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**THE FILES**

Donald Curtis, RD  
Robert P. Mathia, CD

PD-AAA-477

Review of Loan 522-L-021 - Wrap-up

INTRODUCTION

This review was undertaken to determine where we stand regarding implementation of Loan 021. In particular those areas related to technical assistance, training and accounting were examined. A close look at the DNF's accounting and reporting systems was made in anticipation of the requirements that will be placed on them during execution of the new loans (Ag. Sector and Rural Reconstruction).

I. Technical Assistance

Loan 021 called for technical assistance in four areas: grain handling, redesign engineering, grain marketing and cost accounting. The work contemplated in each of the first three areas requires a short-term contract with possible follow up visits. The fourth area requires the services of an auditing firm.

a. Accounting

The auditing firm of Peat, Marwick and Mitchell (PMM) was contracted to provide the technical assistance to review and make recommendations for improving the cost accounting system of the Cereals Division of the DNF. The report has been completed but payment has not been requested from A.I.D. Implementation is awaiting the completion of a companion study discussed below.

b. Grain Handling and Redesign Engineer

Harold Stryker, a grain expert provided by ROCAP through a FASA Agreement with the USDA, and the DNF have agreed in principal on a contract. He would fill positions for two of the areas mentioned above-grain handling and redesign engineering. Mr Stryker is well qualified to handle the tasks involved.

At present another expert in this field is available in Honduras. He was a member of the Canadian team that did the marketing study for CSPE and who is taking up residency in Honduras. Contact with the DNF has been made. He will be submitting a proposal to the Bank.

c. Marketing Expert

The Mission notified the BNF that another Canadian who is a marketing expert was available in Honduras. The BNF interviewed the candidate and decided not to contract him because of a disagreement over his fee.

d. Training

As of the date of this review the BNF has not initiated the training program called for under Loan 021. A.I.D. has approved a training plan presented by the BNF to meet Conditions Precedent found in Section 3.04 of the Loan Agreement. The BNF wishes to hold to this plan. However, it does not want to implement the plan until the equipment for the rural stations (presently on order) is installed. Adjustments in the timing of the training plan will have to be made due to late equipment delivery. A description of training courses available in Argentina was given to the BNF for possible future consideration.

II. ACCOUNTING SYSTEMS

The Capital Assistance Paper for L-021 recognized the weaknesses of the accounting system employed by the BNF. For this reason one of the Conditions of the Loan was that the BNF would commission a study that would review the accounting system of the Cereals Division and make recommendations for improvement. This study, completed by PIM is presently under review by BNF officials. We were told repeatedly that the final implementation of the study had to await the completion of a companion study for the Credit Division of the Bank also carried out by PIM and apparently funded by IDB. Part of the delay was also attributed to the inability of the present computerized system to absorb more work.

The present system, as we understand it, is not capable of breaking down cost components of processing, transportation, and management of the operation. Apart from this, there are serious questions as to the ability of the system to make estimates of the quantity and value of inventories.

III. REPORTING SYSTEM

a. INTERNAL

There are two reports which document activities of the Cereals Division. One is produced by the central Accounting Department and the other is submitted by managers of the various storage and collection facilities.

The report prepared by the central Accounting Department is based on information obtained from four forms. These forms record the purchase and sale of grain by the BNF and the transfer of grain within the BNF between the various storage and processing facilities. (See attached examples). This information is mechanically processed and a monthly report is produced by computer. The report is a running account of grain purchases, grain sales and grain transfers and includes quantity and value. It has a closing date (end of a given month) but no beginning. Included in the report is the inventory of each collection/storage facility and a summary of the entire system. It is this report which provided the information for the first two monthly reports submitted to the USAID that are discussed below (see attachments 6 and 7).

The report prepared by the managers of the collection/storage facilities (see Attachment 5) is submitted weekly and audited using the report described above. This report is not machine processed or stored.

b. REPORTING REQUIREMENTS FOR L-021

According to the terms of Implementation Letter No. 1, the BNF is to submit monthly, quarterly, and annual reports to the USAID. The first monthly report was received in December, 1974, for the period ending November 30, 1974. A report for the period ending December 31, 1974, was received in January. These reports purport to give an account of stocks and value of stocks.

During a session with the management of the Cereals Division and the Accounting Department, we received an explanation as to how the report is generated. The primary source of information is the running computerized report discussed above. To arrive at the net figure for stocks (the same procedure is employed to estimate value) the quantity sold and the quantity stipulated as "internal transfers" are added or subtracted from gross purchases. We failed to understand why transfers enter into a calculation that is supposed to provide total inventory amounts but did not feel that intensive questioning should take place at that time. In the report submitted to the USAID transfers are not shown.

Valuation of the inventory is not clear. In the November report a constant price was used to value sales, purchases and inventories. In the December report the unit value of sales, purchases and inventories varied. For example, milled rice was valued at L 41.46

for purchases, the unit sale price was L 33.03 and the inventory was valued at L 35.00. One can only speculate on the reasons for these differences, especially in light of the fact that the November report used constant unit prices.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

The content of this memo was discussed by the authors with the USAID Controller. We concluded that the managers of the Grain Stabilization Fund are not receiving the necessary information to efficiently manage the Fund.

We believe that the Bank, through the services of PNM will improve or change the present accounting system. However, we do not know when this change will take place or if the system proposed in the PNM study will correct the deficiencies in the present system. An additional factor is whether Bank personnel have the necessary skills to install the system described by PNM.

We also concluded that the Bank with its present accounting system could not provide the reports as described in Section IV-E-2, of Implementation No. 1.

The important role the Bank plays in our present and future programming requires that it have an efficient system for managing financial resources. The PNM study is a step in the right direction. However, the delays in the implementation of the new accounting system and the current reporting requirements for active loans reduces the ability of Mission personnel to judge the performance of the Bank. We cannot make suggestions on improving the reports without more information on what is feasible. Likewise, we do not know if the PNM study will fulfill future data needs.

We propose that the Mission request the TDY assistance of a financial analyst from ROCAP to review the present accounting system, design a new reporting system for L-021 based on that review, evaluate the proposed PNM design, and make necessary recommendations.