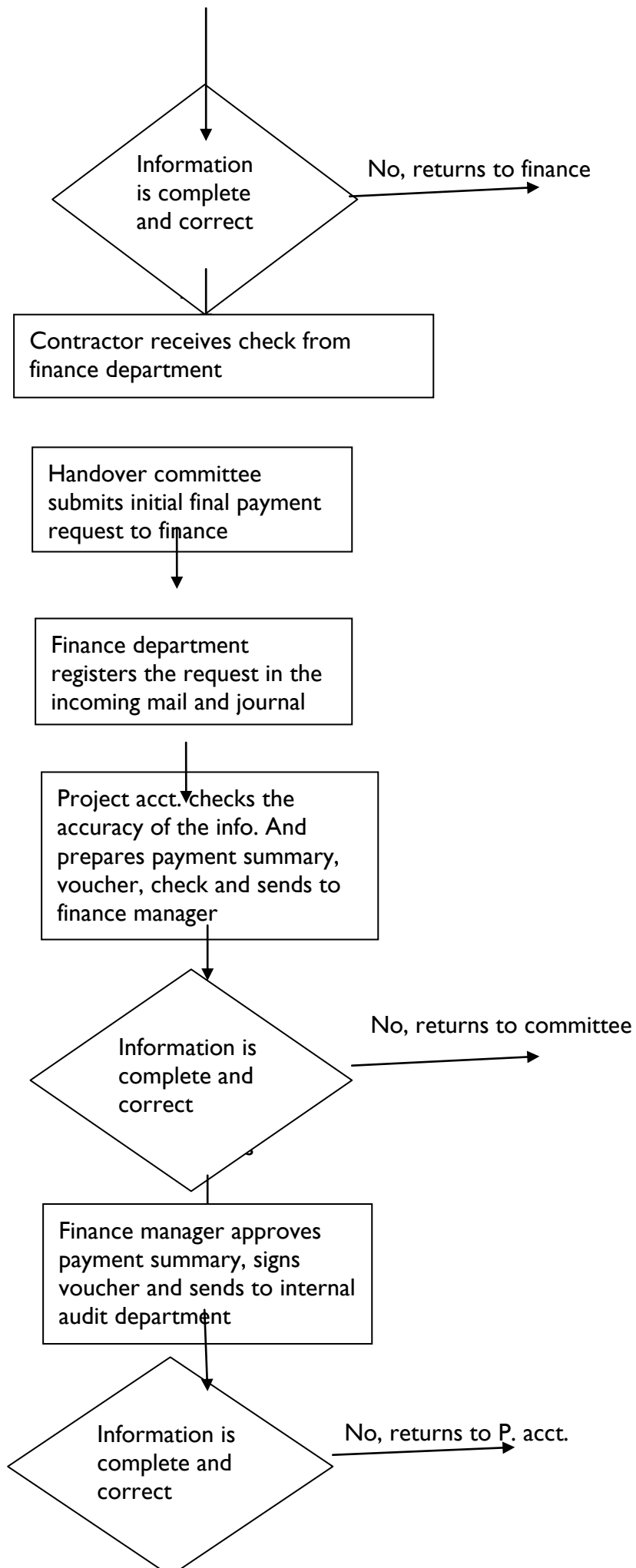


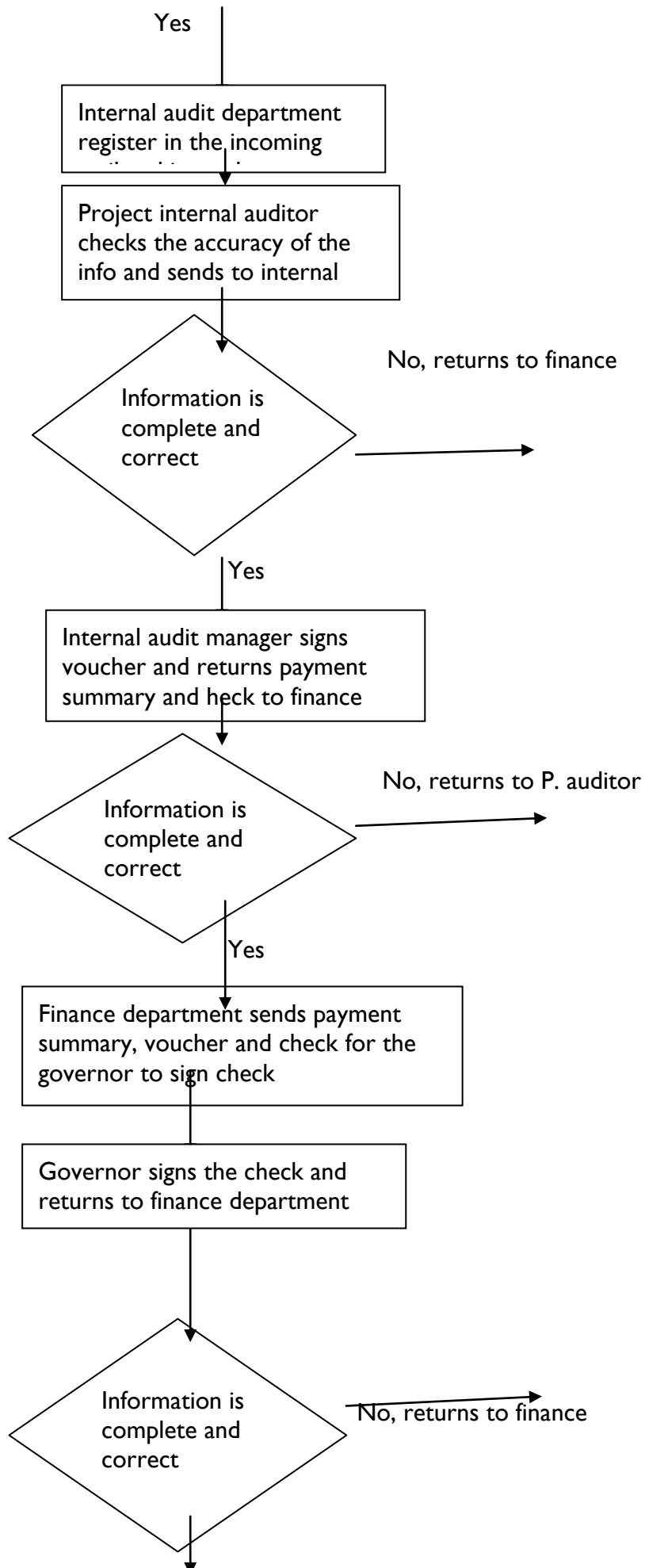


### The progress billing payment









Yes

Contractor receives check from finance department
--

## Second Survey Baseline

Our team in Wasit, with the help of the finance department, took all contractor payment requests processed in the month of February 2014 as a sample. There were 16 contractor payment requests and we found that on average it took Wasit finance department 5 days to process one contractor payment request.

## Methodology for the Second Baseline Survey

We have chosen the entire population as our sample.

## Conclusion

Our recommendations to improve the contractor's payment system in Wasit helped the province to reduce the average time needed to process one payment from 11 days to 5 days—a 54% improvement.

# THE PROVINCE OF KARBALA, IRAQ CONTRACTOR PAYMENT SYSTEM—CHALLENGES AND IMPROVEMENTS

The objective of this study is to strengthen the provincial financial management system and to identify improvement opportunities and set the framework and guidelines for their implementation and use. A second objective is to solve problems related to the contractor payment system in delayed capital projects.

## Introduction

The importance of an efficient contractor payment system for capital projects in developing countries comes from the fact that such projects touch the lives of millions of citizen who rely on these projects for their well-being. It is hard to image how life will be without power generation plants, schools, hospitals, roads or water treatment plants. A delay in the execution of infrastructure projects will affect the quality of life for the recipients immediately.

The province of Karbala in Central Iraq faces the same delayed capital projects execution rate as other provinces and some of these challenges are due to the contractor payment system in the province.

## Karbala Contractor Payment Cycle (The “As Is” Model)

### A-Contractor advance

1. Contractor submits his request for advance payment to the engineering unit department
2. The request for advance payment include the approval of the project engineer, site handover, permit to start the project and the governor's approval
3. Engineering unit department sends the request for advance payment to the finance department
4. Finance department requests letter of guarantee and validity of the letter of guarantee from the issuing bank
5. Finance department prepares a summary of the advance payment request and sends it along with the project file to the internal audit department
6. Internal audit manager sends the request for advance payment summary to the project internal auditor
7. Internal audit examines the request for advance payment summary returns the transaction to finance department
8. Finance department prepares payment order
9. Finance department sends the payment order to the governor for his signature
10. Capital projects committee signs the check
11. Finance department prepares payment voucher and the check and sends to the internal audit department
12. Internal audit department examines the payment voucher and the check and returns to finance department
13. Governor signs voucher
14. Contractor receives the check from finance department after getting a clearance from the legal department

### B-Progress billing payment

1. Contractor submits his request for progress billing payment to the project engineer in the directorate of projects
2. Directorate of projects sends the request for progress billing payment to the finance department



3. Project accountant compares the request for progress billing payment with the budgeted amount and prepares a summary of the request and sends it to the internal audit department
4. Internal audit department examines the request for progress billing payment summary and returns the transaction to the finance department
5. Project accountant prepare payment order
6. Finance department sends the payment order to the governor for his signature
7. Project accountant prepares payment voucher and the check
8. Capital projects committee signs the check
9. Finance department sends the payment order, voucher and the check to the internal audit department
10. Internal audit department returns the transaction to finance department
11. Governor signs voucher and return to finance department
12. Contractor receives the check from finance department

### **C- Initial final payment**

1. The directorate of projects forms initial handover committee and final handover committee
2. The directorate of projects sends the request for final progress billing payment to the finance department
3. Project accountant compares the request for final progress billing payment with the budgeted amount and prepares a summary of the request and sends it to the internal audit department
4. Internal audit department examines the request for final progress billing payment summary and returns the transaction to the finance department
5. Project accountant prepare payment order
6. Finance department sends the payment order to the governor for his signature
7. Project accountant prepares payment voucher and the check
8. Capital projects committee signs the check
9. Finance department sends the payment order, voucher and the check to the internal audit department
10. Internal audit department returns the transaction to finance department
11. Governor signs voucher and returns to finance
12. Contractor receives the check from finance department

### **D-Final payment**

1. Formation of final handover committee on the request of the contractor or the beneficiary agency
2. Preparation of a final handover report that the contractor has no outstanding liabilities
3. Handover committee sends the final handover report to the finance department to release any contractor deposits
4. Finance department releases contractor deposit on the recommendation of the final handover committee

## **Roles and Responsibilities Within the Accounting and Internal Audit Departments**

The finance manager is the head of the finance department and responsible for the entire departmental operation.

The internal audit manager is the head of the internal audit department and responsible for running the entire departmental operation. The cooperation of both department heads is very essential in reducing the time needed to process contractor payment requests.

The project accountant is responsible for maintaining the contractor file and preparation of payment requests, payment vouchers and checks.

The finance manager's and project accountant's signatures are required for all documents.

The project internal auditor is responsible for examining the contractor file and checking the payment order and the voucher.

The internal audit manager's and the project internal auditor's signatures are required for all documents.

The Governor signs checks, payment orders and payment vouchers.

## **Baseline Survey**

We established a first baseline survey last July 2013. We took a random sample of 18 contractor payment requests and we found out that on average it took Karbala finance department 9 days to process one contractor payment request.

## **Methodology Used in Establishing Baseline Survey**

1. Collect one month of contractor payments processed in Karbala
2. Select a random sample of 18 processed contractor's payments (choosing one payment from every four payments in a list containing all payments)
3. Divide the total numbers of days to process all the random sample-by-sample numbers

## **Key Performance Indicators (KPIs)**

1. Numbers of days to process a contractor payment request
2. Dollar amount of processed contractor payment request per month or week or in a year
3. Percentage of completed investment projects on time

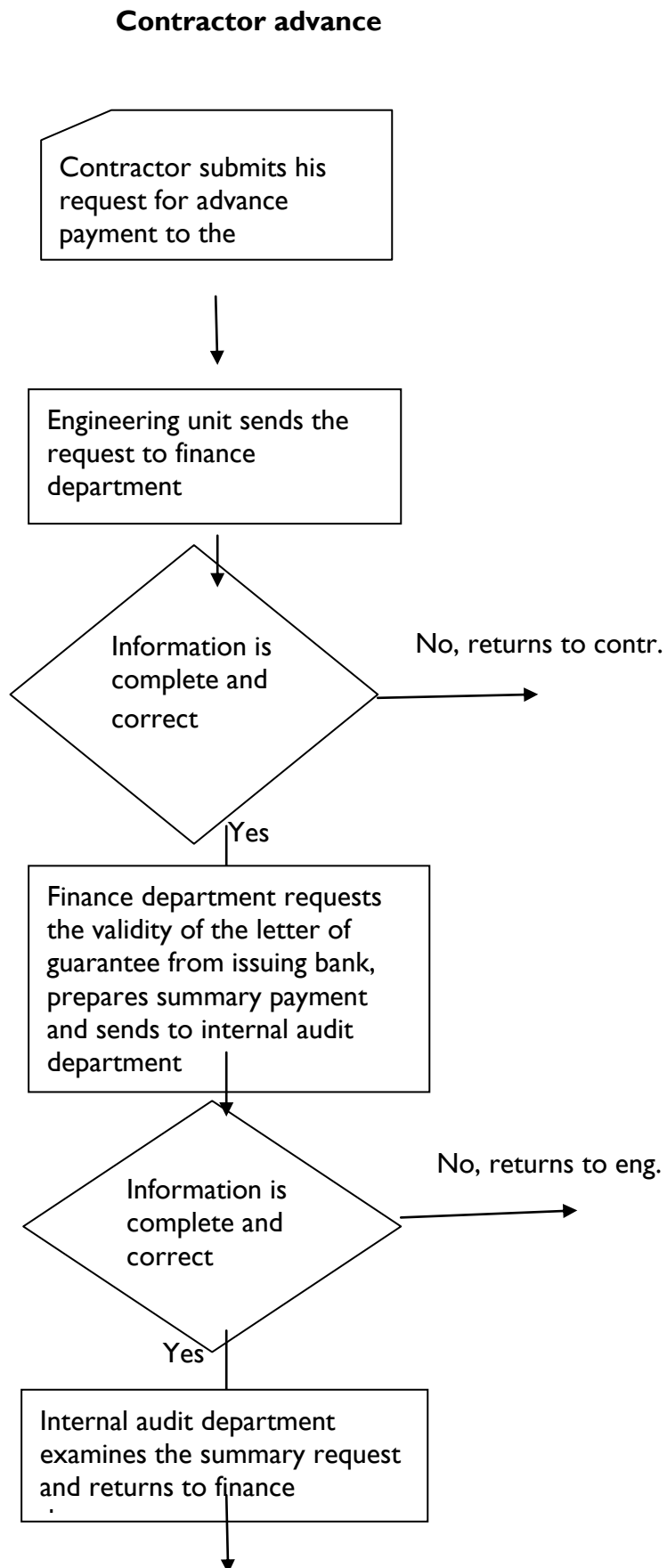
## **Analysis of the "As Is" Model**

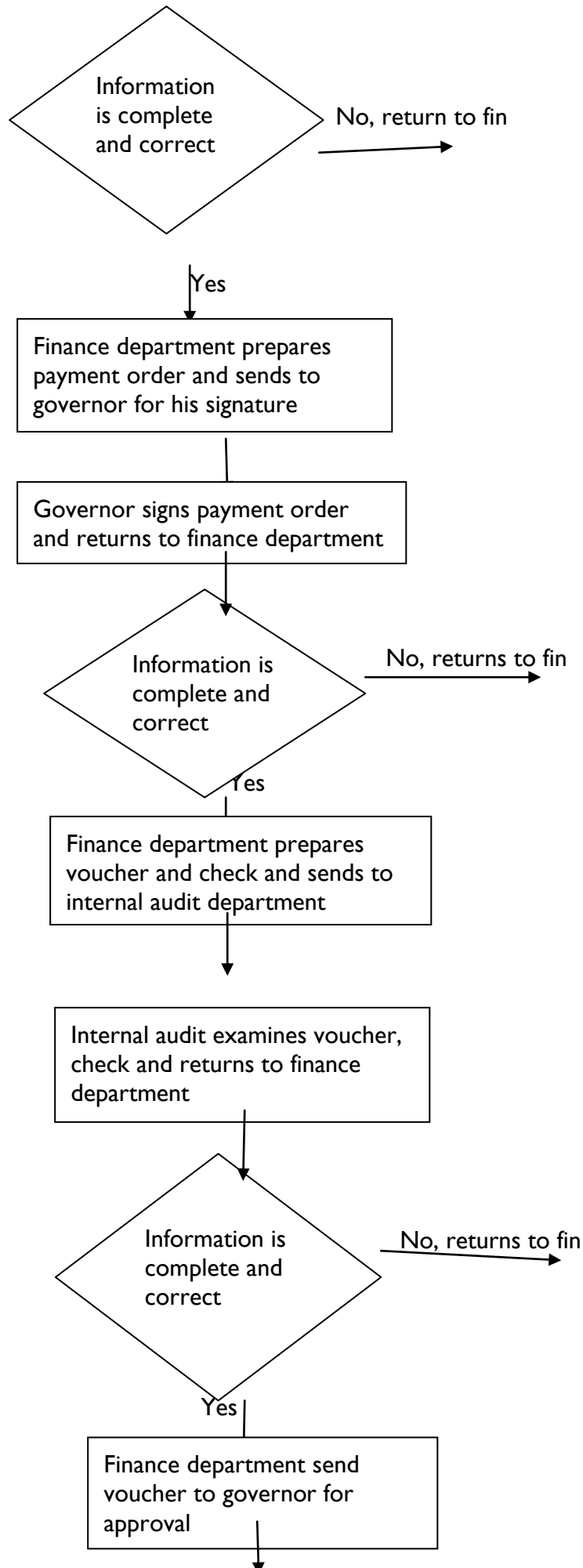
1. Governor signs payment order and payment voucher—a duplication of efforts and time.
2. Finance department sends documents to internal audit department in many steps creating unnecessary redundancies

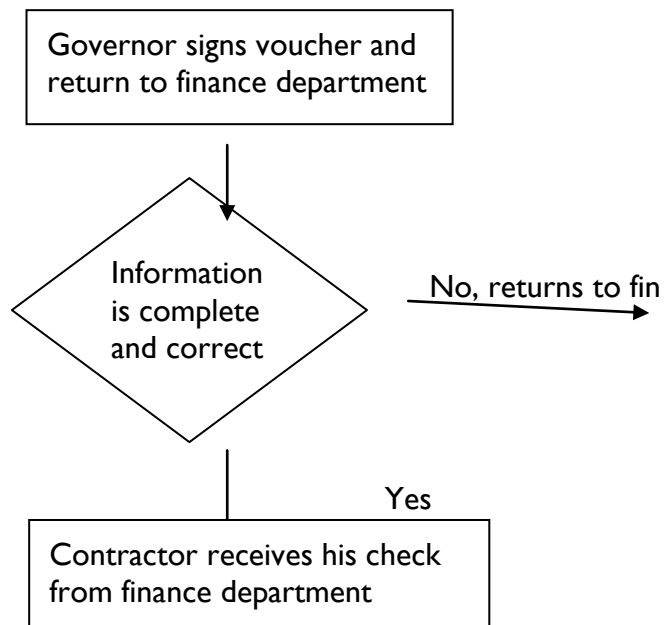
## **Recommendations**

1. Governor should only sign payment order.
2. The finance department should send payment request approval, payment order, voucher and check all together at once to internal audit department for examination.
3. Other than these two recommendations, Karbala contractor payment system is an excellent system and we recommend all other provinces to adopt this.

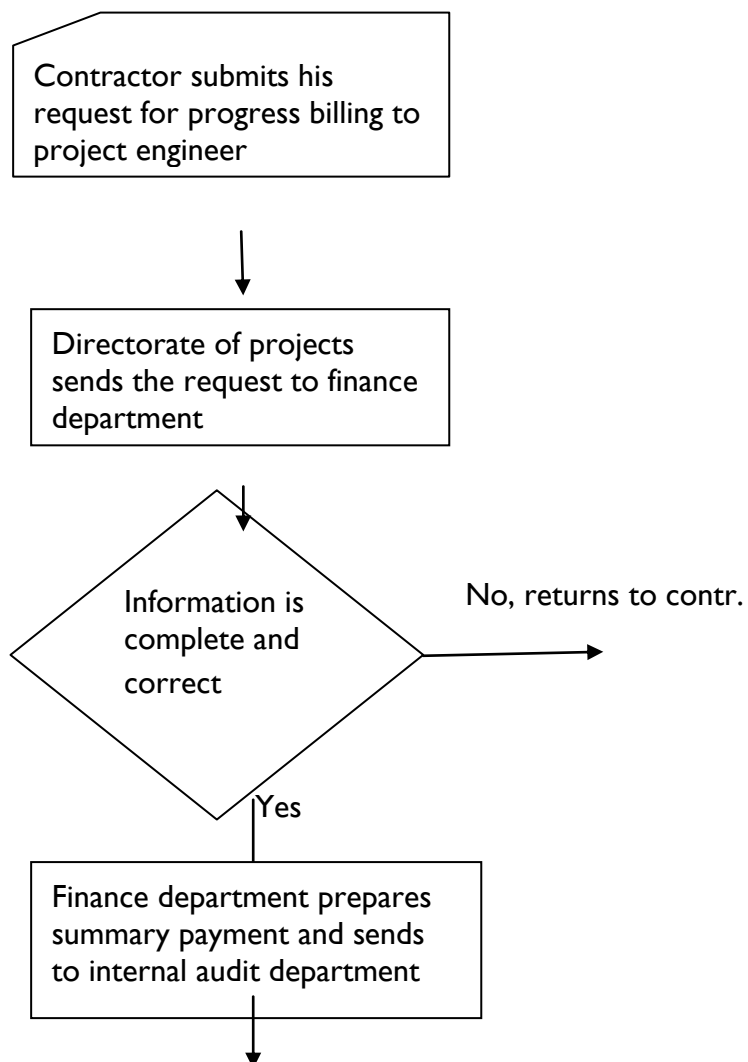
## The “As Is” Process Map

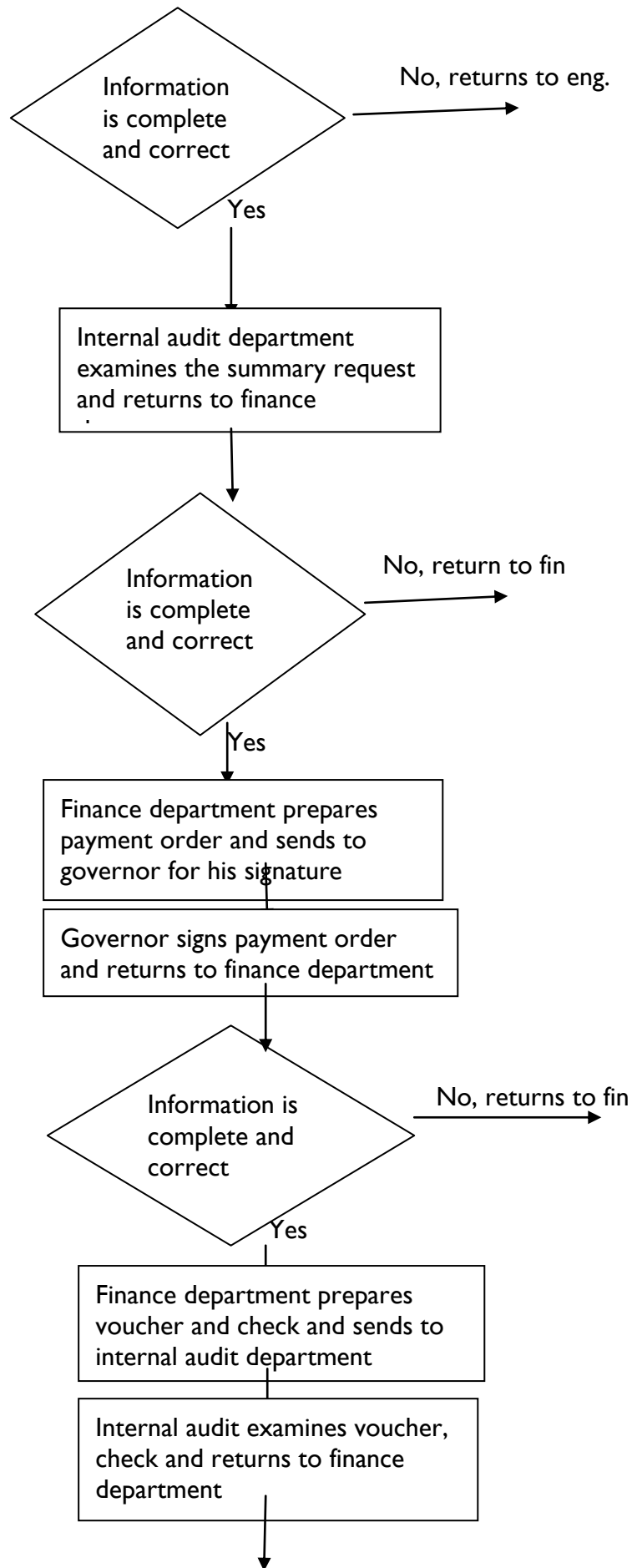


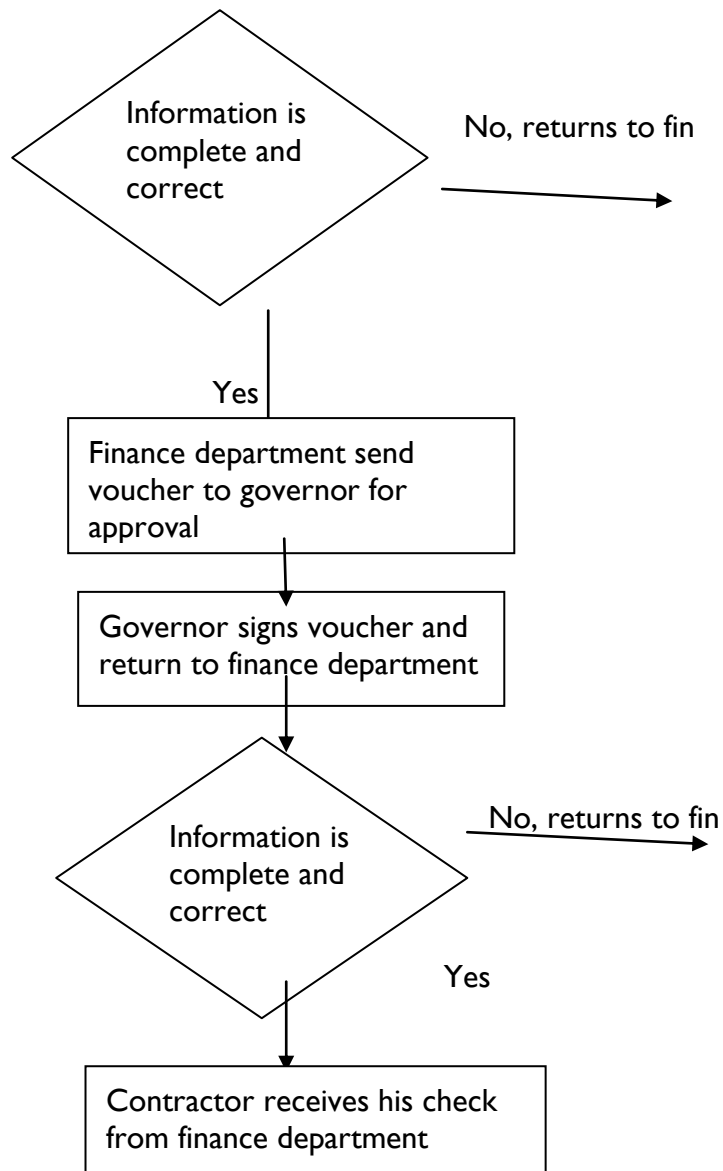




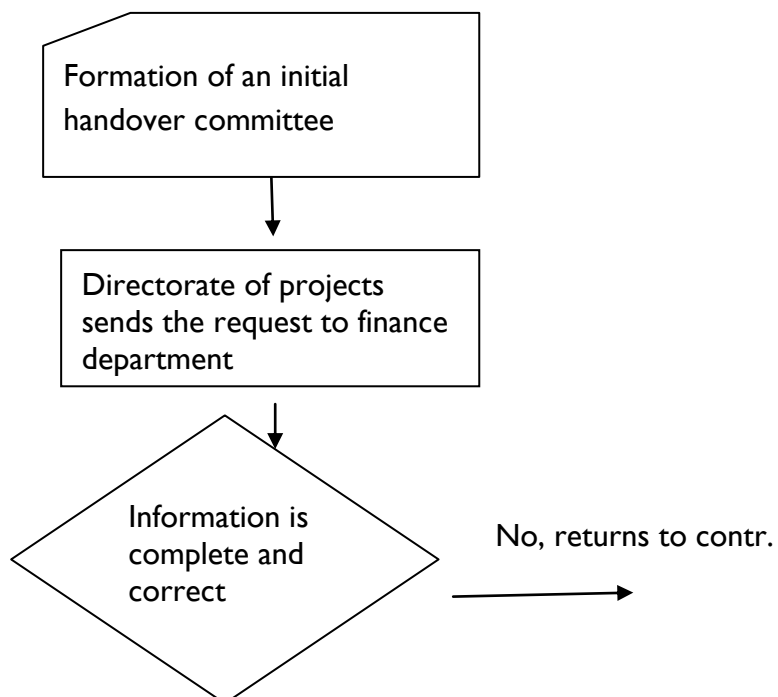
### Progress billing payment

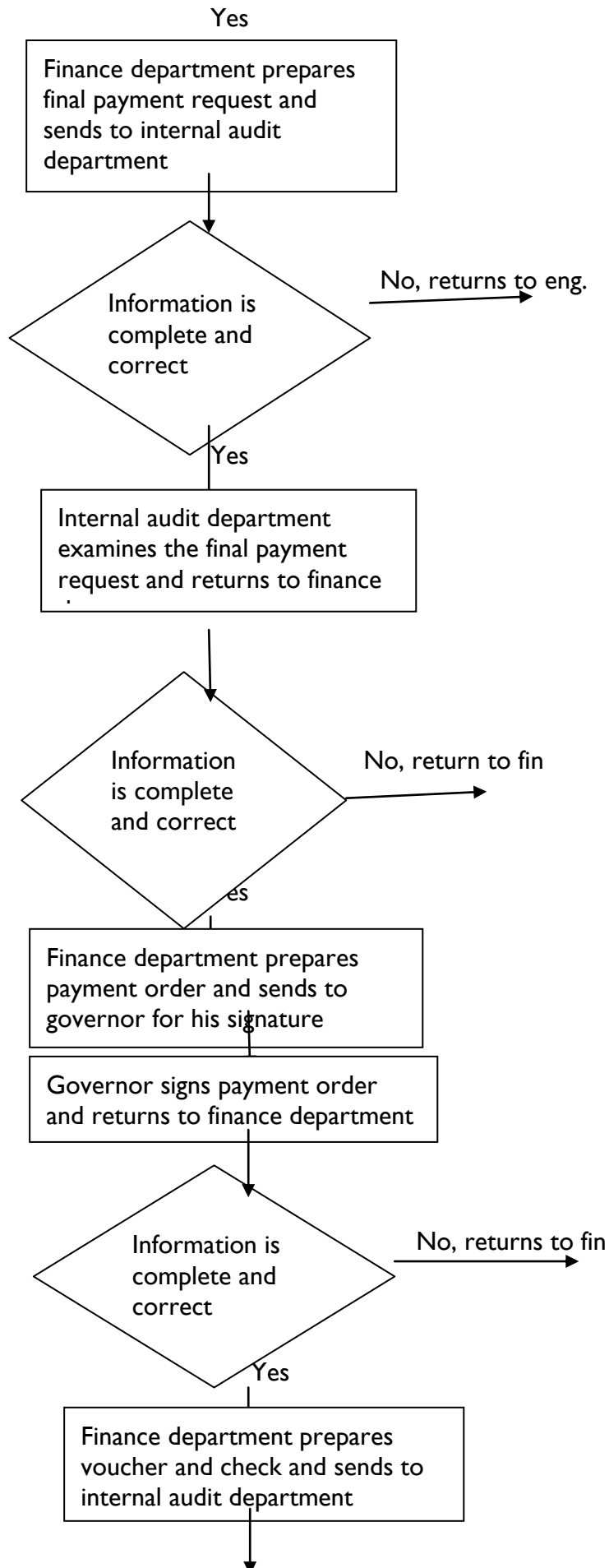




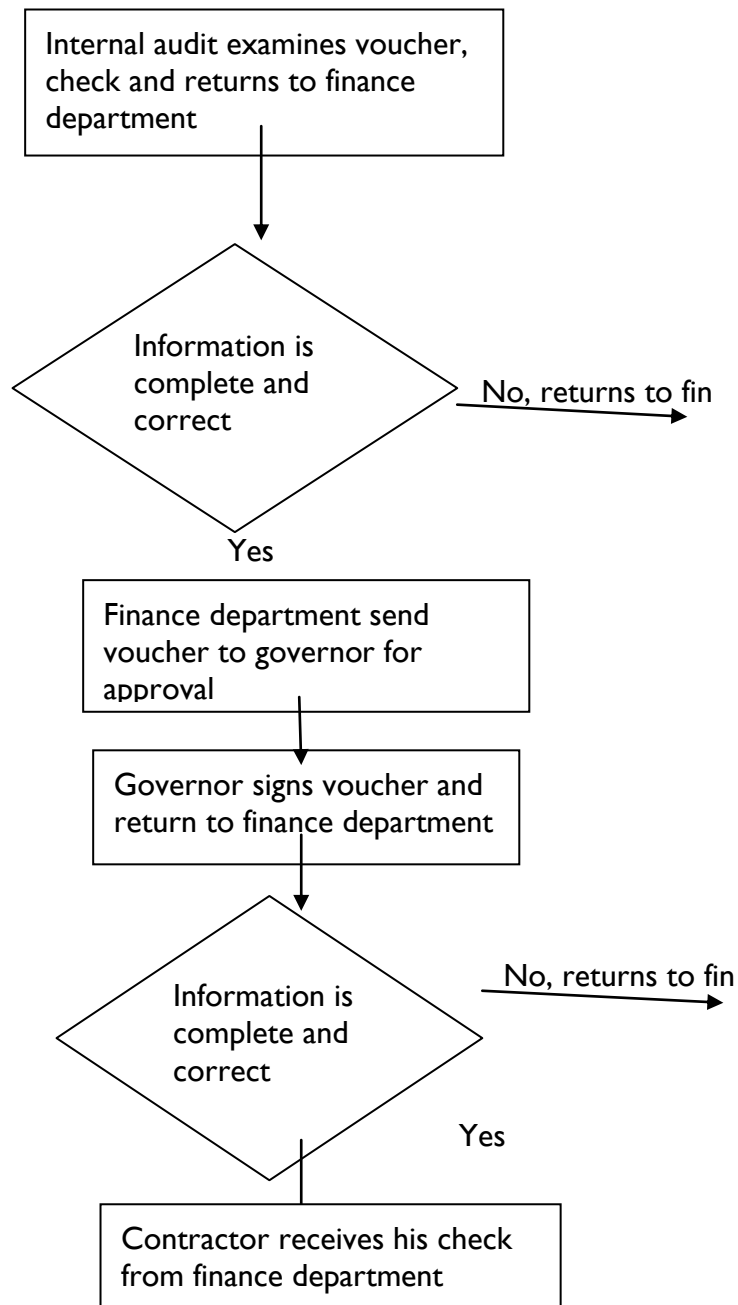


### Initial final payment









## The “To Be” Model

**A-Contractor advance** had the following steps:

1. Engineering unit submits request for payment on behalf of contractor to finance department
2. Finance department records the request in the incoming mail and journal
3. Project accountant reviews information and requests validity of the letter of guarantee from the issuing bank, prepares payment summary, payment voucher, check and sends to finance manager
4. Finance manager reviews the information and sends to the internal audit department
5. Internal audit registers the request in the incoming mail and journal
6. Project internal auditor examines request and file and sends to internal audit manager
7. Internal audit manager reviews the information and returns to finance department
8. Capital projects committee sign check
9. Finance department sends payment order to the Governor for his signature

10. Governor signs payment order and returns to finance department
11. Contractor receives his check from finance department

**B-Progress billing payment** has the following steps:

1. Directorate of projects submits request for progress billing payment to finance department on behalf of the contractor
2. Finance department registers the request for progress billing payment in the incoming mail and journal
3. Project accountant reviews the request and prepares payment summary, payment order, voucher and check and sends to finance manager
4. Finance manager reviews information and sends to internal audit department
5. Internal audit department registers the request in the incoming mail and journal
6. Project internal auditor examines the information and sends to internal audit department manager
7. Internal audit manager reviews information and returns to finance department
8. Capital projects committee signs check
9. Finance department sends payment order to Governor for his signature
10. Governor signs check and return to finance department
11. Contractor receives his check from finance department

**C-Initial final payment** has the following steps:

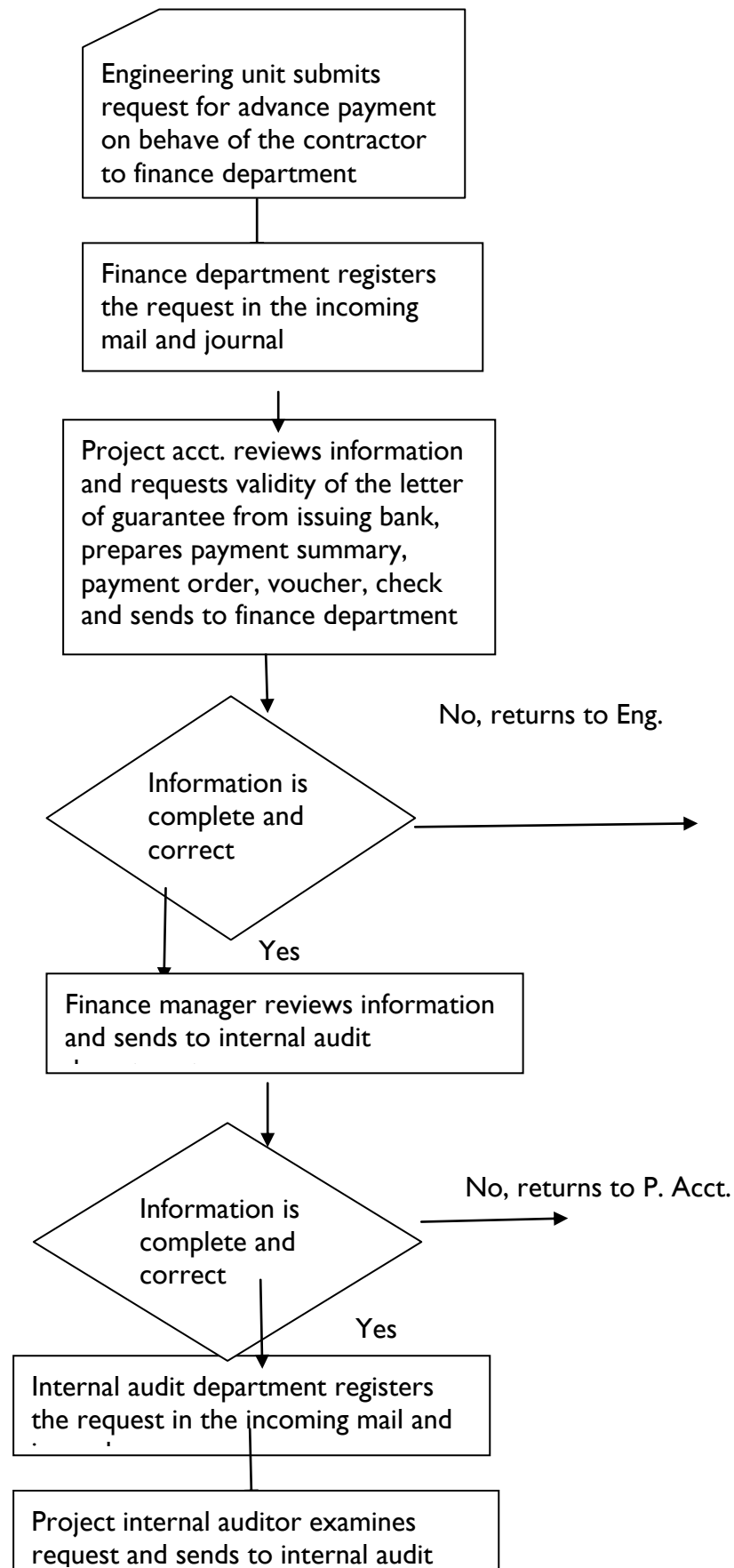
1. Directorate of projects submits initial final request to finance department on behalf of the contractor
2. Finance department registers the request in the incoming mail and journal
3. Project accountant reviews the request and prepares payment summary, payment order, voucher and check and sends to finance manager
4. Finance manager reviews the information and sends to internal audit department
5. Internal audit department registers the request in the incoming mail and journal
6. Project internal auditor examines the information and sends to internal audit manager
7. Internal audit manager reviews the information and returns to finance department
8. Capital projects committee signs check
9. Finance department sends payment order to governor for his signature
10. Governor signs check and return to finance department
11. Contractor receives his check from finance department

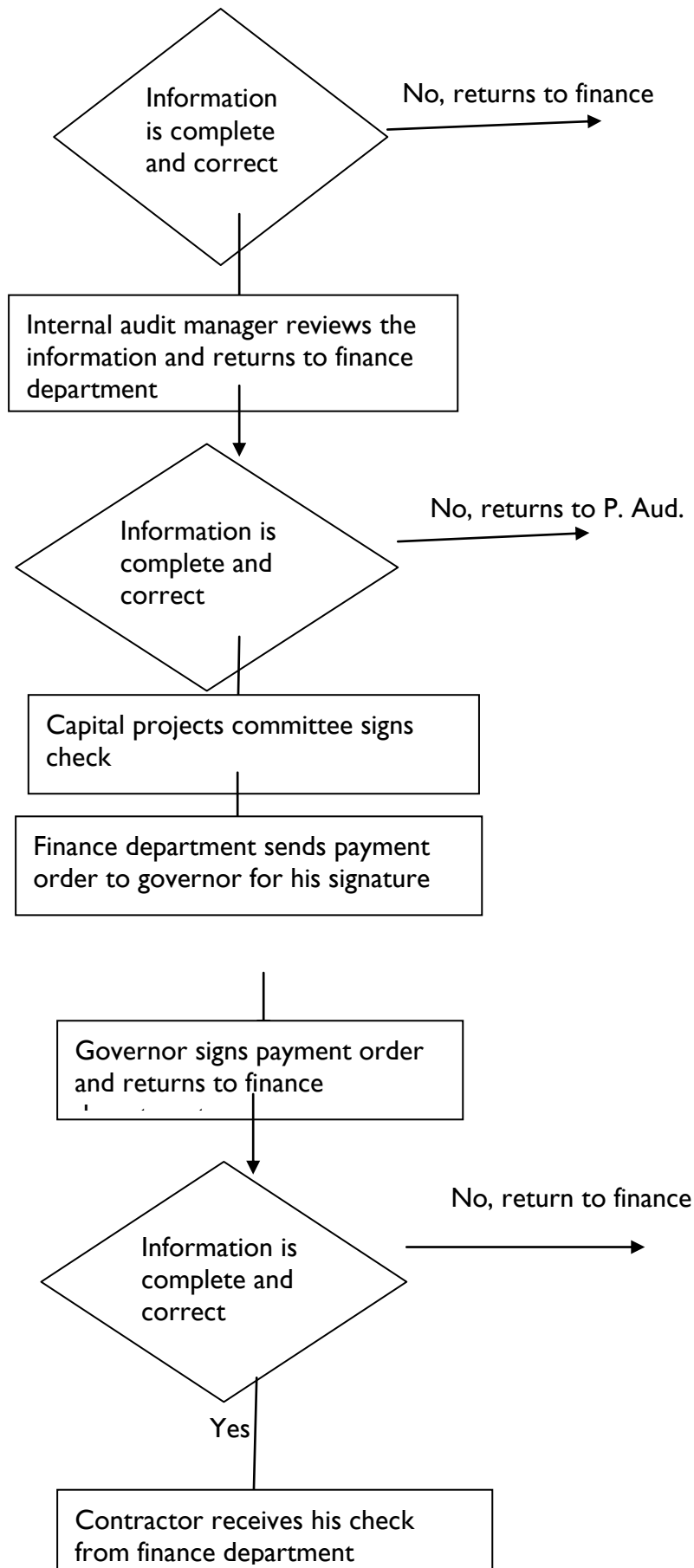
**C-Final Payment** has the following steps:

1. Formation of handover committee on request of the contractor or the beneficiary agency
2. Preparation of final handover report that the contractor has no outstanding liabilities
3. Handover committee sends final handover report to finance department
4. Finance department releases contractor deposit on the recommendation of the final handover committee

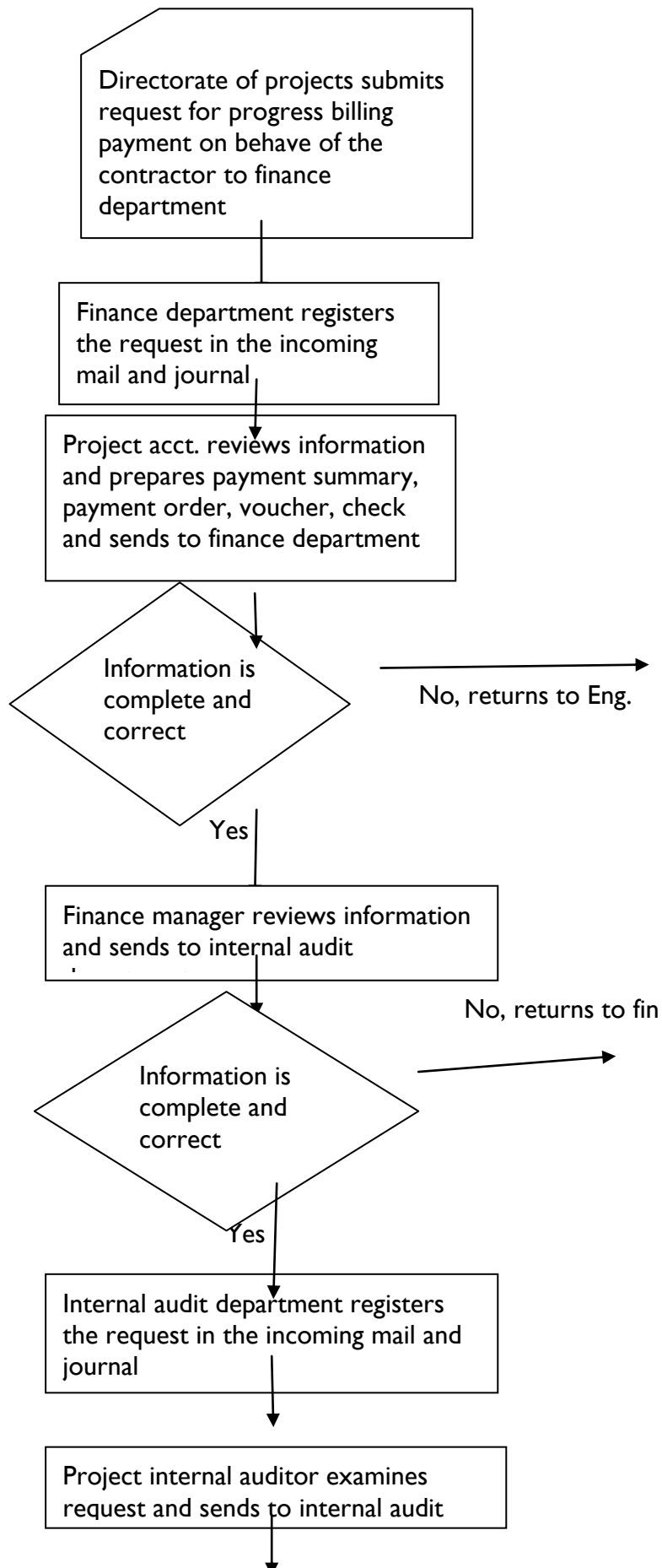
## The “To Be” Process Map

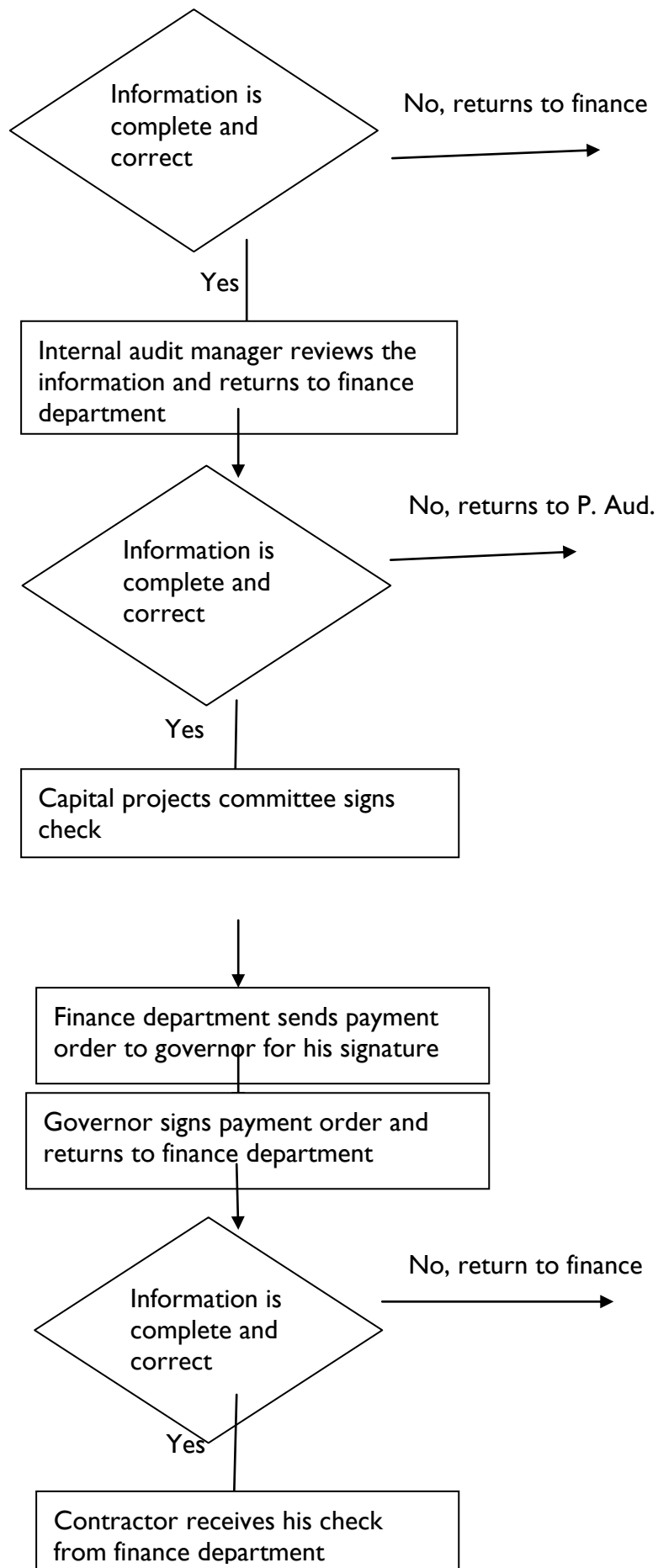
### Contractor advance



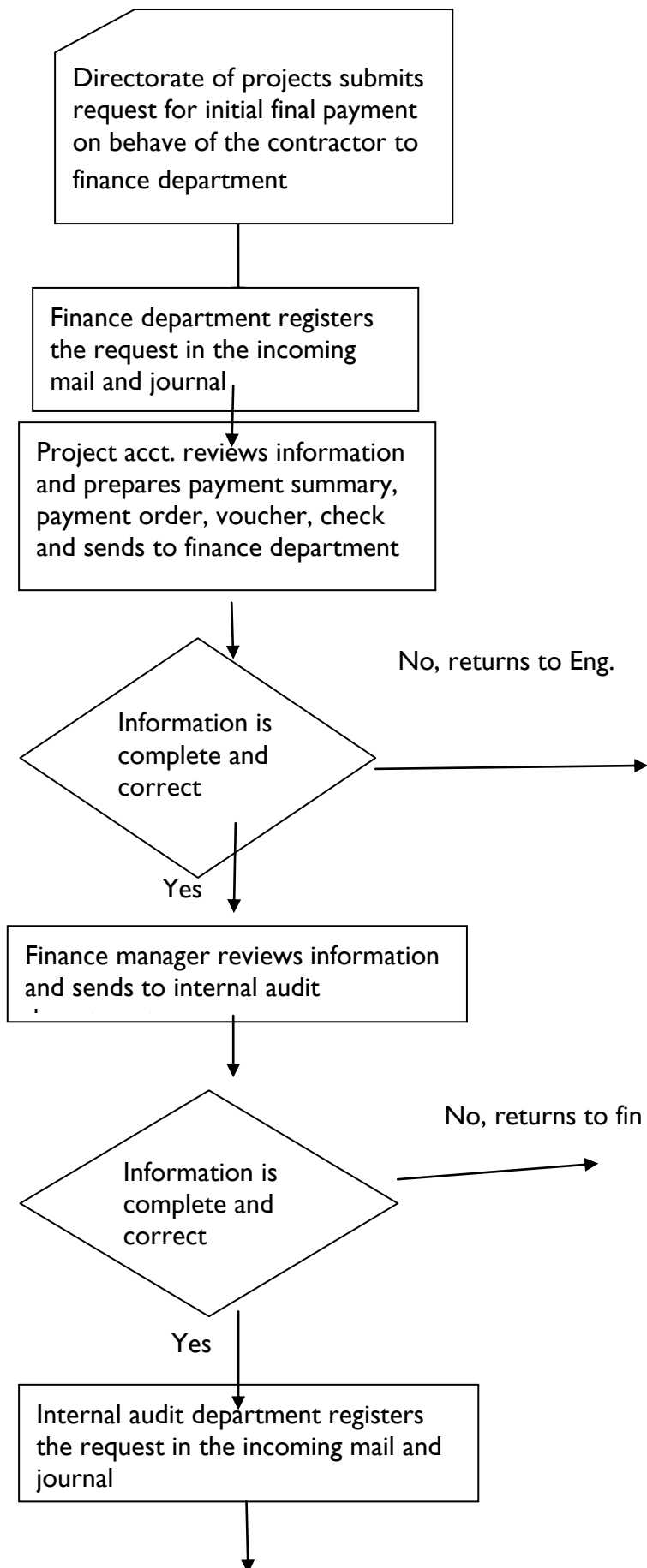


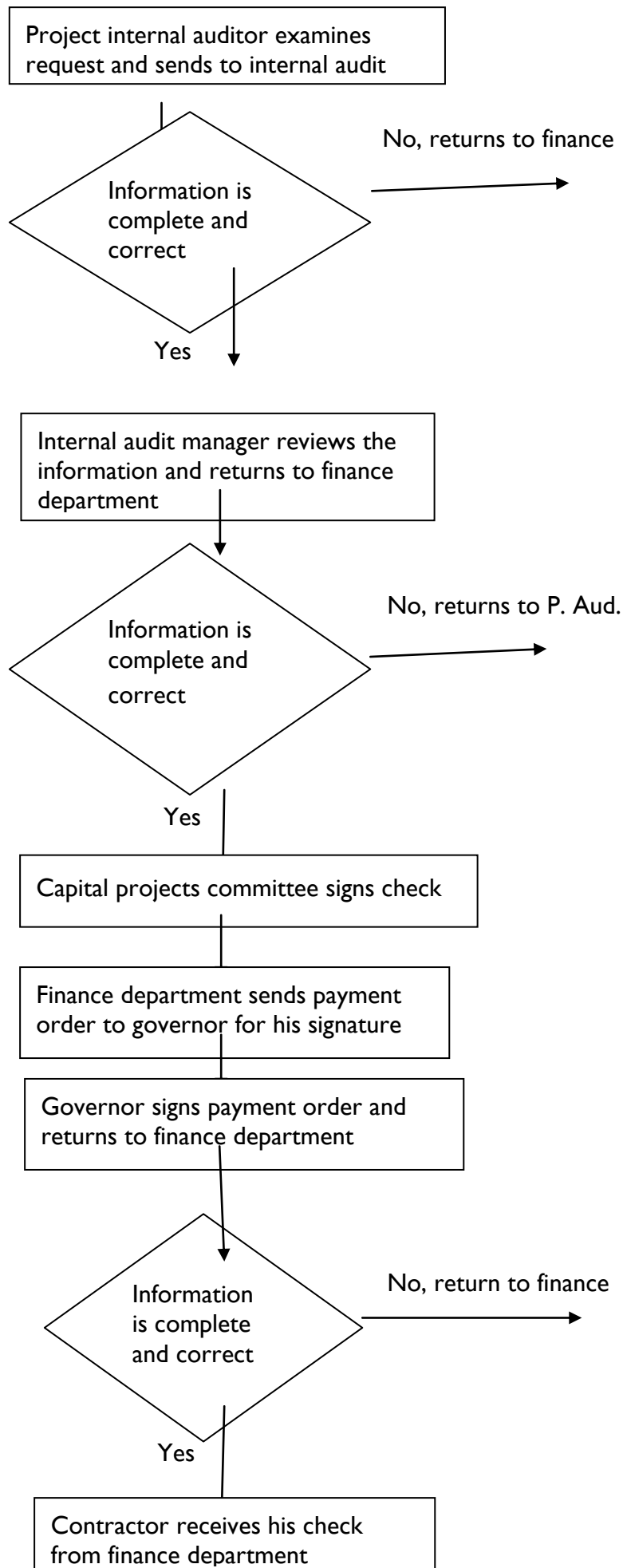
## Progress billing payment





### Initial final payment







## **Second Survey Baseline**

Our team in Karbala, with the help of the finance department, took a sample of 18 contractor payment requests representing all contractor payment requests for the entire month of February 2014. They found that, on average, it took Karbala finance department 5 days to process one contractor payment request.

## **Methodology for the Second Baseline Survey**

We have chosen the entire population as our sample.

## **Conclusion**

Our recommendations to improve contractor payment system in Karbala helped the province reduce time needed to process one payment from 9 days to 5 days a 44% improvement.

# THE PROVINCE OF DHI QAR, IRAQ CONTRACTOR PAYMENT SYSTEM—CHALLENGES AND IMPROVEMENTS

The objective of this study is to strengthen the provincial financial management system and to identify improvement opportunities and set the framework and guidelines for their implementation and use. Also it is to solve problems related to the contractor payment system in delayed capital projects.

## Introduction

The importance of an efficient contractor payment system for capital projects in developing countries comes from the fact that such projects touch the lives of millions of citizen who rely on these projects for their well-being. It is hard to image how life will be without power generation plants, schools, hospitals, roads or water treatment plants. A delay in the execution of infrastructure projects will affect the quality of life for the recipients immediately.

The province of Dhi Qar, in Southern Iraq faces the same delayed capital projects execution rate as other provinces and some of these challenges are due to the contractor payment system in the province.

## Dhi Qar Contractor Payment System Cycle (“As Is” Model)

### A-Contractor advance payment

Contractor advance payment has the following steps:

1. Finance department receives the contract file from the department of contracts
2. Contractor submits his request for advance payment to governor's office
3. Governor approves the request for advance payment and sends the request for payment to finance department
4. Finance department requests validity of the letter of guarantee from the issuing bank
5. Finance department prepares a request for payment approval and sends it to internal audit department
6. Internal audit department examines the request for payment approval and returns the transaction to the finance department
7. Finance department prepares payment order and request for payment approval and sends to the governor for his approval
8. Finance department prepares voucher and sends to the internal audit department
9. Internal audit examines the voucher and returns to the finance department
10. Finance department prepares the check and sends it to the Governor for signature
11. Contractor receives the check from finance department

### B-Progress billing payment

The progress billing payment has the following steps:

1. Contractor submits his request for progress billing to the engineering unit department
2. The engineering unit department sends the request for progress billing to the technical associate
3. Technical associate sends the request to the planning and follow-up department
4. Planning and follow-up department visits the project site to compare the request for progress billing payment with the situation on the ground
5. Planning and follow-up department approves the request for progress billing payment and returns the request for progress billing payment to the technical associate

6. Technical associate sends the request for progress billing payment to the finance department
7. Finance department prepares payment approval request and sends it to the internal audit department
8. Internal audit department examines the request for payment approval and returns it back to the finance department
9. Finance department prepares payment request and sends it along with the request for payment approval to the Governor for approval
10. Governor approves the payment request and the request for payment approval and returns to the finance department. Finance department prepares payment voucher and sends to the internal audit department
11. Internal audit department examines the voucher and returns to the finance department
12. Finance department prepares the check and sends it to the Governor for his signature
13. Governor signs the check and returns it to the finance department
14. Contractor receives the check from the finance department

### **C-Initial final payment**

The initial final payment has the following steps:

1. Administrative order to form a handover committee from the head of the administration unit and two members from the beneficiary agency
2. The handover committee prepares the final payment request and sends it to the finance department
3. Finance department requests the contractor to submit tax and other liabilities clearance certificate
4. Contractor receives final payment and all deposits except for the maintenance amount of 2.5% of the contract

### **D- Final payment**

The final payment has the following steps;

1. Administrative order to form a handover committee of three members
2. Handover committee inspects the project and a final handover will take place if the project passes the inspection
3. Handover committee sends the handover report to the technical associate who sends it to the planning and follow-up department.
4. Planning and follow-up department returns the report to the technical associates
5. Technical associate sends the final handover report to the finance department
6. Finance department releases the amount of 2.5% deposit to the contractor

## **Roles and Responsibilities Within the Accounting and Internal Audit Departments**

The finance manager is the head of the finance department and responsible for the entire department's operations.

The internal audit manager is the head of the internal audit department and responsible for running the entire department's operations. The cooperation of both department heads is very essential in reducing the time needed to process contractor payment requests.

The project accountant is responsible for maintaining the contractor file and preparation of the payment request, payment voucher and check.

The finance manager's and project accountant's signatures are required for all documents.

The project internal auditor is responsible for examining the contractor file and checking the payment order and the voucher.

The internal audit manager's and project internal auditor's signatures are required for all documents.

The Governor signs the check, payment order and payment voucher.

## **Baseline Survey**

We established the first baseline survey last July 2013. We took a random sample of 27 contractor payment requests and we found out that on average it took Dhi Qar finance department 11.3 days to process one contractor payment request.

## **Methodology Used in Establishing Baseline Survey**

1. Collect one month of contractor payments processed in Dhi Qar
2. Select a random sample of 27 processed contractor's payments (choosing one payment from every four payments in a list containing all payments)
3. Divide the total numbers of days to process all the random sample-by-sample numbers

## **Key Performance Indicators (KPIs)**

1. Numbers of days to process a contractor payment request
2. Dollar amount of processed contractor payment request per month or week or in a year
3. Percentage of completed investment projects on time

## **Analysis of the "As Is" Model**

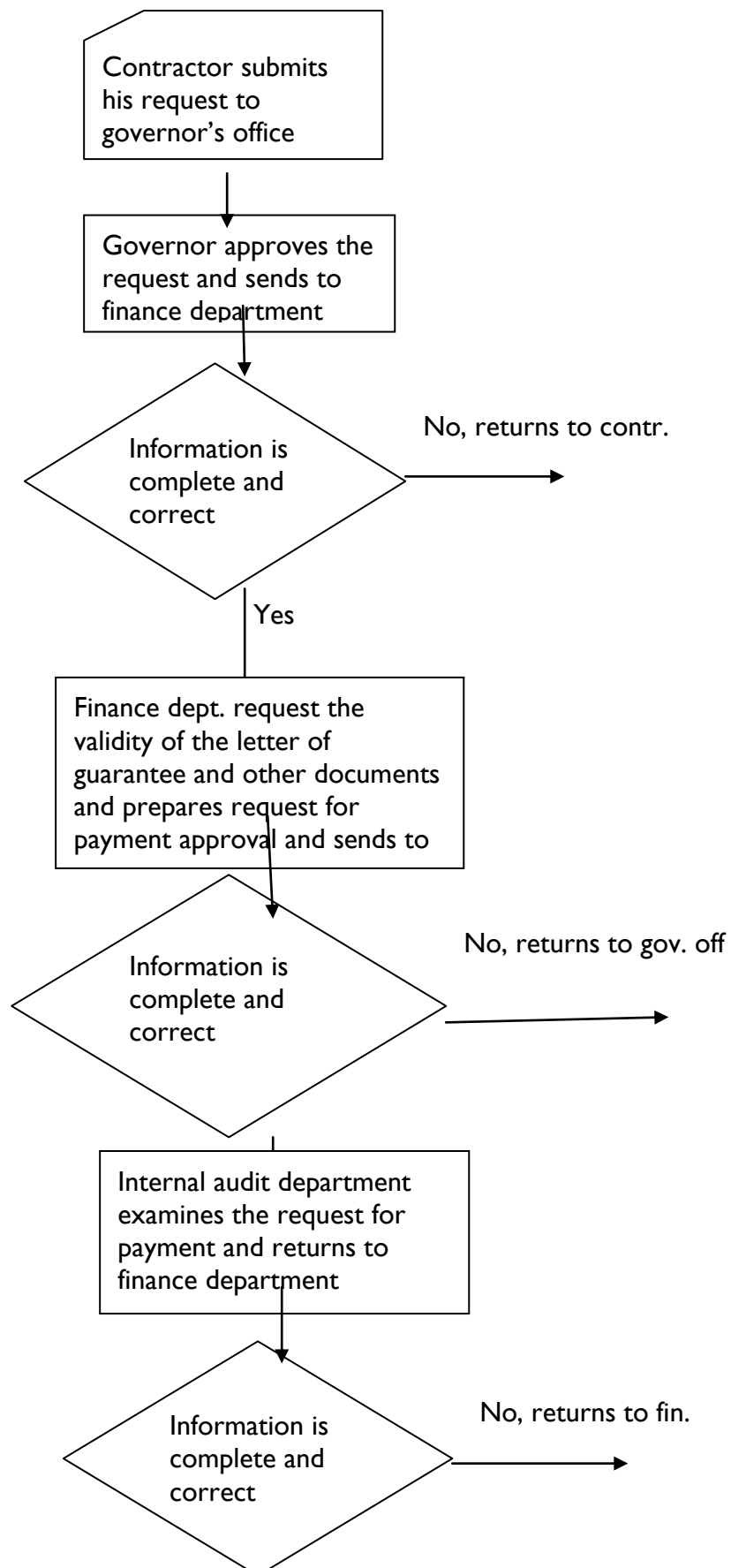
1. Contractor submits his request for advance payment to Governor's office not finance department
2. Finance department sends documents to internal audit department in many steps creating unnecessary redundancies
3. Governor signs payment order, payment voucher and check. This will not help reduce time needed to process contractor payment request and thus contribute to finishing investment projects on time

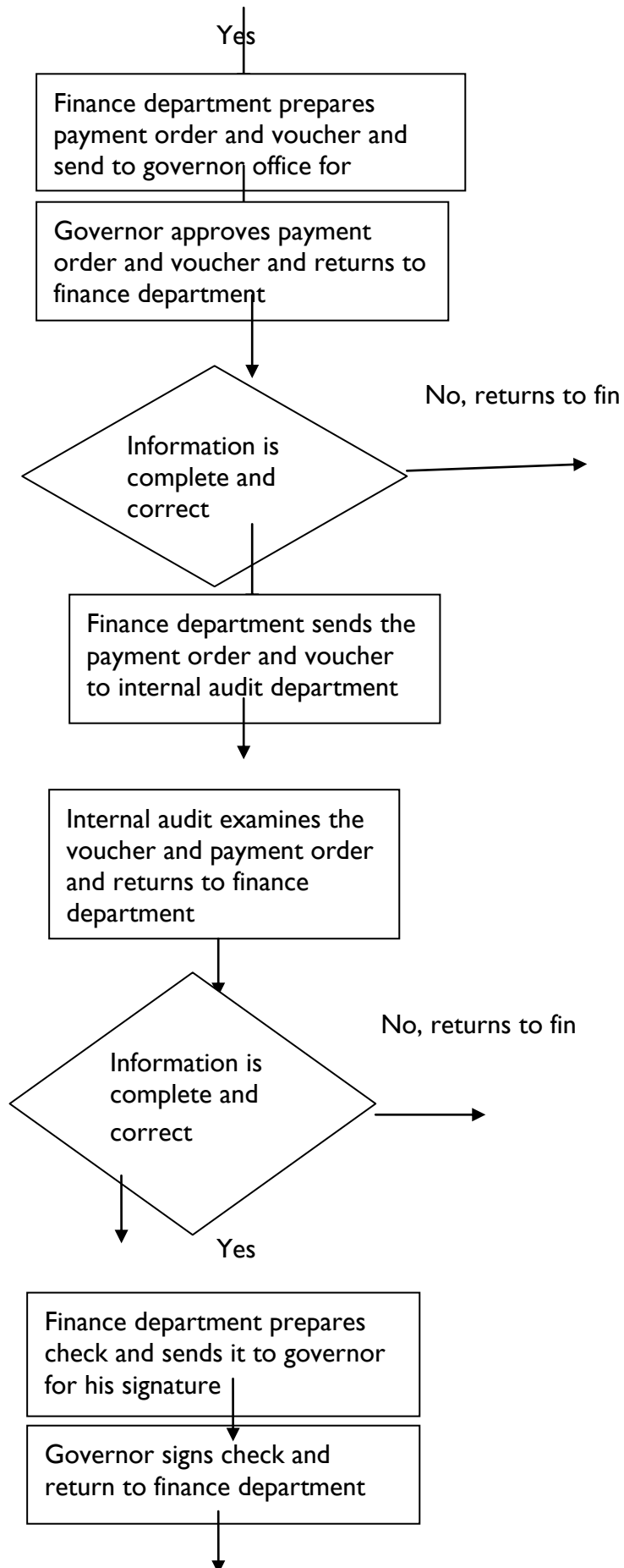
## **Recommendations to Improve the Contractor Payment System in Dhi Qar Province**

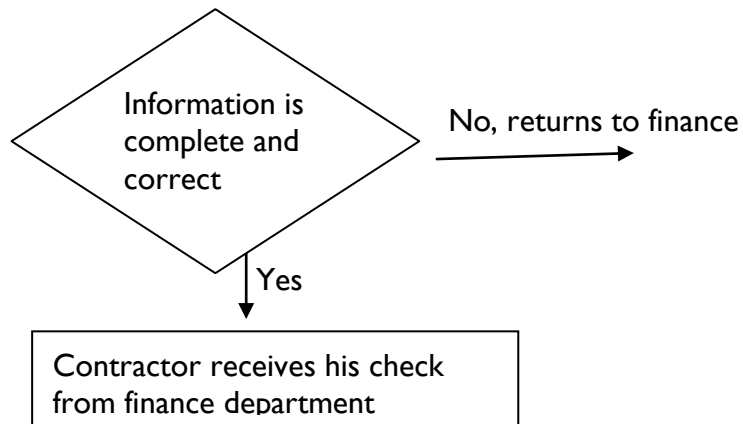
1. Governor should only sign the check
2. Contractor submits his request for payment to finance department not to governor's office
3. Finance department should send payment request approval, payment voucher and check all together and at once to internal audit department.

## The “As Is” Process Map

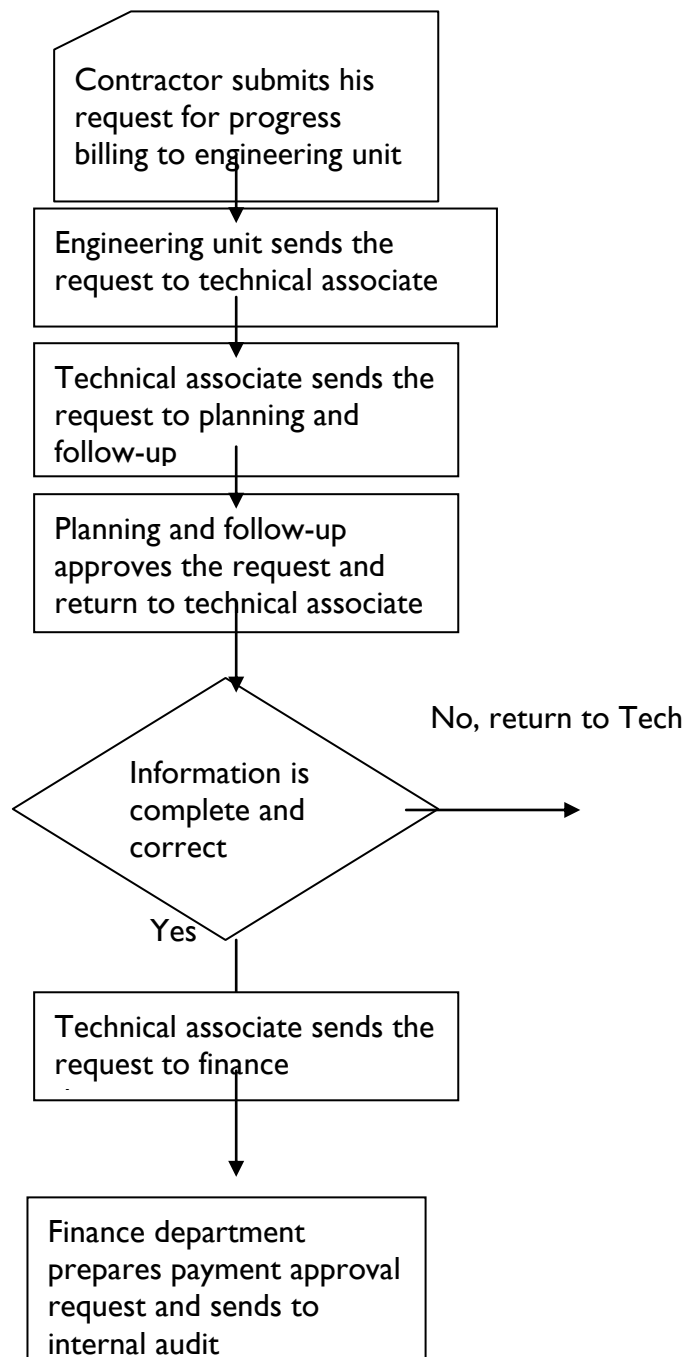
### Advance payment

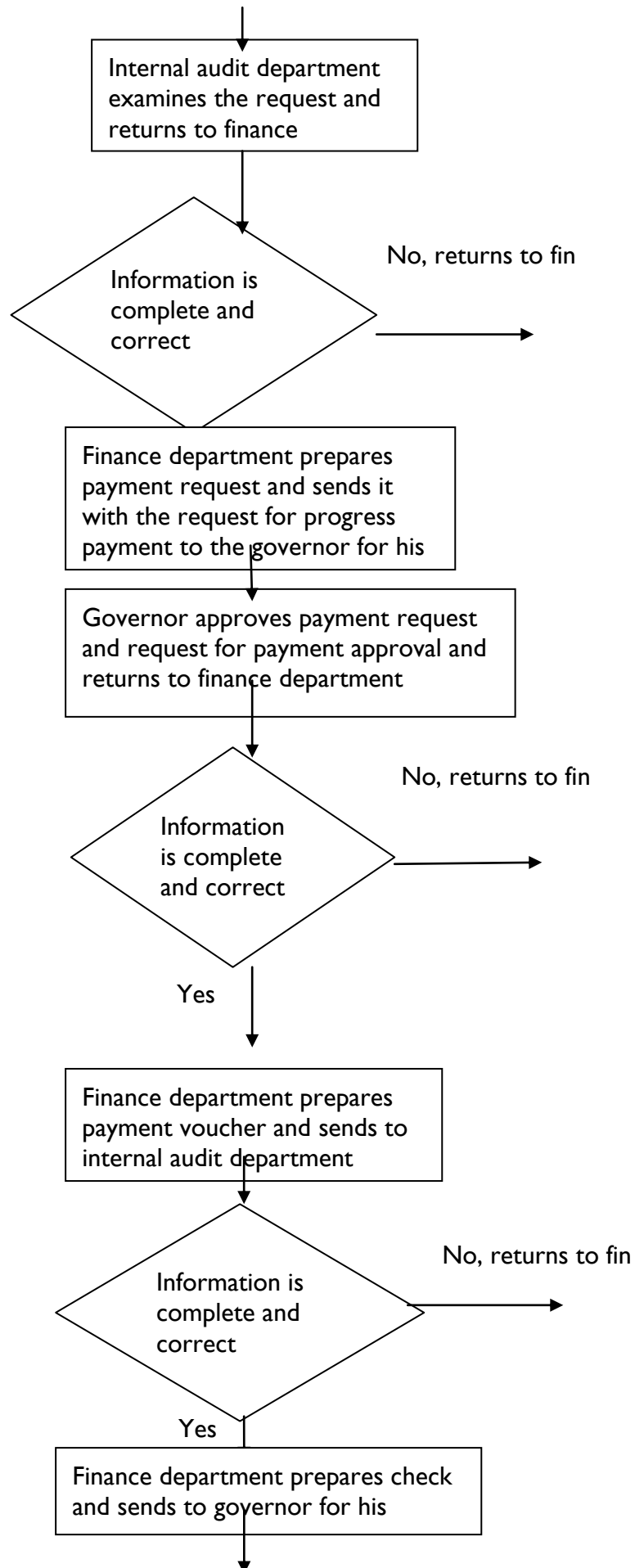




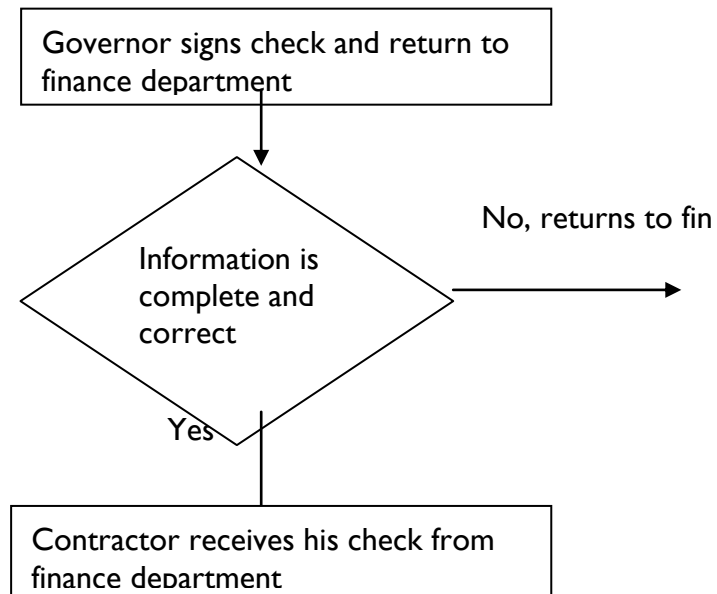


### Progress billing payment

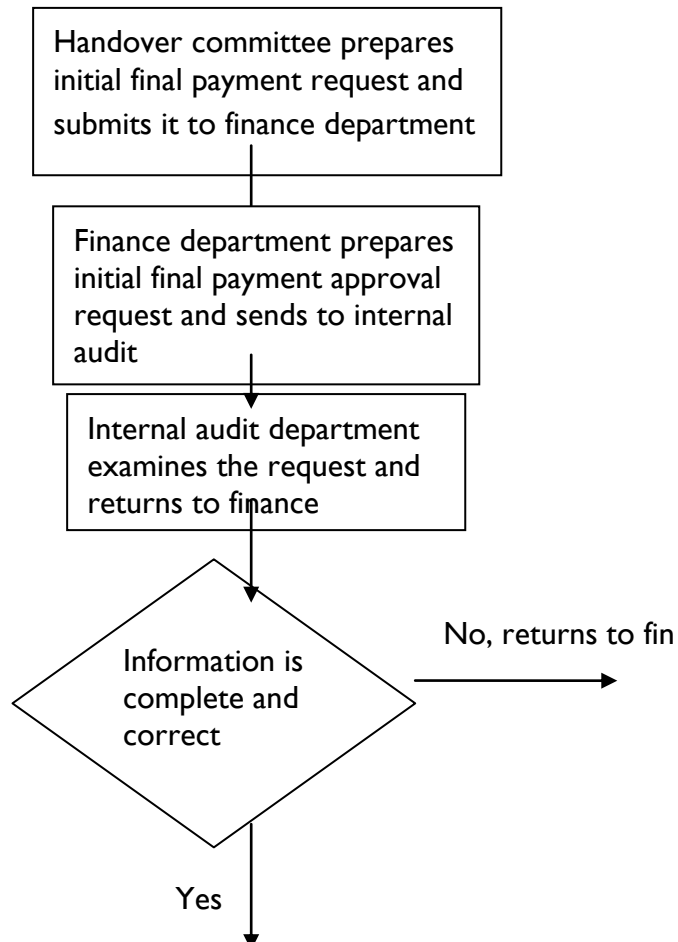


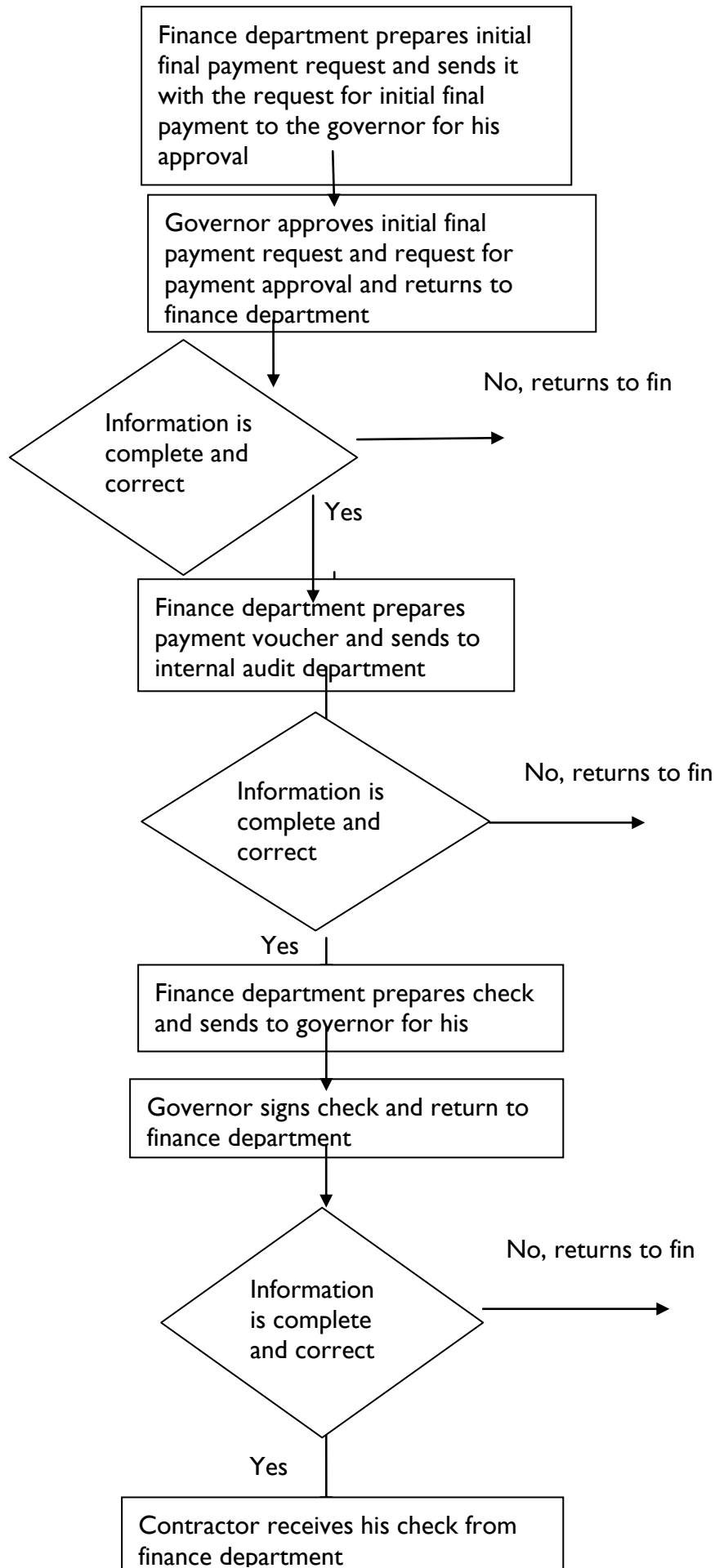






### Initial final payment





## The “To Be” Model

**1-Contractor advance payment** has the following steps:

1. Contractor submits his request for advance payment to finance department
2. Finance department registers in the incoming mail and journal
3. Project accountant examines the request and supporting documents including request the validity of the letter of guarantee from the issuing bank and prepares request for payment, payment voucher, payment order and check; sends to finance manager for department approval
4. Finance manager approves the request, payment order and voucher and sends to internal audit department
5. Internal audit department registers in the incoming mail and journal
6. Project internal auditor examines all information and documents and sends to internal audit manager for approval
7. Internal audit manager examines the information and returns to finance department, otherwise requests more information from project internal auditor
8. Finance department sends check, payment order, voucher and payment request to Governor for his signature
9. Governor signs check and returns to finance department
10. Contractor receives his check from finance department

**2-Progress billing payment** has the following steps:

1. Technical associate submits the request for progress billing payment to finance department
2. Finance department registers in the incoming mail and journal
3. Project accountant examines the request and prepares payment order, payment voucher, request for payment and check and sends to finance manager
4. Finance manager approves and sends to internal audit department
5. Internal audit department registers in the incoming mail and journal
6. Project internal auditor examines the information and sends to internal audit manager for department approval
7. Internal audit manager approves and returns to finance department
8. Finance department sends the check, payment order, request for payment and payment voucher to Governor for signature
9. Governor signs check and return to finance department
10. Contractor receives check from finance department

**3-Initial final payment** has the following steps:

1. Administrative order to form a handover committee of three members
2. Handover committee prepares the final payment request and sends it to finance department
3. Finance department registers in the incoming mail and journal
4. Project accountant examines the request and prepares payment order, payment voucher, request for payment and check and sends to finance manager
5. Finance manager approves and sends to internal audit department
6. Internal audit department registers in the incoming mail and journal
7. Project internal auditor examines the information and sends to internal audit manager for department approval
8. Internal audit manager approves and returns to finance department
9. Finance department sends the check, payment order, request for payment and payment voucher to Governor for his signature
10. Governor signs check and return to finance department
11. Contractor receives check from finance department

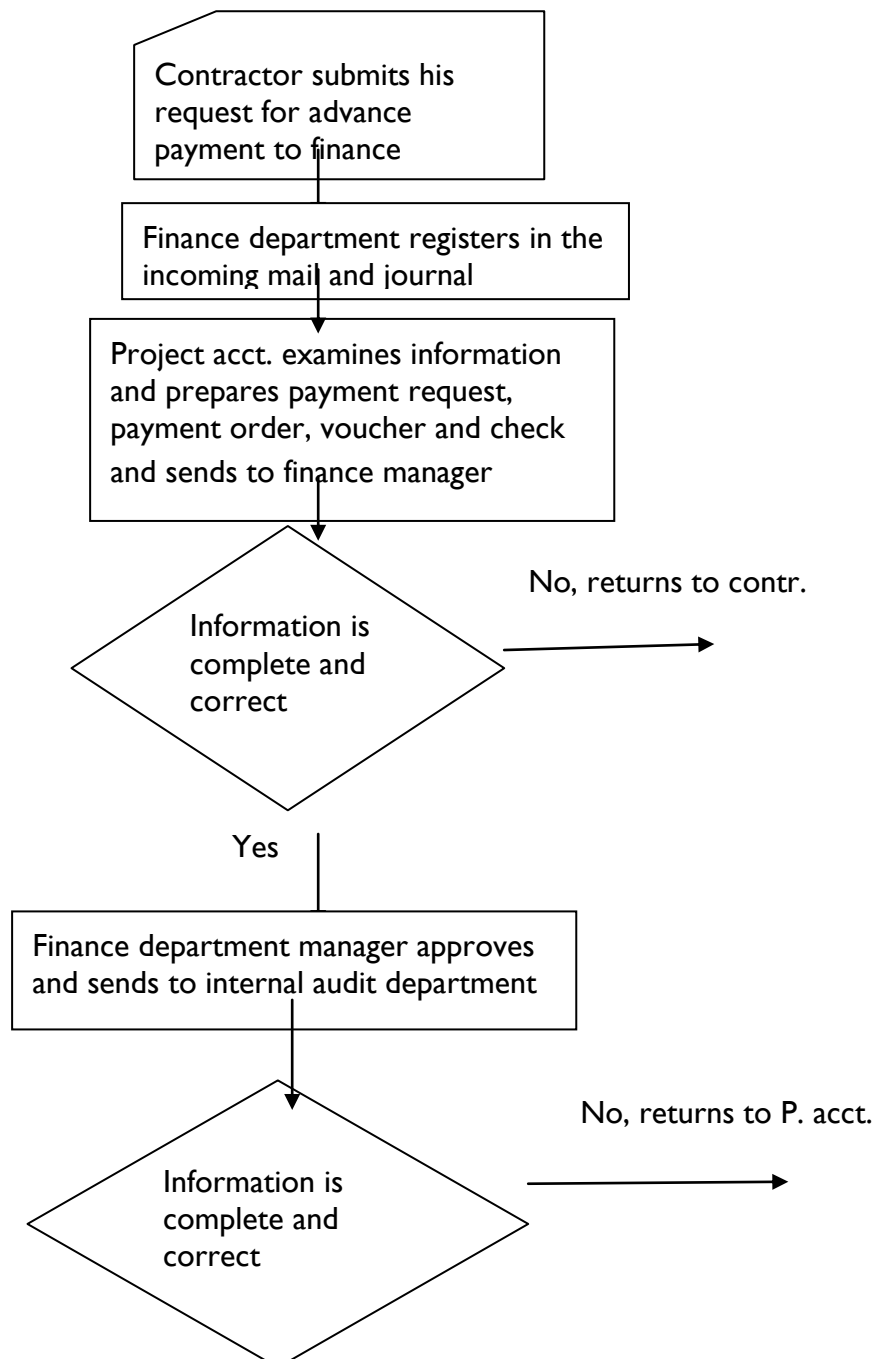
#### 4-Final Payment

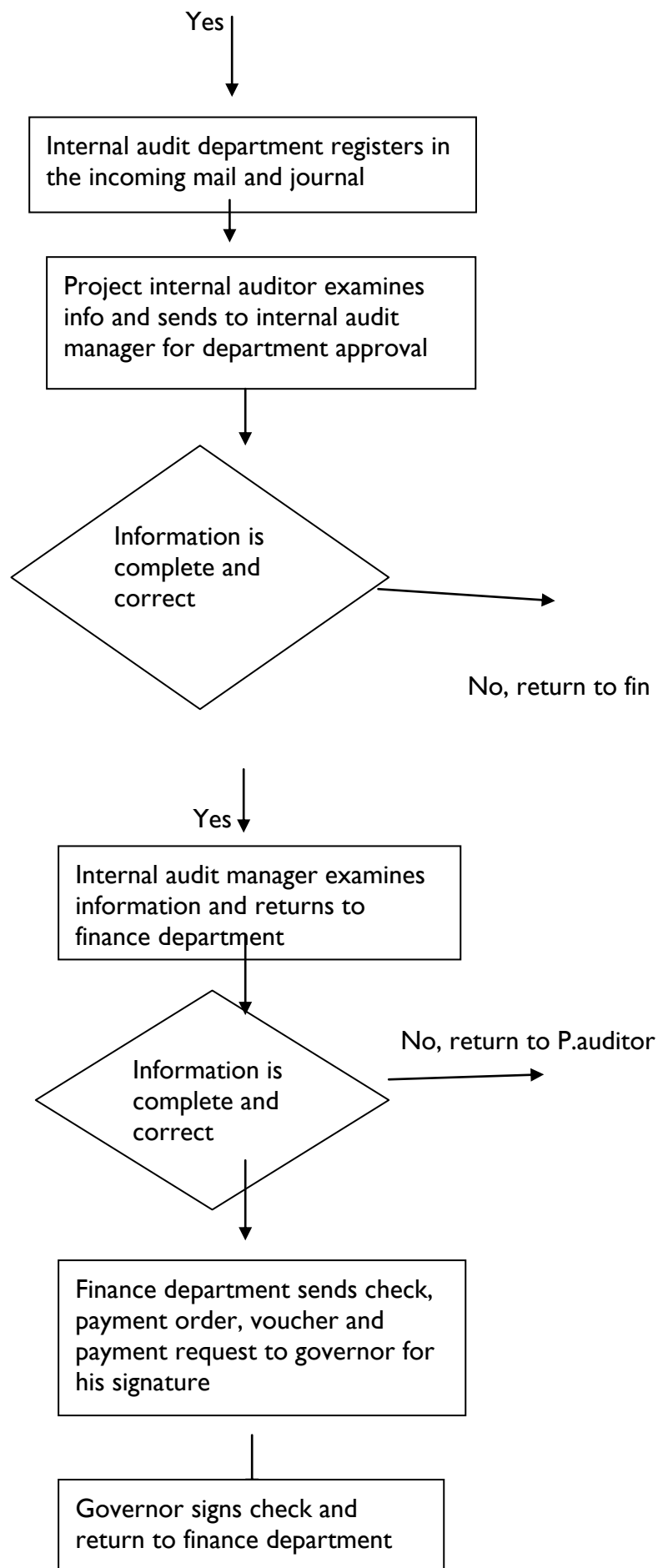
The final payment has the following steps;

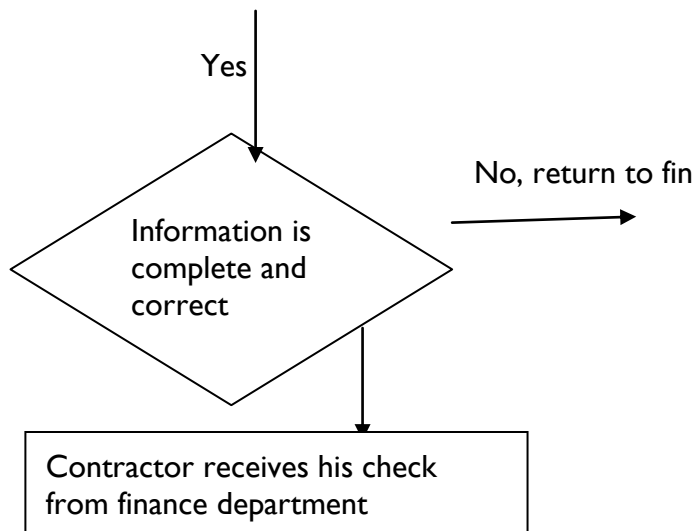
1. Administrative order to form a handover committee of three members
2. Handover committee inspects the project and a final handover will take place if the project passes the inspection
3. Handover committee sends the handover report to the technical associate who sends it to the planning and follow-up department.
4. Planning and follow-up department returns the report to the technical associates
5. Technical associate sends the final handover report to the finance department
6. Finance department releases the amount of 2.5% deposit to the contractor

#### The “To Be” Process Map

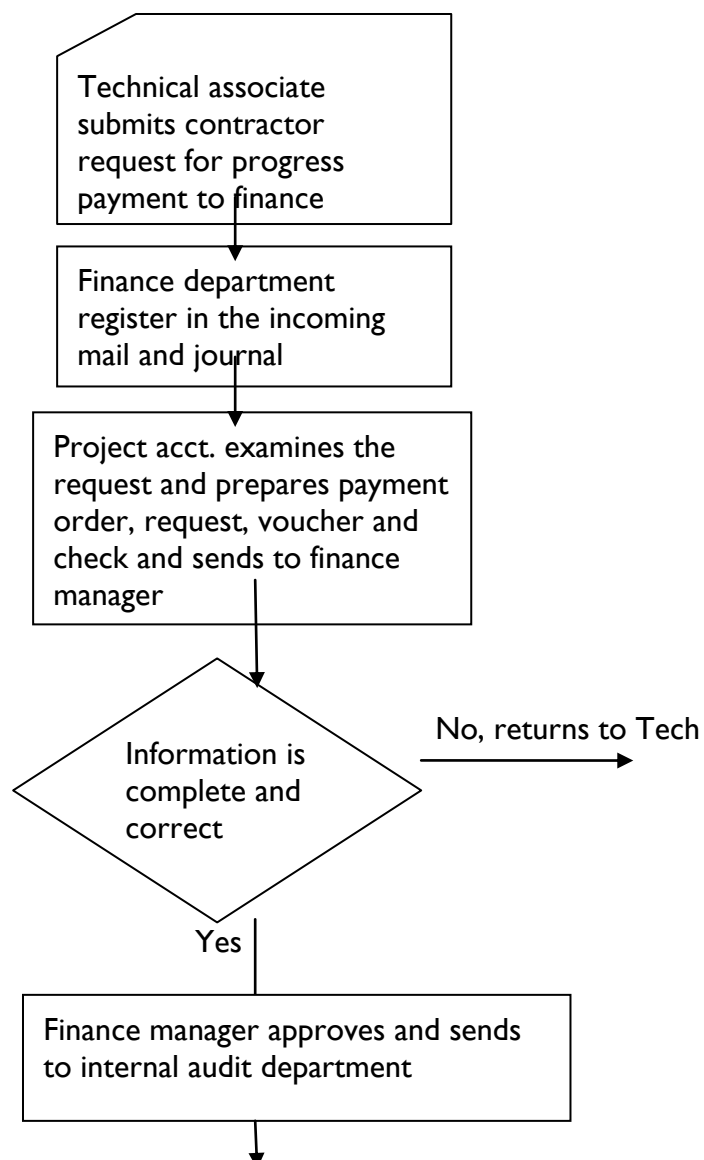
##### Contractor advance

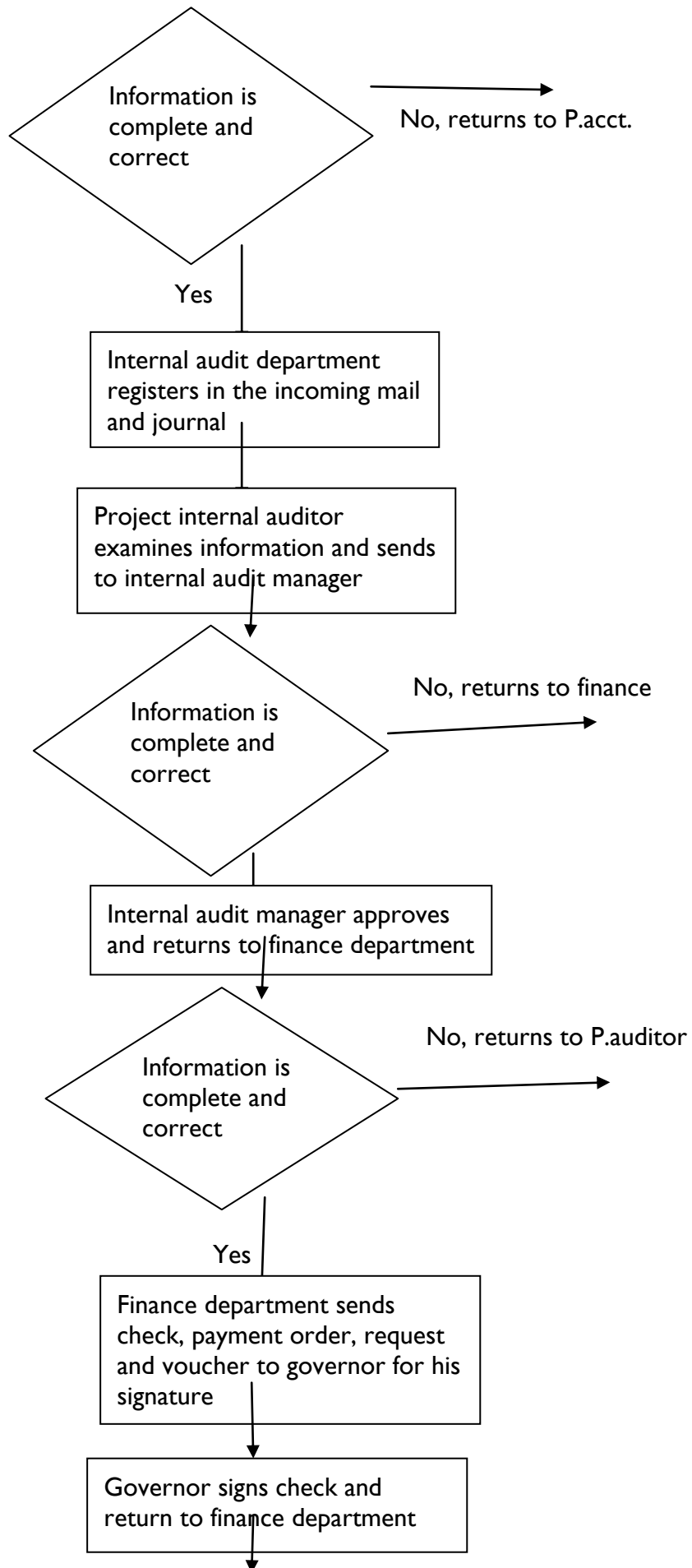


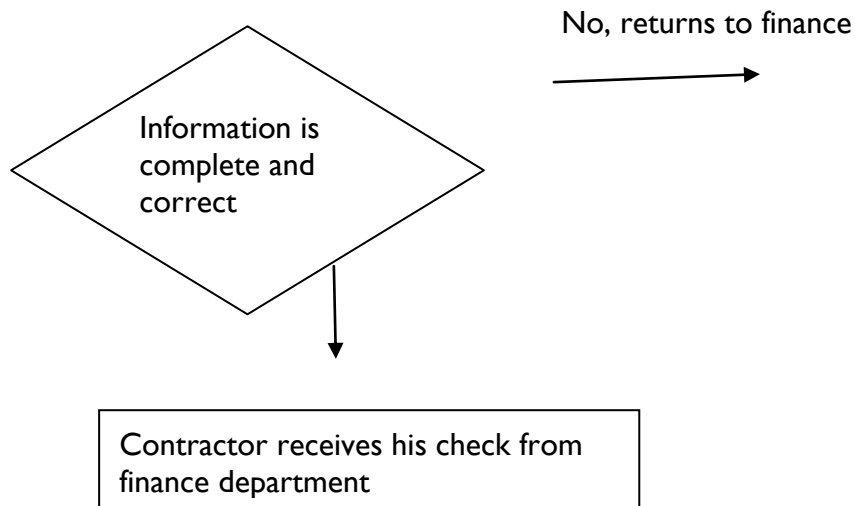




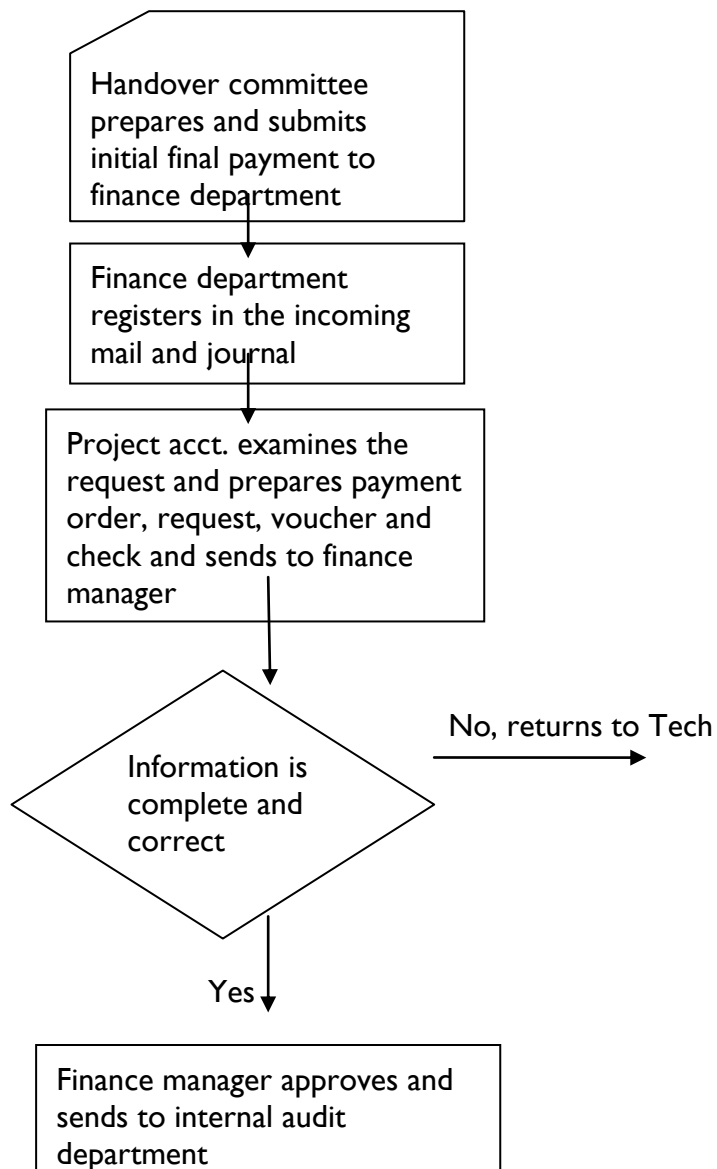
### Progress billing payment



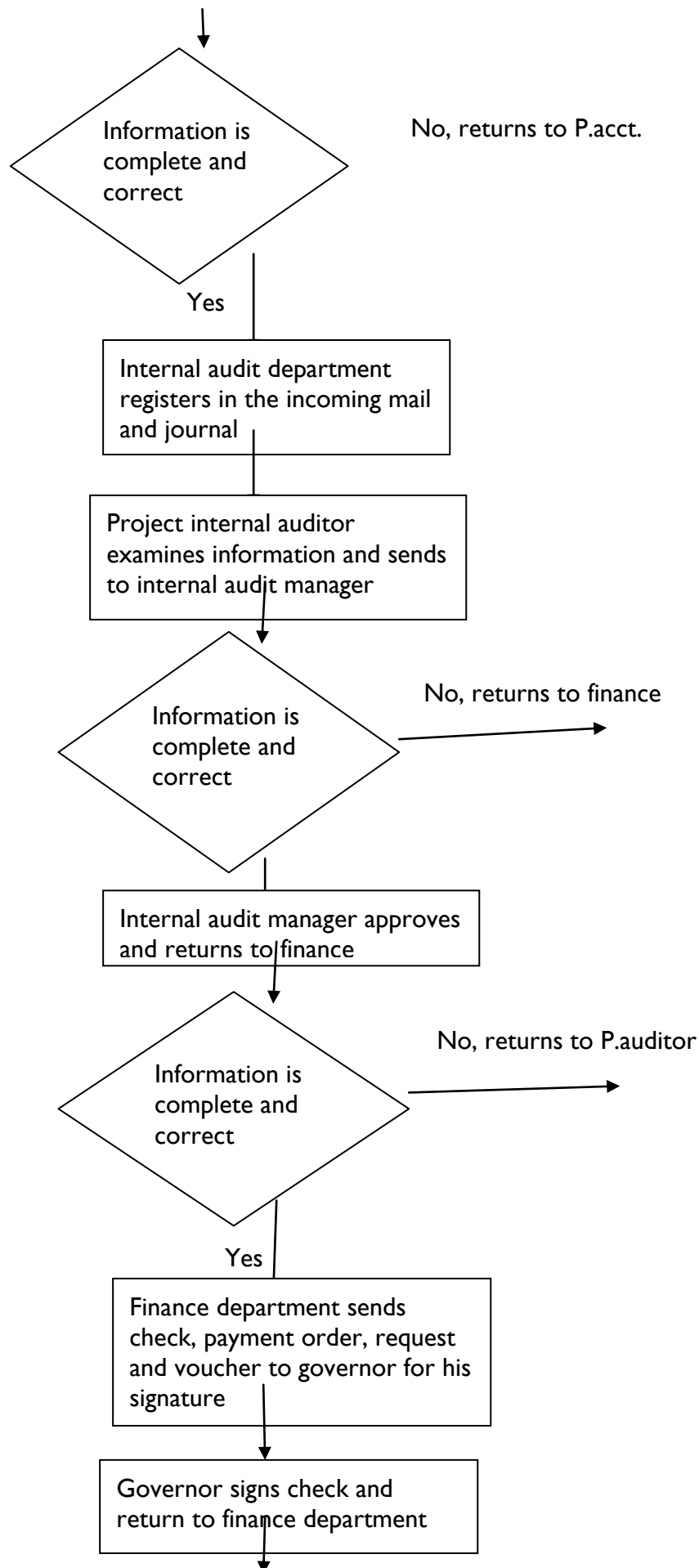


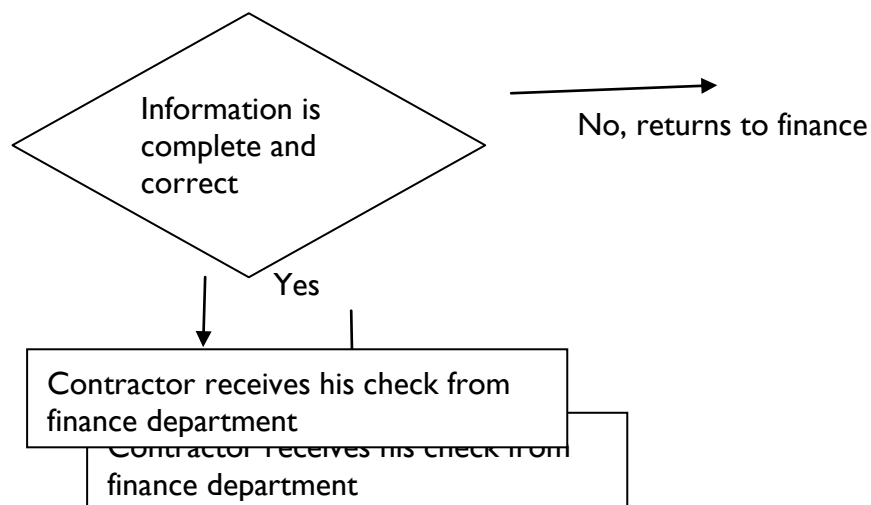


### Initial final payment









## Conclusion

Due to the Governors busy schedule, we were not able to get his approval for our recommendations to improve the contractor payment system in the province of Dhi Qar before the end of the short-time technical assignment. Also, the Taqadum technical assistance to Dhi Qar, as well as all other provinces, was scheduled to end for March 31, 2014. Therefore we were not able to establish a second baseline survey and gauge the performance difference that implementation of our recommendations would have made.

## **THE PROVINCE OF DIYALA, IRAQ CONTRACTOR PAYMENT SYSTEM—CHALLENGES AND IMPROVEMENTS**

We were not able to study and recommend improvement to the Diyala contractor payment system because of the security and political situation in the province. The security situation made it impossible for us to travel to Diyala and meet with finance department officials and the Governor. The political situation also made it impossible for the finance department officials to visit or meet with Taqadum in any safe location and help us flow chart, understand, and make recommendations for the Diyala contractor payment system.

The province is in a political crisis as there were two governors at the time and a pending law suit. The finance department officials have been advised not to participate in any activities including traveling outside the province.

## **REPORT ON THE PROVINCIAL COUNCIL OPERATIONAL BUDGET PROCUREMENT PROCESS**

The objective of this study is to strengthen the provincial financial management system and to identify improvement opportunities and set the framework and guidelines for their implementation and use.

Also is to solve problems related to provincial council operational budget procurement process and identify improvement opportunities, recommendations, and process maps with identified key performer indicators, guidelines and standard operation procedures.

This consultancy covers the provinces of Wasit, Karbala, Dhi Qar, Diyala and Basrah.

We were not able to help improve the provincial council operation budgets because the budget is very small in the dollar amount and it only covers cost like meetings and transportation.