
BAKEL IRRIGATED PERIMETERS
SAED TRAINING ST. LOUIS

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SECTION 121D CERTIFICATION REVIEW

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24th August 1984

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24th August 1984

596/2106/JW/sb

S.J. Littlefield,
Director,
USAID,
Dakar,
Senegal.

Dear Madame,

PIOT/T No 685-0208-3-70050 BAKEL IRRIGATED PERIMETERS
PIOT/T No 685-0218-3-00100 SAED TRAINING ST. LOUIS

SECTION 121D CERTIFICATION REVIEW

In accordance with the terms of reference of the above PIO/Ts, Ms. Jenny Webb of our staff visited St. Louis from July 19-25 1984 to assess the system of accounting and internal control for the two projects. She visited the Training Centre at Ross Bethio but, as agreed with Mr. M. Horween, did not visit the Bakel site since the accounting documents were centralised at St. Louis.

Attached to this letter are our conclusions and recommendations, as follows:

1. Section 121D certification report on Bakel Irrigated Perimeters
2. Section 121D certification report on SAED Training
3. Deficiencies in the accounting system and recommendations relating to both projects.

We trust our reports meet your requirements but if you would like any further information in connection with this mission please do not hesitate to contact us.

Yours truly,

Deloitte Haskins + Sells

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APPENDIX 1 TO LETTER DATED 24TH AUGUST 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

24th August 1984

S.J. Littlefield,
Director,
USAID,
Dakar,
Senegal.

SECTION 121D CERTIFICATION REPORT - BAKEL IRRIGATED PERIMETERS

We have reviewed the accounting station for the project Bakel Irrigated Perimeters no 685-0208. Our work was performed in accordance with the scope of work provided in work order n° 5 under contract n° 681-0000-C-00-3154-00 and was conducted in accordance with generally accepted accounting practices and principles.

In our opinion this accounting station has a system of accounting and internal control which will not provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds.

Deloitte Haskins + Sells

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APPENDIX 2 TO LETTER DATED 24TH AUGUST 1984
ADDRESSED TO THE DIRECTOR OF USAID DAKAR

24th August 1984

S.J. Littlefield,
Director,
USAID,
Dakar,
Senegal.

SECTION 121D CERTIFICATION REPORT - SAED TRAINING

We have reviewed the accounting station for the project SAED Training n° 685-0218. Our work was performed in accordance with the scope of work provided in work order n° 5 under contract n° 681-0000-C-00-3514-00 and was conducted in accordance with generally accepted accounting practices and principles.

In our opinion this accounting station has a system of accounting and internal control which will provide adequate identification of U.S. Government funds and control over the receipt and expenditure of those funds.

Deloitte Haskins + Sells

BAKEL IRRIGATED PERIMETERS AND SAED TRAINING - DEFICIENCIES IN THE ACCOUNTING SYSTEM AND RECOMMENDATIONS FOR IMPROVEMENTS

The accounting records are centralised at the SAED (Société d'Aménagement et d'Exploitation des Terres du Delta) and the system is basically the same for both projects. The low volume of transactions at the training project renders the records easily verifiable and the project is certifiable. Due to the present state of the records at Bakel this project is not certifiable. Nevertheless, improvements in the recording and filing of training project vouchers should be made. Comments on the accounting system therefore apply to both projects unless otherwise stated.

2. In general the system of internal control at SAED is good. The training centre has developed comprehensive procedures for purchasing and for the control of stocks and fixed assets and has trained the staff from the perimeter sites in their application. Full physical inventories of stocks and fixed assets are carried out annually and the permanent records are updated. The computerized fixed asset listing shows assets by location and by donor and where acquisition values are unknown, control over the asset is maintained by bringing it into the books at a nominal value of one franc. A computerized general ledger is produced monthly together with a print-out analysing expenses by cost centre.

3. There are some weaknesses in the system of recording cheque payments, filing invoices and controlling petty cash expenditure, the elimination of which would lead to greater efficiency within SAED. Nevertheless, no matter how efficiently the system functions, it cannot generate the financial reports required by USAID because the basis of accounting is fundamentally different. SAED follows the Senegalese accounting system and records expenditure by the credit of the supplier's account as soon as invoices are received. USAID, on the other hand, requires justification of

the way in which cash advances have been utilized or cash disbursed. It is therefore the payments which must be analysed by expense category, and the categories must correspond to USAID budgetary line items and not to the SAED chart of accounts.

4. SAED has already recognized the necessity to maintain supplementary, manual records in order to provide the information required by USAID. However, the records currently maintained, which were developed and implemented by USAID staff or contractors, are inadequate and difficult to control. For the Bakel project to be certifiable, modifications to these documents are required. Such modifications should both reduce the time spent by SAED staff in preparing the monthly financial reports and permit easy verification of the figures.

5. The points raised in the following paragraphs have been discussed with the assistant financial director of SAED and agreed in principle.

BANK BALANCES

6. A "brouillard de caisse" or summary of movements is currently maintained for each bank account by the person who writes the cheques. However, examination of this summary shows that not all cheques and few of the receipts are recorded. The movements are recorded once a week. There is no column showing the balance remaining after each transaction. As no record of the bank balance is maintained in the cheque book, there is a risk of the account going into overdraft.

7. In its present form, this summary, which is not part of the financial accounting records, serves no purpose. It should be replaced by an analysed bank journal which would show a balance after each transaction and permit analysis of the expenditure by budgetary line item. The journal should be posted at the same time as the cheque is made out. A monthly reconciliation between the journal, which will form the basis of the financial report to USAID, and the bank statement should be carried out. This reconciliation would be in addition to, and not in place of, the reconciliation between the general ledger balance and the bank statement.

FINANCIAL JOURNALS / FILING OF INVOICES

8. Invoices are filed according to the folio and line number under which the payment is recorded in the financial journals. As payments are recorded in the order in which the vouchers are received by accounts department, the cheque number sequence is not followed. This lack of sequence results in the omission of cheque payments from the financial journals, difficulty in locating invoices and an increase in the time spent on bank reconciliations. The problem is compounded by the fact that items identified in the bank reconciliation as having been omitted from the accounting records are carried forward until the end of the year instead of being entered in the following month. The invoice relating to a particular payment may consequently be filed with those relating to payments made many months later. Accounts payable balances will also be inaccurate.

9. We recommend that SAED take steps to ensure the completeness of the financial journals by observing the numerical sequence of cheques and by correcting omissions as soon as they are identified.

10. In addition, to facilitate verification by USAID on a monthly basis, it is recommended that a copy of each remittance advice and invoice be maintained in cheque sequence order by the finance department. This procedure is already followed whenever an invoice is received for payment in more copies than are required by the accounts department, but the file is incomplete. It will therefore be necessary to complete the file by taking photocopies of invoices received in a single copy.

RECORDING OF EXPENDITURE BY LINE ITEM

11. A system of analysing payments by budgetary line item has recently been introduced for the Bakel project using a card for each line. This system is both time-consuming and impractical. To arrive at the expenditure for a period, it is necessary to total the entries on each card and, if the grand total does not agree with the total of the cheques issued, the process of finding the error could take many hours. The information obtainable from the cards, i.e. the cash balance outstanding against each line item after every transaction, has no practical application, since any decision as to future expenditure must be based on total commitments to date as recorded on the budgetary control cards (see § 18 below).

12. We therefore recommend that the card system be replaced by an extended bank journal, the total expenditure against each budgetary line item being transferred to a spread-sheet to give the cumulative expenditure for inclusion in the financial report.

BAKEL PETTY CASH EXPENDITURE

13. Unlike other petty cash accounts at SAED, which operate on an imprest system, the Bakel petty cash uses a system of round sum advances. At the end of the month, Bakel submits to SAED a purchase journal and a signed memorandum of an independently performed petty cash count. The cash balance remaining is repaid to SAED and a new advance is granted. Although this system permits satisfactory control over the cash fund, it causes difficulties as far as the analysis of USAID cheque expenditure is concerned, since the cheques drawn do not correspond to the exact amount of the vouchers submitted.

14. In theory, photocopies of the petty cash vouchers should be submitted monthly to SAED with the cash journal, but in practice several months may elapse. There are also delays in transmitting the copies of vouchers from the accounts department to the finance department for analysis by budget category. Thus at June 30, 1984 the general ledger shows all advances as being fully accounted for whereas the report produced by the financial department shows advances of FCFA 5.9 million outstanding.

15. It is recommended that in future an imprest system be used, with a permanent imprest advance of FCFA 1.5 million. Further advances should be granted only on receipt of petty cash vouchers and should re-imburse the amount spent. An additional cash journal, analysed by USAID budgetary line item, should be maintained by the cashier and a copy submitted to the finance department as a pre-condition for the issue of a cheque. The total for each budgetary line item should be transferred to the bank journal as an analysis of the cheque issued.

16. There is no standardized format for petty cash vouchers which consist of suppliers' invoices and rough handwritten receipts. The staff at Bakel number the vouchers manually and sometimes record the budgetary category and accounts codes on the voucher, although this is frequently illegible and is done in a haphazard fashion.

17. We recommend that printed, pre-numbered disbursement vouchers with one original and three copies be introduced. These vouchers would eliminate the possibility of duplicating or omitting numbers, would provide easy identification of each item of expenditure, and reduce the amount of photocopying necessary. They would also provide a standardized form on which the accounting and budgetary code for each item would be shown and on which the persons initiating and approving the expenditure, and the person receiving the cash would sign.

The vouchers should be distributed as follows:

- original joined to invoice or other supporting document,
- 1st copy joined to photocopy of invoice or supporting document,
- 2nd copy sent to the finance department with budgetary analysed cash journal (see above) and request for reimbursement,
- 3rd copy remains in book.

BUDGETARY CONTROL

18. SAED maintains a budgetary control card, by source of finance, for the majority of its expenditure. The card shows the total funds allocated to the line item. It is consulted and updated at the time a purchase order is issued or a contract signed, thus ensuring, in theory, that no budgetary line item is over-committed. In respect of the Bakel project, the cards are maintained by USAID budgetary category and a statement showing the balance against each line item has been produced at June 30, 1984. While the system functions adequately for purchases on credit and for supply and construction contracts, it takes no account of purchases and wages paid out of petty cash or re-imbursed to project staff at Bakel. Thus, the actual expenditure for the experimental farm stands at FCFA 19 million against a budget of FCFA 16 million and an apparent commitment of only FCFA 1.9 million.

19. SAED proposes to overcome this problem by submitting all cash vouchers for engagement before entering them in the financial records. This would permit recording of the exact expense incurred but would not aid in the decision-making

process, since it would not take account of known future commitments. It would, therefore, be preferable to record as an engagement the maximum estimated expenditure for the quarter in respect of wages and small supplies, and to reverse the difference subsequently when the actual expenditure is known. In addition the amount of the Bakel petty cash fund should be shown as an engagement when it is created.

20. According to SAED staff, the fact that the USAID budget runs from January to December whereas the local accounting year is July-June poses enormous problems. We recommend that in future the USAID budget coincide with the local accounting period, since there is no reason why this should not be done.

ACCOUNTING FOR DISALLOWED EXPENDITURE

21. The financial reports submitted by SAED are verified against the supporting documents by a member of the USAID controller's office staff. Almost invariably there are items which lack sufficient justification, or which represent advances and which must, at least temporarily, be disallowed. No record of these items is kept by SAED and no adjusting entry is made. The result is that the items are included in the cumulative reports against budgetary line item and that it is difficult to reconcile advances.

22. In our view, it is the responsibility of SAED personnel to review the disbursements and to ensure that only those which are fully supported are included on the 1034 voucher. This distinction should be made at the time of posting to the analysed cash and bank journals by including a separate column for unallowable expenditure. All disbursements should be included on the disbursements report but advances and other

unallowable items should be clearly identified and should not be transferred to the reimbursement claim. If USAID should subsequently disallow a claim then this amount should be transferred to a disallowed account until justified and resubmitted to USAID on a new 1034 voucher.

23. When previously disallowed items become eligible for reimbursement, they should be shown as prior period adjustments against the budgetary line item concerned and should be included on the 1034 voucher. Full details of the items should be annexed to the report.

RECONCILIATION OF ADVANCES

24. As part of its monthly financial report, SAED should include a reconciliation showing total advances received from USAID, 1034 vouchers accepted by USAID, disallowances, advances, amounts unaccounted for, amounts not now allowable and vouchers in process. The balance should correspond to the balance on the chequing account in accordance with the bank reconciliation.

IMPLEMENTATION OF RECOMMENDATIONS

25. We recommend that detailed instructions for the maintaining of records and the preparation of reports acceptable to USAID be incorporated into a PIL. USAID should take responsibility for the design and printing of petty cash vouchers and should send a suitably qualified financial adviser to SAED for approximately three weeks to design and explain the procedures and to supervise their implementation and codification.