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FINANCIAL CONTROL PROCEDURES
AND
FINANCIAL MANAGEMENT SYSTEMS
FOR THE
FAMILY PLANNING ASSOCIATION OF KENYA

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FOREWARD

The work described in this report was organized and funded by the Family Planning Management Training Project (FPMT). This consultation is one of several aimed at strengthening the organizational management and effectiveness of the Family Planning Association of Kenya.

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CHAPTER 1

EXECUTIVE SUMMARY

INTRODUCTION

The purpose of this consultancy was to develop a series of financial management and control systems and procedures that would enhance the ability of the Family Planning Association of Kenya (FPAK) to plan, budget, and monitor programmatic expenditures. The scope of work has been attached as Appendix A.

METHODOLOGY

The consultant spent three and a half weeks in Kenya during the period November 21-December 16, 1987. The initial scope of work was based on the Management Development Plan prepared by Gary Bergthold and Michael Hall which stated the need for a series of financial management systems: budget monitoring, financial reporting, inventory controls, procurement, cash flow analysis, and recommendations for the computerization of the accounting system. These are presented in Chapters 3 and 4. Based on initial discussions with senior staff, and a review of such documents as the management letter of the last two audits, reports and letters between FPAK and their donors, and several studies that were prepared for FPAK by external consultants, it was agreed that she would also develop a series of internal control procedures. These are presented in Chapter 2.

In order to collect information on the present systems and procedures, the consultant held extensive interviews with FPAK staff both in Nairobi as well as three area offices. She spoke with three past and/or present donors: Association for Voluntary Surgical Contraceptives (AVSC), The Pathfinder Fund (PPF), and International Planned Parenthood Federation (IPPF). USAID provided the consultant with their concerns and requested documentation of several systems required for the registration of FPAK with the local mission.

Papke met with the Programme Manager, Programme Officers, Area Officers, Accounts Clerks, and Area Clerks. Account Clerks and Area Clerks completed a questionnaire, outlining their job functions, identifying the obstacles they face in completing those functions, and requesting their recommendations for solutions to those problems. Programme staff were asked about the kinds of information that they required in order to do their jobs effectively. With input from these individuals, she presented

draft procedures and forms. As much as possible, feedback from the individuals responsible for the implementation of those systems was elicited to ensure that systems were clear, simple, appropriate, effective, and adequate for staff needs. All major systems were prepared in draft form before her departure and presented to the the Finance and Administration Manager and the Accountant for their review. Based on a half day meeting, all drafts were reviewed with the consultant. Changes were made based on their comments and the systems presented in this document are a result of that meeting.

See Appendices E and C for individuals contacted and activities realized.

The presentation of these systems is organized in three sections:

1. Internal control systems and procedures
2. Financial management systems and procedures
3. Miscellaneous documents and recommendations

For all systems, a brief description of the procedures is followed by the the appropriate forms.

CHAPTER 2

INTERNAL CONTROL PROCEDURES

CONTROL OF STAFF TRAVEL
CONTROL OF AREA OFFICE IMPREST
CONTROL OF PROJECT IMPLEMENTATION ADVANCES
CONTROL OF VEHICLES
CONTROL OF MEMBERSHIP FEES
INTER-DONOR ACCOUNTING

CONTROL OF STAFF TRAVEL

Per the draft Travel Regulations (March 1987), certain levels of staff must request prior permission before traveling and may be provided with a travel advance to cover related expenses. This manual governs travel by senior staff and volunteers only. It does not address routine, systematic travel made by such area personnel as Field Educators and Drivers.

Control Procedures

No later than one month before a planned trip, a Travel Approval Form or TAF (Form A) is filled in by the traveller. The form is filled out in triplicate. The original of the request is filed with the Payment Voucher in the files. One copy is returned to the individual with the check and the other copy is filed in a folder entitled, TAFs Outstanding, where it remains until the employee submits Form B, his/her Travel Expense Report (TER). It is also entered into a register that tracks the disbursement and liquidation of advances. Any outstanding TAFs can be easily tracked using these two control tools. When an individual requests a travel advance, the Accountant, before authorizing the payment, checks the folder and register to see whether there are any outstanding travel advances. According to present regulations, TERs for headquarters staff must be submitted within five days of the end of the local trip (seven days for international travel); area office personnel must submit their TERs within seven days for local travel and twelve days for international travel. If the individual has other advances outstanding, no additional advance can be provided without justification and without the signature of the Finance and Administration Manager or his designate.

In special circumstances, if the individual can adequately justify the outstanding TAFs, the Finance and Administration Manager (and only that individual) can authorize another advance. In that case, his signature must also appear at the bottom of the page.

A check is prepared for 75% of the budgeted and approved per diem and travel expenses from the appropriate donor account. When entering the disbursement in the Cash Disbursement Journal and General Ledger, the individual's name as well as the TAF number should be entered for information purposes. When the TAF is liquidated, similarly, the TAF reference number should be entered in the General Ledger. This allows for greater ease in tracking TAFs within the accounting records.

Upon completion of travel, the traveller should submit a Travel Expense Report or TER (Form B). This is presented to the Accounts Department with the relevant receipts and documents. The report is reviewed against the TAF and the accuracy and legitimacy of the receipts are validated. Any significant budget variances are discussed with the appropriate Programme Officer. Any disallowances are made after consultation with that individual. The TER is then presented to the Accountant for authorization.

Quarterly Reconciliations

Quarterly, using Form C, a reconciliation should be prepared for each staff member and volunteer. It is critical that this be done quarterly to ensure that advances be kept current and to reduce the possibility of staff objections to accountable balances. This form is filled out by the Accounts Clerk who maintains the advance accounts. A separate line should be used for each TAF, TER, and financial transaction.

1. The date of the TAF, TER, or check is entered in Column A.
2. The number of the TAF is entered in Column B.
3. A description of the travel is entered in Column C.
4. Column D indicates the amount of funds advanced to the traveller against the TAF. All other funds subsequently disbursed against TERs are also entered in this column.
5. Column E indicates the amount of expenses presented on the TER against the TAF.
6. Column F indicates the amount of travel expenses approved by headquarters.
7. Column G indicates any funds reimbursed by the traveller to the headquarters or deductions made against salary.
8. Column H is the accountable balance held by the individual. This balance is calculated by taking the previous balance (Column H), adding any funds disbursed to the traveller (Column D) and subtracting approved accepted expenses (Column F) and funds reimbursed to FPAK (Column G).

The ending Accountable Balance for the quarter, then becomes the opening Accountable Balance for the following period. This should be equal to the figure listed in the General Ledger.

Attached to Form C should be a Disallowances Report (Form D) which lists in detail all disallowances made on TERs. A separate entry should be made on each disallowance or difference.

Two copies of this form should be sent to the individual, who reviews it, signs his/her acknowledgement, and returns once copy to headquarters.

After reconciliation, one of the four actions will be taken:

1. a check is written from the appropriate donor account,
2. the individual is requested to submit a check,
3. the amount due FPAK is subtracted from their salary, or
4. the individual's advance account is credited or debited.

Policy and Procedural Changes

A number of changes in travel policies will tighten up travel expenses and provide greater control over these expenses.

1. Staff and volunteers can travel by private vehicles only if prior permission has been provided and only up to the most expensive form of public transportation.
2. In order to receive per diem for hotel expenses, staff and volunteers must submit a hotel receipt for all nights claimed. Per diem for lodging can be paid only upon submission of these receipts.
3. Travel and other expenses for volunteers should only be reimbursed out of headquarters. No vouchers should be presented to the area offices for payment.
4. Area Managers should be held accountable for the TERS that they approve. They should not sign off on TERS that are not completely nor adequately filled out and for example, do not have departure and arrival times indicates. If TERS are inappropriately approved, they should be disallowed and those funds deducted from disbursements of area imprest forms.

It is recommended that one individual handle staff and volunteer travel for all donors in order to better control and coordinate advances. Travel advances should be coordinated from an overall, organizational point of view, rather than on a donor by donor basis. This overall coordination tightens control and reduces the chances of larger advances from all three donors. An individual's advance account should be with the institution, not with a donor account.

TAF No. _____

FAMILY PLANNING ASSOCIATION OF KENYA
TRAVEL APPROVAL FORM
Form A

Traveller: _____
 Project No. _____ Project Title _____
 Travel Dates _____
 Travel Purpose and Activities _____

1. Travel advances outstanding? Yes ___ No ___ If yes, indicate justification for additional advance. _____

2. Proposed Itinerary:

Date	Depart	Arrive	Mode	Hotel
------	--------	--------	------	-------

3. Travel Advance Requested

Hotel:	___ days x	___ /day		
Meals:	___ days x	___ /day		
Transportation:	_____			_____
	_____			_____

Others (describe): _____

TOTAL REQUESTED K. Shs.	_____
TOTAL APPROVED K. Shs.	_____

4. Is the travel budgeted? Yes ___ No ___ If not, what is justification and account to be charged? _____

=====

Traveller	Programme Manager	Accountant
Date Submitted	Date Approved	Date Authorized
Manager, F & A	Check No. : _____	
Date Authorized	Check Amount: _____	
	Check Date: _____	

TRAVEL DISALLOWANCES
FORM D

Name _____ Prepared by: _____ page ____ of ____
Area/Dept. _____ Reviewed by: _____ Date _____
Date _____

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TAF No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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TAF No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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TAF No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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CONTROL OF AREA OFFICE IMPREST

Currently, FPAK provides the eight area offices with a revolving advance of between 1.19 and 2.19 months of expenses. Then, upon submission of (generally) monthly Area Office Imprest Reports (AOIR), headquarters reimburses actual expenses.

There have been several problems with this system. One, area offices complain about cash flow crises, which in turn causes other problems. All area offices interviewed by the consultant had experienced cash flow crises, even areas characterized as well managed and fiscally responsible, and were forced to use clinic collections to pay expenses. This situation is exacerbated by the fact that in some areas, banks take up to 21 days to clear funds. Two, frequently the forms are not filled in correctly and inadequate review of travel expense reports has resulted in inappropriate acceptance of expense claims. Three, headquarters must spend considerable time reviewing and classifying the expenses.

Recommendations

Increase imprest levels. First, in order to insure that area offices always have adequate funds, it is necessary to disburse them no less than two months of estimated expenses. This will provide one month in which the following occurs:

- 1) the area office prepares the AOIR,
- 2) the area office submits it to headquarters,
- 3) headquarters reviews and approves the report, and
- 4) headquarters prepares and sends a check along with a copy of the approved AOIR.

It may well be that the organization cannot turn reports around that quickly. At present time, it can take as many as two to three weeks for headquarters to review and process a voucher. If headquarters cannot ensure that they can keep turn around time to three weeks, they should go to a two and half month or three month advance system. Of course, this increase in the advance account must be contingent on the track record of the Area Manager in both AOIR and PIA submission. FPAK should inform the Area Managers that their advances will be increased upon demonstration of their ability to consistently submit both monthly AOIR's and timely liquidations of their PIA's. Additional training and monitoring is required to ensure that adequate control is maintained; this is described in the last chapter, in the section "Strengthening of Area Offices."

Suggested System

FPAK should institute a monthly reporting system. Area offices should submit a monthly AOIR, whether or not they need funds, to headquarters by the 5th of the month.

Upon receipt of an AOIR in Nairobi, it is reviewed by the designated individual (one of the Accounts Clerk) who:

1. checks for mathematical errors
2. verifies correctness and accuracy of receipts and vouchers
3. verifies correctness and accuracy of expense coding
4. checks program expenses against the budget and consults with the appropriate Programme Officer concerning any problem areas
5. passes the Daily Log Card of vehicle usage to the appropriate Accounts Clerk

The AOIR is then passed to the Assistant to the Accountant for review and correction. The Payment Voucher and Journal Vouchers are prepared and along with the report are passed to the Accountant for review and approval.

The consultant recommends that one check be prepared for all expenses submitted under the AOIR. In this case, the IPPF main account would be used to reimburse all donor expenses. The appropriate accounts receivable and accounts payable would be established by Journal Voucher. It is important that the journal entries for both the payable and receivable be entered in the same month to allow for monthly reconciliation of inter-donor accounts. (See Inter-donor Accounting for a detailed description of these control procedures.)

After authorization by the Finance and Administration Manager, the check is prepared and sent out.

Modified Format: To facilitate the work of the Headquarters Accounts Clerk, it is recommended that the AOIR be changed. A sample format has been attached as Form A.

Quarterly Reconciliation

Quarterly, using Form B, a reconciliation should be prepared for each area office. It is critical that this be done quarterly to ensure that advances be kept current and to reduce the possibility of Area Office objections to accountable balances. This form is filled out by the Accounts Clerk who maintains the advance accounts. A separate line should be used for each AOIR and financial transaction.

1. The date of the AOIR or check is entered in Column A.
2. The period which the report covers is entered in Column B.
3. Column C indicates the amount of funds disbursed to the area office.
4. Column D indicates the amount of expenses presented on the

AC.R.

5. Column E indicates the amount of expenses approved by headquarters.
6. Column F is the accountable balance held by the area office. This balance is calculated by taking the previous balance (Column F), adding any funds disbursed to the area office (Column C) and subtracting approved expenses (Column E).

The ending Accountable Balance for the quarter then becomes the opening Accountable Balance for the following period. This should be equal to the figure listed in the General Ledger.

Attached to Form B should be a Disallowances Report (Form C) which lists in detail all disallowances made on AOIR. A separate entry should be made for each disallowance or difference.

Two copies of this form should be sent to the Area Manager, who reviews it, signs his/her acknowledgement, and returns one copy to headquarters.

AOIR DISALLOWANCES
FORM C

Name _____ Prepared by: _____ page ____ of ____
Area/Dept. _____ Reviewed by: _____ Date _____
Date _____

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AOIR Period	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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AOIR Period	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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AOIR Period	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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CONTROL OF PROJECT IMPLEMENTATION ADVANCES

Introduction

The proposed system below is to be implemented in conjunction with the Budget Monitoring System described elsewhere. In order to implement this system, the Area Managers must be provided with the annual Work Programme/Budget for their own areas. They can then be held accountable for the implementation of the work programme as well as adherence to the budget.

While in the future, it would be more efficient for FPAK to fund area programmes as they do area administrative expenses (through an imprest fund), at the present time the consultant does not advise it. Without adequate training, area personnel do not at present have the budgeting and budget monitoring skills required to ensure adequate control over donor funds. This system attempts to strengthen the present funding procedure that provides funds for specific activities through Project Implementation Advances (PIAs).

Control Procedures

No later than one month before the area office plans to implement an activity, such as a training course, trade show or exhibition, a Project Implementation Advance Request Form or PIA (Form A) should be completed. The form should be filled out in triplicate. The original of the request is filed with the Payment Voucher in the files. One copy is returned to the individual with the check and the other copy is filed in a folder entitled, PIA's Outstanding, where it remains until the PIA is liquidated. The advance is also entered into a register that tracks the disbursement and liquidation of advances. Through these two control tools, any outstanding PIA's can be easily tracked. When an area office requests a PIA, the Accountant, before authorizing the payment, checks the folder and register to see whether there are any outstanding PIA's. According to present regulations, any PIA is overdue if it has not been submitted within two weeks (?) of the end of the PIA period. If the area has other PIA's outstanding, no additional advance may be provided without justification and without the signature of the Finance and Administration Manager or his designate.

In special circumstances, if the Area Manager can adequately justify the outstanding PIA's, the Finance and Administration Manager (and only that individual) can authorize another advance. In that case, his signature must also appear at the bottom of the

page.

A check is prepared from the appropriate donor account. When entering the disbursement in the Cash Disbursement Journal and General Ledger, the area as well as the PIA number should be entered for information purposes. When the PIA is liquidated, similarly, the PIA reference number should be entered in the General Ledger. This allows for greater ease in tracking PIA's within the accounting records.

Upon completion of the project, the Area Manager should submit a Project Expense Report or PER (Form B). This is presented to the Accounts Department with the relevant receipts and documents. The report is reviewed against the approved PIA and the accuracy and legitimacy of the receipts are validated. Any significant budget variances are discussed with the appropriate Programme Officer and any necessary action is taken on overexpenditures or disallowances after consultation with that individual.

Quarterly Reconciliation

Quarterly, using Form C, a reconciliation should be prepared for each area office and for each donor agency. It is critical that this be done quarterly to ensure that advances be kept current and to reduce the possibility of Area Office objections to accountable balances. This form is filled out by the Accounts Clerk who maintains the advance accounts. A separate line should be used for each PIA, PER, and financial transaction.

1. The date of the PIA, PER, or check is entered in Column A.
2. The number of the PIA is entered in Column B.
3. A description of the project activities is entered in Column C.
4. Column D indicates the amount of funds advanced to the area office against the PIA. All other funds subsequently disbursed against PERs are also entered in this column.
5. Column E indicates the amount of expenses presented on the PER against the PIA.
6. Column F indicates the amount of expenses approved by headquarters.
7. Column G indicates any funds reimbursed by the area office.
8. Column H is the accountable balance held by the area office. This balance is calculated by taking the previous balance (Column H), adding any funds disbursed to the area office (Column D) and subtracting approved expenses (Column F) and funds reimbursed to FPAK (Column G).

The ending Accountable Balance for the quarter then becomes the opening Accountable Balance for the following period. This should be equal to the figure listed in the General Ledger.

Attached to Form C should be a Disallowances Report (Form D) which lists in detail all disallowances made on PER's. A separate entry should be made for each disallowance or difference.

Two copies of this form should be sent to the Area Officer, who reviews it, signs his/her acknowledgement, and returns one copy to headquarters.

After reconciliation, one of three actions will be taken:

1. a check is written from the appropriate donor account,
2. the area office is requested to submit a check, or
4. the area office's advance account is credited or debited.

Policy and Procedural Changes

It is recommended that one individual control and track programme expenses for all donors in order to better control and coordinate advances. PIAs should be coordinated from an overall, organizational point of view, rather than on a donor by donor basis. This overall coordination tightens control and reduces net balances held by the area offices. An area office's advance account should be with the institution, not with a donor account.

PIA No. _____

FAMILY PLANNING ASSOCIATION OF KENYA
PROJECT IMPLEMENTATION ADVANCE REQUEST FORM
Form A

Employee: _____ Area _____
 Project No. _____ Project Title _____
 Period of PIA _____
 Purpose and activities _____

1. Other PIA's outstanding? Yes ___ No ___ If yes, indicate justification for additional advance. _____

2. Budget:

Description	Amount Budgeted	Spent to Date	Amount Requested	Amount Approved

TOTAL

TOTAL APPROVED K. Shs. _____

3. Are these expenses budgeted? Yes ___ No ___ If not, what is justification and account to be charged? _____

=====

_____ Officer	_____ Programme Manager	_____ Accountant
_____ Date Submitted	_____ Date Approved	_____ Date Authorized

If outstanding PIA's only:

_____ Manager, F & A	_____ Check No.:	_____
_____ Date Authorized	_____ Check Amount:	_____
	_____ Check Date:	_____
	_____ PER Due On:	_____

PIA No. _____

FAMILY PLANNING ASSOCIATION OF KENYA
PROJECT EXPENSE REPORT
Form B

Employee: _____ Area _____
 Project No. _____ Project Title _____
 Period of PIA _____
 Purpose and activities _____

1. Are all expenses with regard to the above activity included in the financial report below? Yes ___ No ___ If not, please explain. _____

2. Budget:

Description	Amount Approved	Amount Spent	Budget Variance
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TOTAL

 TOTAL DISBURSED _____
 LESS APPROVED EXPENSES _____
 TOTAL OWED(DUE) _____

3. Justification for any overexpenditures. _____

Where have you realized actual savings that will cover these overexpenditures? _____

=====

 Officer

 Accountant

 Date Submitted

 Date Authorized

Refunds:
 Check Received: Yes ___ No ___
 Receipt Date: _____
 Check Amount: _____

Journal Voucher No. _____
 Reimbursements:
 Check No.: _____
 Check Amount: _____
 Check Date: _____

QUARTERLY RECONCILIATION
AREA OFFICE ADVANCES
FORM C

Name _____ Prepared by: _____ Date _____
Area/Dept. _____ Reviewed by: _____ Date _____

Date PIA No. Description Funds PER PER Checks
A B C D E F G H

Accepted by: _____ Date: _____

PROGRAMME IMPLEMENTATION DISALLOWANCES
FORM D

Name _____ Prepared by: _____ page ____ of ____
 Area/Dept. _____ Reviewed by: _____ Date _____
 Date _____

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PIA No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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PIA No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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PIA No.	Item	Amount Claimed	Amount Approved	Difference
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Explanation: _____

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CONTROL OF VEHICLES

Presently, FPAK uses a Daily Log Card for each vehicle. These cards are not, however, used as consistently as required. The consultant suggests that headquarters insist that area offices submit a monthly Daily Log Card along with the AOIR. Without the timely submission of these cards, headquarters could reserve the right to disallow petrol expenses.

This card forms the basis of control over vehicles to ensure that:

1. petrol expenses are real and verifiable against actual kilometers; and
2. FPAK vehicles are used only for official, authorized travel.

The card should be filled out daily, listing movements, service, and petrol bought for the car. The responsibility for the maintenance of these records lies with the Area Manager who is responsible for ensuring that:

1. only preauthorized travel is undertaken with the FPAK vehicle;
2. petrol expenditures are reasonable and justified; and
3. the form is completed accurately at the end of the month and attached to the Area Office Imprest Report.

When the vehicle leaves the office parking lot either for the field or for errands around the town, the driver will fill in the date, the destination of the trip, beginning odometer reading, the project to be charged, and the purpose of the trip. At the end of the trip, the driver will fill in the ending odometer reading.

When filling the tank with petrol, the odometer reading, liters, and cost of petrol should be entered on the sheet under the appropriate date. The driver or other individual should indicate whether the petrol was charged or was paid for in cash.

One Accounts Clerk in headquarters should be assigned the duty of checking the kilometers travelled against the petrol purchased. By calculating average monthly petrol consumption per kilometer, the Accounts Department can verify the legitimacy of the petrol bills submitted. For further information, see the manual on control of Office Imprests.

CONTROL OF MEMBERSHIP FEES

In 1988, FPAK has planned an aggressive campaign to raise funds for the organization. One of the major means of generating unrestricted funds is to charge membership dues to individuals who receive services from the mobile and static clinics as well as from the CBD project. As field personnel will be selling memberships and collecting funds, a tighter system is required that will ensure that all funds collected in the name of the organization are deposited, controlled, and submitted to headquarters.

The system presented here is based on pre-numbered membership cards sold to members. Attachment C shows sample membership cards. The proposed fund raising strategy requires that individuals will have to show their membership cards in order to receive FPAK services. These cards need to be controlled on two levels: in headquarters and in the area offices. Upon distribution of the cards, the individual signing for them will be responsible for the cash value of those cards. No further receipt is provided to members; the membership card is the receipt. FPAK area offices, however, may also want to keep a membership list.

At headquarters, the Accounts Department will distribute consecutively numbered cards to each of the area offices. Each Area Manager must sign for these cards and is then held responsible for the cash value of those cards. These numbers will be entered into a register such as Attachment A. The date of the transaction is entered in Column A. The numerical series as listed on the cards is entered in Column B; for example, 1101-1200. The number of cards distributed is entered in Column C; for example, 100 cards. The cash value of those membership cards are then entered in Column D. When cash is transferred to headquarters through the collection account, the appropriate entry is made in the register. Cash remitted to headquarters is entered in Column E. The Accountable Balance (Column F) is equal to the value of the cards received by the Area Manager (Column D) less cash remittances (Column E). A separate register should be set up for annual and lifetime memberships.

In the Area Offices, the Area Manager or his/her designate needs to control cards distributed to area staff. Using the same format as Attachment A, a sheet should be filled out for each staff member selling membership cards. Those individuals in turn are responsible for the cash value of membership cards they sign for. A sample format is presented as Attachment B.

Membership Cards
Attachment C

FAMILY PLANNING ASSOCIATION OF KENYA
BOX 30681, NAIROBI

ANNUAL MEMBERSHIP CARD No. _____

NAME _____

Valid for the period of January 1, 198_-
December 31, 198_.

Value Ksh. _____

FAMILY PLANNING ASSOCIATION OF KENYA
BOX 30681, NAIROBI

LIFETIME MEMBERSHIP CARD No. _____

NAME _____

Valid for the lifetime of the bearer.

Value Ksh. _____

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INTER-DONOR ACCOUNTING

Background

As pointed out by the FPAK auditors, donor accounting has been weak in the past. Until November of 1987, the Accounts Department had given the area offices one check and then set up Accounts Receivable through an inter-donor account. PIA's (Project Implementation Advances) were and continue to be disbursed from the respective donor accounts. Unfortunately, the controls governing these transactions were poor if not non-existent. There was no procedure that guaranteed that an accounts receivable to one donor was balanced by the corresponding accounts payable in the other donor's records. Sometimes, the accounts payable was entered in a different month. This resulted in chaos and a situation where it was difficult if not impossible to do a reconciliation of the inter-donor accounts. At the end of October, the inter-donor account in the IPPF account did not correspond with the figures in the other donor books. In order to gain control over the situation, in November, the Accounts Department changed the procedure. At the present time, advances to the field for the office imprest are made through the IPPF Main Account. Reimbursements of the surrender of those Area Office Imprest Reports (AOIR) are then made by three checks from the different donor accounts. While the situation has been significantly cleaned up, it is an unwieldy as well as expensive way to maintain control. In the area offices, banks charge a relatively high amount for clearing each "up-country" (out of city) check. In headquarters, the Accounts Assistant has had to separate the AOIR into three parts corresponding to the three donors, xerox the different parts, and store them in three different locations in the Accounts Department.

The Accountant succeeded in cleaning up a difficult situation but the consultant believes that the Accounts Department will be able to maintain control of these transactions through the accounting system rather than through the checking accounts.

Recommended Control Procedures

The consultant recommends as much as possible that areas receive checks from one bank account for project support and general administration expenses. PIAs and travel advances can for the most part continue to be reimbursed from the respective donor accounts. For small amounts, however, one check can be prepared and quarterly reconciliations can occur to insure that these accounts do not become significant. The area offices do not

require separate checks as the funds go into one checking account. If adequate controls are instituted in headquarters, the accounting system can control receivables and payables between the donors. It will be considerably less expensive if one check is sent to the areas rather than three.

When a Payment Voucher is prepared to reimburse the AOIR or reimburse expenses on behalf of more than one donor, all required Journal Vouchers should be attached to that Payment Voucher before the payment is approved. If Journal Vouchers for all respective donors are not attached, the Accountant should not approve the payment. It is critical that corresponding journal entries for all donors be prepared in the same month--both the payable and the receivable. By requiring that they be attached to the Payment Voucher and by assigning journal entries to one individual, the Accountant can be assured that all journal entries are entered in same month as the payment. The Payment Voucher should not be signed unless the supporting Journal Vouchers are attached. At the present time, it is extremely difficult if not impossible to prepare a monthly reconciliation of the three donors because an accounts receivable entry for one donor is entered in a different month than the accounts payable for the other donor.

All documents for one transaction should be filed together; that is Payment Voucher should be filed with all corresponding Journal Vouchers attached. While the present system of filing the documents for the AOIR in the separate donor records makes donor-initiated audits easier, it is not conducive to overall organizational efficiency. FPAK should file their documents in a way that makes sense from the organization's point of view. The payments should be filed together in one folder.

Income earned in the area offices is either credited to AVSC (tubal ligations) or IPPF (all other income). When the income report comes in, a Journal Voucher should be prepared that establishes a payable on the part of IPPF towards AVSC. Under the proposed system, the deposit of tubal ligation income in the IPPF account will be cash but not income to IPPF. It must be controlled through a Journal Voucher. The cash can be deposited into the IPPF main account, as it is at present, but that payable to AVSC must be established at the time of the deposit. At the same time, a Journal Voucher must be prepared that establishes a corresponding accounts receivable in the AVSC books.

It is recommended that one individual be responsible for Journal and Payment Vouchers for all donors in order to better control inter-donor transfers. This will insure that all appropriate journal entries are made in the correct month and that payments are not made without preparation of all required Journal Entries.

CHAPTER 3

FINANCIAL MANAGEMENT SYSTEMS

BUDGET MONITORING
CASH FLOW PROJECTIONS
PROCUREMENT SYSTEM
MANAGEMENT INFORMATION SYSTEM
INVENTORY CONTROL SYSTEM
USAID DISBURSEMENTS TO FPAK

BUDGET MONITORING

Each programme has an annual budget that is funded by one or more donors. Each programme will be managed in the field by the Area Manager and in headquarters by the appropriate Programme Officer. The Area Managers and the Programme Officer will be responsible for developing the annual programme, including workplan and budget and ensuring achievement of programme objectives. The Programme Officer is responsible for monitoring actual expenses against the budget. The Programme Officer will be responsible for approving all expenses made against his/her budget and, therefore, be held accountable for keeping expenses within the budget. With a copy of the approved area-specific objectives, workplan, and budget, the Area Manager will have authority over and responsibility for his/her local budget.

It will be noted that while this budget monitoring system assumes that FPAK will be computerized at the time of its implementation, it should be noted that the present manual system can provide the required information without significant additional work. It cannot, however, provide area-level data without several alterations.

The Programme Officer will receive a copy of the approved budget of his/her projects at the beginning of the fiscal year. While s/he will have been involved in the development of this budget during the budgeting process, it may be slightly modified by the donor organization, Management Committee, or Executive Director.

Monthly, the Accounts Department will provide each Programme Officer with a financial report for their programme for the month and year to date. See Form A. This monthly report can then be used as a guide to the Programme Officer when planning activities and approving expenses.

Each Area Manager will also receive a copy of the approved Work Programme/Budget for all the projects in his/her area as well as for project support and general administration expenses to be disbursed out of the area. Monthly, the Area Manager will be provided with a financial report for each programme (Form A), outlining expenses and income recorded. This monthly report can then be used as a guide to the Area Manager when planning activities and approving expenses.

Monthly, the Programme Officer needs to review Form A to determine whether spending is in line with the budget and to determine whether any budget modifications will be required. Quarterly, a more extensive review is required. Expenses are compared against achievement of objectives and implementation of the workplan.

Quarterly, the Programme Officer prepares a Budget Review Report (Form B). A description of the lines items is entered in Column A. The approved budgeted amount is entered in Column B. The actual expenses for this reporting period is entered in Column C and the total expenses to date are entered in Column d. In Column E, based on a review of the Cash Flow Projection Reports, the respective Programme Officer enters projected figures for each line item until the end of the fiscal year. Column F is then the total projected expenses to the end of the year, calculated by adding actual expenses to date (Column D) to projected to the end of the year (Column E). Section III presents several questions that will assist the Programme Officer in a financial analysis of project spending. After completion of Sections I, II, and III, the report is presented to the Accountant for his review. After a consultation between the Accountant and the Programme Officer, any necessary action such as budget modifications or tightening of expenditures is determined. In the event a budget modification is required, the Executive Director receives Form B along with a letter to the donor requesting a budget modification for her review, approval, and signature.

Upon donor approval, the Accounts and Programme Departments are informed as to the budget modification.

Under the proposed system, the Programme Officer is responsible for project implementation, including the authority and responsibility to hold expenses to the budget. Therefore, all Payment Vouchers, PIAs, TAFs and AOIRs that will charge expenses to projects must be signed by the Programme Manager. As the Purchasing System outlines, the Programme Manager will determine where in the programmatic budget the expense will be charged. The Payment Vouchers, PIAs, and TAFs ensure that only budgeted and approved expenses are reimbursed. As they reflect spending against approved expenses, TERS and AOIRs do not need to be approved by the Programme Manager. Only in the case of overexpenditure or non-budgeted item does the Programme Manager have to be consulted.

Periodic Financial Report
Form A

Area _____ Project _____
 Reporting Period _____ Project No. _____

I. EXPENSES

Description A	Amount Budgeted B	Spent this Period C	Spent to Date D	Budget Balance E
------------------	-------------------------	---------------------------	-----------------------	------------------------

TOTAL

II. INCOME

Type of Income A	Amount Budgeted B	Earned this Period C	Earned to Date D	Budget Balance E
------------------------	-------------------------	----------------------------	------------------------	------------------------

TOTAL

Prepared by: _____ Approved by: _____
 Date: _____ Date: _____

III. ANALYSIS

Expenses

1. Is spending more than anticipated in any line items?

Category	Line Item	Amount Budgeted	Spent to Date	Percent of Budget	Percent Over
----------	-----------	-----------------	---------------	-------------------	--------------

2. Is spending less than anticipated in any line items?

Category	Line Item	Amount Budgeted	Spent to Date	Percent of Budget	Percent Under
----------	-----------	-----------------	---------------	-------------------	---------------

3. How do expenditures for the project relate to the level of project implementation?

4. Why is the project over or under spending?

6. Given the above analysis, what line items will need to be realigned and by how much?

Category	Line Item	Amount Budgeted	Budget Increase	Realignments Decrease	Proposed Budget
----------	-----------	-----------------	-----------------	-----------------------	-----------------

7. What can be done if anything to keep expenses within budget?

8. What action do you recommend taken vis-a-vis the donor? If appropriate, is the draft letter to donor attached?

Income

1. How does actual fundraising income compare to budget?

2. If it's lower than expected, how do you explain it? What can be done to improve it?

CASH FLOW PROJECTIONS

Introduction

The budget as outlined in the Work Programme/Budget outlines estimated income as well as budgeted expenses. It does not, however, indicate their timing. It is critical that FPAK be able to project funding requirements in order to ensure all financial obligations can be met when required. This manual outlines the steps necessary to meet planned financial obligations.

The ability to meet programmatic and administrative expenses as they arise during the year is critical to all organizations, including FPAK. Planning is the way in which these expenses are identified. Cash flow projections assist an organization in planning those expenses throughout the year in order to ensure adequate cash when required. It operates as an early warning system to pinpoint potential problems in cash flow early on in the year, giving management enough time to investigate possible solutions.

Cash flow projections involve both Programme and Accounts staff at the area and headquarters level. Input begins with the area programme staff. That input is sent to the headquarters Programme Manager who then passes a summary document to the Accounts Department.

Area Managers

After the Work Programme/Budget has been developed and approved by the Management Committee, an area-specific copy is sent to each Area Manager for each programme to be implemented in the area, including project support and general administration expenses. Based on this approved workplan and budget, the Area Officer will then, using his/her implementation plan and Worksheet A, estimate when during the year s/he will collect income and effect expenditures. A separate worksheet should be filled out for each project, including project support and general administration.

Income. In Column A of Section A, list and describe the income to be generated from the project during the year. Column B will then list the total income from each item, as outlined in the programme plan.

After entering the total income in Column B, the Area Manager should be as conservative as possible in estimating the timing of

those receipts. Put down realistic assessments. Indicate the amount to be received in each month; the sums of Columns C through N should equal Column B.

Area Managers should note that not all projects will generate income. In that case, zero should be entered.

Expenses. Enter a description of the expenses in Column A of Section B. In Column B, for each line item, enter the total amount budgeted for the year. This annual figure should then be distributed in Columns C through N, indicating in which month(s) the expenses will be made. Consult the work plans to determine timing of staff travel, training courses, clinical sessions, etc. You should note that some expenses such as agricultural shows and exhibitions will have definite, relatively inflexible timing. Timing of other expenses are more flexible. While there are a large number of expenses that are made directly by Nairobi on behalf of the area offices, these expenses should be included in this worksheet as well, but should be clearly indicated as Nairobi-made. While they are expenses, they do not involve advances made to the areas.

After this information has been entered, the Area Manager should go through and review the work again against the work plans to ensure that the timing of the expenses is correct and appropriate. If so, add up the totals for each month and enter those figures at the end of Section B, line 2. This represents the amount of cash required to implement program activities during each month.

Programme Officers

After completion of the worksheets, Area Managers submit them to the Programme Manager who then distributes them to the appropriate Programme Officer who is now responsible for:

- 1) consolidating the worksheets for his/her project and
- 2) completing a separate worksheet for headquarters-made expenses, including salaries and fringe benefits.

After reviewing the eight area worksheets and the headquarters worksheets for arithmetic, the Programme Officer should consolidate those figures into one Summary Worksheet, Worksheet B. This summary worksheet is broken down by area and lists the total budget controlled by each location, not specific line items budgeted. It may be useful to also separate expenses by summary budget categories, such as salaries, fringe benefits, travel and per diem, etc. Headquarter expenses entered by the area offices should be separated from those disbursed in the area and included with other headquarter expenses in a separate worksheet.

Accounts Department

After completion of the summary worksheets by project, the Programme Officers then pass the sheets to the Accountant or his designate who is now responsible for calculating the headquarters cash position and consolidating these figures by donor account. The Accounts Department should prepare Worksheet A for general administrative expenses and in conjunction with the Programme Manager, project support expenses.

Headquarters cash position. The figures listed in Worksheet B include income earned in the area offices and expenses made both in headquarters and in the area offices. It is critical to remember that expenses made in the area offices must be covered by funds advanced to them by headquarters, usually the previous month. Similarly, cash income in the area offices is generally not cash to headquarters until the following month. Based on these advances to and lags from the area offices, a revised summary report must be prepared that adjusts income and expenses as they impact on the headquarters cash position.

Using Worksheet C, for each project, income should be entered in the month in which it will arrive in the headquarters bank account. In most cases, a month lag is appropriate; an analysis of the history of each area office will indicate the appropriate lag. Remember, this worksheet represents a conservative estimate of income. Similarly, expenses should be entered in the month in which they will be advanced to the area offices.

At the end of this exercise, three worksheets will have been completed for each project

- A. for each project and area office--in detail, listing income and expenses in the month in which they actually occur
- B. for each project--in summary, listing consolidated income and expenses for each area office and headquarters in the month in which they actually occur
- C. for each project--in summary, listing consolidated income and expenses in the month in which funds are received by or advanced from headquarters

After reviewing all worksheets and checking the arithmetic against the approved budget, the Accounts Department can, using Worksheet D, now put together consolidated worksheets for each donor account. After computerization, this worksheet as well as the others can be placed on Lotus 123. In the meanwhile, the worksheet can be prepared on standard accounting paper. All entries should be made in pencil to facilitate changes. A worksheet should be prepared for each donor (restricted funds) and for unrestricted funds. It should be noted that if expenses are to be paid for out of funds generated from an overhead figure provided by the grant, these would also be considered as unrestricted.

For each donor account, in Section A, Column C, enter the amount of cash in the account on the first day of the fiscal year, January 1. This could be either positive, negative or zero in the case of new grants. This line represents the amount of cash available to that account at the beginning of the project period.

For month one, add line 1 of Column C to line 2, total receipts for the month, and enter that amount in line 3. This line represents the amount of cash available during the month. Subtract line 4, total expenses for the month, from line 3 and enter that figure in line 5. This figure is the amount of cash available at the end of the month, after paying projected expenses of that month. This amount can be either positive or negative. That amount should be entered on line 1 (Section A) of Column D, representing the cash available to the project for the following month (February). The same calculations should be completed for the remaining months, entering the ending cash balance for the month as the opening cash balance for the following month.

Cash Flows

After generated income and projected expenses have been entered into the worksheets, estimated receipt of donor funds can be entered and the cash position for each month can be recalculated. Potential problem areas can be determined and any required changes in the implementation plans can be made at this point.

As the year progresses, these planned figures can be replaced with actual income and expenses. Remember, that when filling in the actual figures, information from the Headquarter's Cash Receipts and Disbursements Journals should be used. We are not talking about income or expenses in the area offices but actual cash receipts to or disbursements from the headquarter's bank accounts.

As actual expenses and income replace the planned figures during the year, the Accountant has the information required to ensure adequate cash to cover operating expenses and can plan for remedial action if required.

WORKSHEET A
CASH FLOW PROJECTIONS

Project Name: _____ Project No.: _____ Area: _____

Description A	Total B	Jan C	Feb D	March E	April F	May G	June H	July I	Aug J	Sep K	Oct L	Nov M	Dec N
------------------	------------	----------	----------	------------	------------	----------	-----------	-----------	----------	----------	----------	----------	----------

Section A
Income

(1) TOTAL INCOME

Section B
Expenses

(2) TOTAL EXPENSES

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WORKSHEET B
CONSOLIDATED CASH FLOW PROJECTIONS

Project Name: _____ Project No.: _____

Description A	Total B	Jan C	Feb D	March E	April F	May G	June H	July I	Aug J	Sep K	Oct L	Nov M	Dec N
------------------	------------	----------	----------	------------	------------	----------	-----------	-----------	----------	----------	----------	----------	----------

Section A
Income (by area)

(1) TOTAL INCOME

Section B
Expenses (by area)

(2) TOTAL EXPENSES

df

WORKSHEET C
 CONSOLIDATED CASH FLOW PROJECTIONS
 INFLOWS AND OUTFLOWS OF HEADQUARTERS

Project Name: _____ Project No.: _____

Description A	Total B	Jan C	Feb D	March E	April F	May G	June H	July I	Aug J	Sep K	Oct L	Nov M	Dec N
------------------	------------	----------	----------	------------	------------	----------	-----------	-----------	----------	----------	----------	----------	----------

Section A
Income (by area)

(1) TOTAL INCOME

Section B
Expenses (by area)

(2) TOTAL EXPENSES

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WORKSHEET D
 CONSOLIDATED CASH FLOW PROJECTIONS
 HEADQUARTERS CASH POSITION

Donor: _____

Description A	Total B	Jan C	Feb D	March E	April F	May G	June H	July I	Aug J	Sep K	Oct L	Nov M	Dec N
Section A													
(1) Cash on hand at beginning of period		---	---	---	---	---	---	---	---	---	---	---	---
Section B													
Income (by project and area)													
(2) TOTAL INCOME		---	---	---	---	---	---	---	---	---	---	---	---
(3) Total cash available for month		---	---	---	---	---	---	---	---	---	---	---	---
Section C													
Expenses (by project and area)													
(4) TOTAL EXPENSES		---	---	---	---	---	---	---	---	---	---	---	---
(5) Cash on hand at end of period		---	---	---	---	---	---	---	---	---	---	---	---

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PROPOSED PROCUREMENT SYSTEM

With a few minor suggestions, the present procurement system appears to work adequately and efficiently. Generally, procurement is centralized at headquarters, with area offices having little authority to purchase items other than vehicle spare parts and small items out of petty cash. This appears to provide few logistical problems at the area level and given the other management issues that face FPAK at the present time, the consultant does not recommend decentralization of purchasing activities.

There are twelve steps in the procurement system. Each one is described below. Suggested forms are attached as noted.

1. Staff member completes Part A of the Purchase Requisition (Form A) and submits it to the Programme Manager who reviews it against the budget and approves or disapproves it.
2. For large purchases, over a specific amount (perhaps US\$ 1000), the Purchase Requisition is then submitted to a standing committee composed of the Finance and Administration Manager, the Supplies Officer, and two Programme Officers. The committee discusses, reviews, and approves or disapproves the requisition.
3. The Purchase Requisition then goes to the Supplies Officer who reviews the request against the budget balance for items requested. If there are sufficient funds in the budget, the Supplies Officer approves the request and then goes out to get bids for each item requested. The Supplies Officer uses a Request for Quotations (Form B) to solicit bids. S/he then completes Part B of the Purchase Requisition. After completion, the Purchase Requisition is approved by the Finance and Administration Manager for the Executive Director.
4. The approved Purchase Requisition is then presented to the Accountant for review. After confirming funds availability, a Purchase Order (Form C) is prepared and approved by the Accountant.
5. After the Purchase Order is approved, it is sent to the Supplies Officer to arrange for purchase.
6. The supplier delivers the goods to FPAK with an invoice. The Supplies Officer checks the goods against the shipping notice and stamps the Invoice as received and prepares a

Goods Received Note (Form D). These two documents along with the Purchase Order are sent to the Accounts Department for payment.

7. The Accounts Payable Clerk checks the invoice against the Purchase Order and the statement of account with that supplier and prepares a Payment Voucher (Form E). The Payment Voucher along with the Goods Received Note, Purchase Order, stamped invoice, and any other documentation are submitted to the Accountant.
8. The Accountant reviews and approves the payment.
9. A check is prepared. The check and the Payment Voucher are submitted to the Finance and Administration Manager.
10. The Finance and Administration Manager authorizes the release of the check, signs the check, and submits both Payment Voucher and check to the Executive Director.
11. The Executive Director signs the check and submits both Payment Voucher and check to two board members for their signature.
12. The check is entered in the Check Register and the check is mailed out to the supplier along with a copy of the Payment Voucher.

FAMILY PLANNING ASSOCIATION OF KENYA
PO BOX 30581 NAIROBI

FORM A
PURCHASE REQUISITION

Part A: To be filled out by requesting individual;

Submitted by: _____ Department: _____
Date: _____ Project Name: _____
Approved by: _____ Project No.: _____
Area(s): _____
Justification for Purchase: _____

Are there sufficient funds in the budget? Yes ___ No ___ If
not, where have you realized actual savings that can be used to
cover these expenditures? _____

Items Requested:

Quantity Description

Part B: To be filled in by the Supplies Officer:
Items to be Purchased:

Quantity Unit Total Account
Requested Approved Description Price Cost Charged

TOTAL

Funds Availability:

Description	Amount Budgeted	Committed/Spent to Date	Budget Balance	Amount Requested
-------------	-----------------	-------------------------	----------------	------------------

TOTAL

Approved: _____ Date: _____
Supplies Officer

Approved: _____ Date: _____
Manager, F & A

For purchases over US\$ 1000:

Approved: _____ Date: _____
Procurement Committee

Bids attached? Yes ___ No ___ If not, why not? _____

Supplier Name: _____
Supplier Address: _____
Supplier Phone: _____
Purchase Order No.: _____ Date: _____

FORM E

FAMILY PLANNING ASSOCIATION OF KENYA

PAYEE VOUCHER

No. 000000

PAYEE		CREDITOR (EMPLOYEE P.D.)		
DESCRIPTION	AMOUNT	CODES	SH	CTS
	4 1/2 ⁰⁰	1 ⁰⁰	1 ⁰⁰	100
DONOR NO.		PAID BY CHECK TRANSFER DRAFT NC		
APPROVED BY		AUTHORIZED BY		
FA. A.C.		DATE		
PREPARED BY	CHECKED	BATCH	POSTED	
DATE	DATE		DATE	DATE
		FAM A.M.		

350/-

1/2⁰⁰

5⁰⁰

3⁰⁰

Same.

Original - given
L. B. M.
10/10/70
S. M. M.

Proposed new format--prepared by
FPAK Accountant.

MANAGEMENT INFORMATION SYSTEM

Providing timely and appropriate information to organization decision-makers is the purpose of a management information system (MIS). This chapter will present the kinds of information that are required by programme staff in order to make decisions and successfully implement programme activities. Suggested formats will be presented as appropriate. While this section is primarily interested in financial information, a suggestion is also made for the provision of programmatic information as well.

Financial Information

Weekly

Headquarters Checking Account Balances. Every Monday morning, a bank statement should be prepared that outlines the funds available in the donor accounts. This statement takes into account those funds in the pipeline--that is, accounts receivable and accounts payable that will hit the checking accounts that week. Purchase Orders and Payment Vouchers for which checks will be prepared that week should also be included. Form A presents a sample format for this report.

Distribution: Executive Director
Finance and Administration Manager

Area Office Checking Account Balance. A similar report is prepared in the area offices.

Distribution: Area Manager

Monthly

Monthly Financial Report of Project Expenses. In order to ensure successful implementation of programme activities and to ensure that projects adhere to their approved budgets, programme staff need up-to-date, timely financial information on those projects. With the proposed budget monitoring system, programme staff have increased authority and responsibility for adherence to the approved budget. To meet this responsibility, they need access to financial information in an appropriate format. Presently, a monthly trial balance is prepared by the Accounts Department that contains the required information. It is not, however, prepared in a format that permits its use as a programme planning tool. The format needs to be changed and the information needs to be

disaggregated at the area level. A suggested format has been presented in the chapter on "Budget Monitoring." Consolidated reports for each project should also be distributed to headquarters programme staff.

Distribution: Executive Director
Finance and Administration Manager
Programme Manager
Programme Officers
Area Managers

Status of Donor Funding. The WP/B outlines planned programmes that have been approved by the WPAK Board of Directors. Some of them have funding already secured but others are pending approval by donors. This monthly report should indicate where each project is as it moves through the pipeline--from submission to donors up to receipt of funds. Proposal submission dates, approval dates, and estimated start dates should all be indicated. The report should be able to inform programme staff as to the approximate date of availability of funds for the implementation of project activities. This is critical; in order to plan for the implementation of approved projects, Area Managers must know whether projects are approved, when they will start, whether funds have been received, and when those funds will be available.

Distribution: Executive Director
Finance and Administration Manager
Programme Manager
Programme Officers
Area Managers

Funds Availability. To The Accounts Department might consider preparing a monthly report that confirms the availability of funds to meet planned project expenses for the next three months. Form B controls this information. Filling in a separate report for each donor, Column A lists the project names or numbers. In Column B, D, and F are entered the planned expenses for the following three months; these figures are taken from the Cash Flow Projections Report. The Accounts Department, after completing an assessment of their cash position, indicates the funds available for project activities during the months planned and enters that information in Columns C, E, and G. Upon receipt of this report, the Programme Department is responsible for prioritizing the use of available funds in the event of deficits. They are also responsible for informing area offices when funds will not be available. The consultant recommends that this monthly report be considered only if cash flow problems persist after the implementation of the Cash Flow Projection System. If that system is working adequately, this report will not be necessary.

Distribution: Executive Director
Finance and Administration Manager
Programme Manager
Programme Officers

Quarterly

Reconciliation of Advances. Under the systems presented in this document, Area Managers will receive quarterly reconciliations of AOIRs, TERs, and PERs. These should be prepared by the Accounts Department and sent to the Area Managers by the end of the month following the quarter. After reviewing them, they should be signed and one copy returned to headquarters. Any disagreements should be raised upon receipt of the report, before signing off on the respective reconciliations. The chapters on "Control of Staff Travel," "Control of Area Office Imprest," and "Control of Project Implementation Advances" describe these systems in detail.

Programmatic Information

While it was not within the scope of this consultancy to design a system that would collect and analyze programmatic information, programme staff did make several suggestions on the kinds of programmatic information that they need on a periodic basis.

In addition to statistical reports on programme activities that are prepared by the areas at present, programme staff has suggested that narrative reports would be an important complement to that information. This information would begin with reports from field staff. Attached to the the monthly report on service statistics, would be a narrative report that discusses achievements, obstacles to project implementation, and identification of solutions prepared by the field staff. This monthly report (Form C) would be read and analyzed by the Area Manager or his/her designate. A similar summary report would be prepared and sent to Manager the appropriate Programme Officer in headquarters. This format is to be considered a draft; programme staff should evaluate the kind of report that will assist them in the analysis of programme implementation; the report should provide information necessary to improve programme implementation, provide technical assistance to both area offices and their field staff, and to address problems as they come up before they threaten programme success.

FUNDS AVAILABILITY
Form A

Donor : _____ Date: _____

Prepared by: _____

Checking Account Balance _____

(1) Plus Projected Deposits for This Week:

Received but undeposited donor checks _____
Received but undeposited area collections _____
Projected area collection deposits _____
Projected donor checks _____

(2) TOTAL PROJECTED DEPOSITS FOR THIS WEEK _____

(3) TOTAL FUNDS AVAILABLE IN BANK _____

Less Projected Payments for This Week:

Checks prepared waiting signature _____
Vendor payment vouchers pending _____
AOIR payments pending _____
PIA payments pending _____
PER payments pending _____
TAF payments pending _____
TER payments pending _____
Salaries pending _____
Other: _____

(4) TOTAL PROJECTED PAYMENTS FOR THIS WEEK _____

(5) AVAILABLE FUNDS (line 3 less line 4) _____

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**Funds Availability Report
Form B**

Donor: _____ Date of Report: _____
Report Period: _____ Prepared by: _____

Project	Month:		Month:		Month:	
	Planned	Available	Planned	Available	Planned	Available
A	B	C	D	E	F	G

TOTAL

Monthly Programme Report
Form C

Name _____ Position _____
Area Office _____ Report Period _____
Project Name _____ Project Number _____

What successes did you have during the month in the implementation of project activities?

What problems did you encounter in the implementation of your planned activities?

What can be done to address these problems?

INVENTORY CONTROL SYSTEM

Inventory management is the maintenance of optimal levels of inventory at all program levels in order to meet client demand for contraceptives. An inventory control system is the major component in the overall organizational inventory management system and ensures that commodities are controlled and disbursed to area offices as required to ensure non-interrupted supplies.

The current system is generally excellent and provides tight physical control over contraceptives, supplies, and equipment. This manual serves to provide documentation for the inventory control system as well as present a number of recommendations for improved programme management of contraceptives and office and clinic supplies.

Physical Security of Contraceptives and Equipment

In the three area offices visited, as well as in headquarters, contraceptives were stored in separate, locked areas. Storage bins were above ground and in most cases well-ventilated. In headquarters, contraceptives were stored separately by donor within the same locked area. In all areas, FIFO (first in-first out) is used; new contraceptives are not taken out of shipping boxes until the older ones are used.

Undistributed equipment in headquarters is kept in a separate locked storage room. For the most part, equipment is assigned an identification number which is painted on the item. Issuance of equipment and vehicles to staff and area offices is carefully controlled through Kardex. See Form A. This is verified at the end of the year by physical inspection.

Insurance at the replacement value has been taken out on all equipment and vehicles.

Procurement

As stated elsewhere, with the exception of small purchases made out of petty cash in the area offices, purchasing is centralized in headquarters. This works adequately and does not interfere with the efficient operation of area activities. The consultant does not recommend that additional purchasing authority be given to the area offices.

Distribution System

Distribution of contraceptives, supplies, and equipment is provided under the Pull System--area offices request supplies at the same time they submit their monthly inventory reports. These requests and disbursements are made through three documents. The area offices order stocks through an Order Form (Form B), which is completed in detail and submitted to headquarters. This is reviewed by the Supplies Officer against the Monthly Stock Return (Form D), which indicates balance on hand and monthly consumption. Items are generally issued within a month according to area offices, using an Issues Voucher/Receiving Voucher (Form C). Two copies of this form, prepared in triplicate, are sent to the area office which then acknowledges receipt by signing one copy, and sending it back back to headquarters, retaining the other copy for area records.

In the area offices, issuance and receipt of commodities is recorded using the Monthly Stock Return (Form D). During the month, as the Area or Clinic Clerk distributes contraceptives to the static and mobile clinics, s/he enters the appropriate information on this form; a separate form is maintained for each item carried in inventory. The opening balance for each item is entered. Completed in duplicate, the Clerk indicates the date, quantities received, quantities disbursed and name of recipient. At the end of the month, the Clerk compares the ending inventory against the physical inventory. Any surpluses and/or shortages are so noted on the form. The original of each form is sent to headquarters, with a copy kept in the area office. The ending balance for that month is then entered as the opening balance for the following month. These forms are kept up to date by the area offices, and in the spot tests made by the consultant correspond to actual inventory.

While the consultant could not verify this with empirical data, the major complaint from the field is that they do not always receive the quantity of contraceptives that they order, causing them to run out of stock.

The present system could be improved by standardizing the reorder process governing requests from the field offices through the introduction of several new concepts. The establishment of minimum and maximum inventory levels and reorder points would ensure that area offices do not run out of contraceptives or supplies under normal circumstances. This would standardize the reordering process and help alleviate problems resulting from inappropriate shipments.

It is highly recommended that the Programme Manager and the Supplies Officer work jointly to calculate these figures, establishing these points based on the actual consumption of the area offices, service targets and workplans, and delivery track records. Contraceptive supply is a programmatic-related activity and just as in the finances of the area offices, the participation of headquarters programme staff can only enhance and strengthen area operations.

The appropriate stock level is one which maintains inventory at a level to insure continuous availability of contraceptives even in the face of delivery delays and/or unexpected high demand. The stock level is determined as a range between minimum and maximum supply levels. This range can be described in terms of months' supply or number of items. The calculations of these concepts are presented below.

Minimum Month's Supply This is the lowest point that an area office's supplies should reach at any point in time, expressed in terms of months of supplies. This point is calculated by adding the number of months between the time the area office makes the order and when the stock arrives in the area office (i.e. delivery time) plus a safety margin to meet higher than expected demand. It is the number of months of contraceptives required that will ensure that after ordering, an area office will have adequate supply until the delivery arrives, taking into account delivery time and any possible increase in demand. For example, if it has taken up to two months to deliver items to an area office, that amount of time would be taken into account; after ordering, the area office would need another two months of contraceptives before that order arrived. In addition, during that two month period, demand may be higher than usual. The area office should look at the demand swings and determine how much demand may rise over the average monthly consumption figures. For example, if demand is frequently up to double that of the average figure, the safety stock would be another two months of commodities: an additional month for each month of delivery time. In this example, the minimum month's supply of contraceptives and/or supplies would be four months.

This point can be expressed in a formula:

No. of months between order and delivery	No. of months of of buffer stock	Minimum months' supply
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Minimum Quantity Minimum quantity is the actual number of units represented by the minimum month's supply. When stocks reach this point, it is time to reorder. This point is, therefore, also called the reorder point. For example, if an area office uses 40 85mm diaphragms a month, the minimum quantity would be four months times 40 units used a month or 160 units.

Each area office will have a unique Minimum Month's Supply Point, based on its own experience. For example, the delivery time for the Nairobi Area Office will be lower than that of Eldoret because of its relative proximity to headquarters. For each area office, each item in the inventory will have its own unique Minimum Quantity.

Reorder Interval This is the frequency with which orders are planned. At present, FPAK area offices generally order supplies monthly. It should be noted that contraceptives and other high

volume items such as clinic supplies can be on a monthly reorder interval while other low volume items such as pencils, stationary can be given higher reorder intervals.

Before determining the maximum month's quantity, it is necessary to determine the planned frequency of reorders or the reorder interval. It is recommended that whenever any item reaches the minimum month's level, an order be placed that would bring all commodities to the maximum month's level. For example, if condoms had reached the minimum month's level, the clerk would order enough condoms to bring it to the maximum level. For other items that had not reached their minimum level, the clerk should determine the order size that would raise those levels to the maximum quantity. Other items on a different delivery schedule can be ordered during the month in which they reach the minimum quantity level.

While at present FPAK has a monthly reorder process, the organization might consider increasing the reorder interval to two (or even three) months. The area offices could then be put on an alternating schedule so that generally the shipments are spread out throughout the year. Every other (or every three months), an area office would order contraceptives and supplies to bring their supplies up to the maximum month's level. If FPAK desires to ship quarterly, the difference should be three months. Individual shipments made will then be higher than those made on a monthly basis. FPAK should evaluate the trade off between shipping costs and the cost and possibility of maintaining higher inventories in the area offices.

Maximum Month's Supply This is the number of month's supply above which inventory levels should not rise under normal circumstances. Routine stock orders will bring inventory up to this point. Maximum month's supply is determined by adding the reorder interval to the minimum month's supply. That is, if area offices order every month, the maximum months' supply is the minimum month's supply plus one month; or in the above example of the 85mm diaphragms, the maximum month's supply would be five months.

This point can be expressed in a formula:

Minimum months' supply	Reorder Interval	Maximum months' supply
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Maximum Quantity This is the actual quantity of items represented by the maximum month's supply. This is calculated by multiplying the average projected monthly demand by the number of months. For 85mm diaphragms, it would be 200 units, or 40 units (average monthly demand) multiplied by five months.

In order to establish the maximum and minimum quantities, average monthly demand must be projected for the future. For example, if an area office has been distributing condoms in a steadily

growing programme, the rate of growth should be calculated for the past six months and a future growth rate calculated based on programme projections. Therefore, if demand is increasing by ten per cent a year, the monthly demand should be the average monthly use calculated over the past six months increased by ten per cent. If the average demand for the last six months was 800 condoms a month, the monthly demand for the next year should be estimated at 880, 800 plus ten per cent. Using the above example, the minimum quantity would be 2200 condoms (four months times average projected demand of 880/month). The maximum quantity would be 2780 condoms (five months time average projected demand of 880/month).

Throughout the year, the Programme Manager and Supplies Officer should review the consumption patterns of the area offices to change, if necessary, the minimum and maximum months' quantity.

Stock Taking

As described above, a physical inventory is completed monthly in the area offices. In addition, at the end of the year, the Supplies Officer makes a physical verification of stock at all area offices as well as in headquarters in order:

1. to verify the stock records against the physical items in stock
2. to ensure that security and cleanliness standards are upheld, and
3. to ensure that no expired contraceptives are included in the inventory.

A memo is written to the Finance and Administration Manager outlining any action required.

Programmatic Aspects of Inventory Control

Cost per Acceptor: It is critical both for the organization as a whole as it moves towards self-sufficiency and for AVSC-funded programmes that Programme Officers and Area Officers know how much it costs to provide services. Each programme has a budget that supports the implementation of planned activities. Dividing total costs by the number of acceptors gives a rough idea of the cost of service delivery. In order to obtain a more accurate picture, it is critical to not only make that analysis more rigorous but to include the cost of contraceptives in that calculation, whether FPAK pays for those contraceptives or not.

Form E provides a means of obtaining the information to calculate cost per user (CYP). This sheet would be filled out in the area offices on a monthly basis for each programme. Business Planning, a manual developed by Management Development International and presented to the Executive Director, presents a methodology for calculating cost per acceptor.

AREA OFFICE ORDER FORM
FORM B

ORDER NOV 1987

SO 82

10-11-1987

From AREA PROGRAMME OFFICER
P.O. BOX 454 KAKAMEGA

To EXECUTIVE DIRECTOR
P.O. BOX 30581 NAIROBI

PLEASE SUPPLY ATT. SUPPLIES OFFICER
(QUOTING OUR ORDER NUMBER ON INVOICES Etc.)

Cotton wool	—	10	—	5
Disposable Needles 1/2"	—	2000		
Disposable Syringes 2 1/2"	—	100	0	
Disposable Gloves Medium	—	100	0	500
Sanitary Pads	—	30	—	10
Lignocaine Plain 1% 10ml	—	200	—	20
Surgical Gloves 7 1/2"	—	500	—	mic
Savlon lotion	—	25	litres	
Gauze roll	—	10	—	5
Surgical Spirit	—	10	litres	5
Methylated Spirit	—	10	litres	5
Intravenous fluids M/S	—	4	—	1
Intravenous fluid Dextrose 5%	—	4	—	1
Curing sets 1 1/2 fluids	—	10	—	20
Hibitane lotion	—	1	bottle	—
Monthly Stock Return	—	5	4	
First Visit Cards	—	500	—	500
Follow up cards	—	500	—	500

SIGNED for *Obbo* Area Programme Officer
Kakamega

COST PER USER CALCULATIONS
FORM E

Period _____ Continuing User _____ (1)
 Total Expenses _____ (2)

Section 1

Expenditure (a)	Total Cost (b)	Estimated Life (c)	Annual Charge (d)
Equipment			
Training			
Other:			
TOTAL			

Subtract: total Column B		(3)
Add: yearly depreciation charge: Column D		(4)
Add: other depreciation charges		(5)
TOTAL EXPENSES 2 - 3 + 4 + 5		(6)

Section 2

Contraceptive Method (a)	No. Users (b)	Contraceptives Issued (c)	Per Unit Cost (d)	Total Cost (e)
TOTAL				
Add: Total Contraceptive Cost: Total Column E				(7)
TOTAL OPERATING COSTS: 6 + 7				(8)
TOTAL COST PER USER 8 - 1				(9)

USAID DISBURSEMENTS TO FPAK

The consultant was requested by USAID/K to investigate and recommend a proposed disbursement schedule for a new USAID grant. After speaking with FPAK staff and evaluating the financial control and management systems of both headquarters and the area offices, the consultant presents two alternatives, both of which are acceptable to FPAK.

1. 120 day advance with quarterly financial reports and disbursements

The easiest means of disbursing to FPAK is to provide the organization with an advance equal to 120 days of expenses, based on the Cash Flow Projections Report presented elsewhere in this document. Subsequent disbursements would then be based on submission of quarterly reports of actual expenditures. Subsequent disbursements would return the cash advance to that equal to 120 days of expenses. With the systems and procedures presented in this report, FPAK will be able to present a financial report to USAID within fifteen days of the close of the month.

Advantages:

This alternative minimizes administrative burdens on USAID/K. During the year, they will prepare three or four checks and review four financial reports.

Quarterly disbursements insure FPAK of adequate programme funding. In the case of any delays in funds, FPAK will have time to re-examine the implementation time-tables and re-schedule programme activities.

Quarterly disbursements are in line with the current practices of other FPAK donors.

Quarterly disbursements are less costly to FPAK in that ledger fees and check cashing fees are charged against only three or four checks rather than twelve.

Disadvantages:

Under current regulations, the US Government is hesitant to advance expenses for this long a period of time. This carrying cost could be minimized by requesting FPAK to place any excess funds into an interest bearing account; those funds could then be returned to the US Treasury. FPAK has expressed its willingness to do this. There are no disadvantages to FPAK of this alternative.

2. Monthly advances with quarterly reports

USAID could provide FPAK with an initial advance equal to sixty days of expenses based on the Cash Flow Projections Report and then provide monthly advances of projected expenses. Quarterly reconciliations could then be done against quarterly financial reports.

Advantages:

In this alternative, the US Treasury is advancing funds one month at a time, with a two month initial advance, minimizing the cash balance outstanding.

With monthly advances, based on a Cash Flow Projections Report, FPAK has reasonable assurance of adequate funds to support operations.

Disadvantages:

There is more work involved on the part of USAID/K. During the year, they will review twelve requests for funding, prepare twelve checks, and review four financial reports.

In addition, if there is any deviation from the budget or if the USAID check is late, FPAK may find itself without funds.

While FPAK prefers the first alternative, either alternative is acceptable. Whatever disbursement schedule is adopted, it is critical to realize that FPAK advances area offices, where most expenses occur, up to two months of expenses. This results in a time lag of more than two months between disbursement of funds to the area offices and reporting of actual expenses. Because the organization will submit their requests for advances based on their cash requirements but will report against actual expenditures, a revolving advance of no less than sixty days is required. Whatever disbursement schedule is adopted, it should ensure that FPAK has an advance that takes this into account.

CHAPTER 4

GENERAL COMMENTS AND RECOMMENDATIONS

This chapter addresses several areas that were included in the scope of work. The chapter begins with a section on the computerization of the FPAK accounting system. The following sections discuss several ways in which area office management can be strengthened. Required changes in the accounting systems are presented. General recommendations on the Accounts Department and its staff are discussed. Finally, a scope of work for a local accounting firm is presented.

COMPUTERIZATION OF THE FPAK ACCOUNTING SYSTEM

While it was beyond the scope of this consultancy to design the hardware and software specifications of the computerization of the accounting department, several recommendations and observations can be made.

FPAK has budgeted K Shs. 2,363,710 (US\$ 139,041) for the fiscal year 1988 budget to purchase hardware and software, hire computer consultants, and train staff in the use of these computers. It is critical that a coordinated plan be developed for the computerization process, including accounting and inventory control functions. This chapter presents several recommendations for FPAK as they enter this process.

Hardware and Software

1. FPAK has the choice of either developing an in-house capability or using a service bureau for their accounting system. The consultant suggests that, while local bureau resources seem to be adequate and skilled, FPAK develop their own in-house capability for a number of reasons.
 - a. They have adequate financial resources to do it well.
 - b. An in-house system gives them considerably more flexibility in the provision of special reports.
 - c. Given the size of the organization, it is cost-effective to develop the internal capability, especially in view of the fact that the budget is increasing over time.

To support this commitment, USAID has agreed that the computer to be purchased under the CBD grant be made available to the Accounts Department.

2. While the budget calls for three computers and one word processing machine, FPAK should purchase four computers of the same model. It is recommended that four IBM AT's or AT compatibles, at least two with 20 megabyte hard disks, be purchased. Hard disks are essential for the accounting and programme management functions that are planned. It is important that these machines be compatible so that software can be used interchangeably on the machines and operators can move from machine to machine without difficulty.
3. The machines should be IBM compatible in order to take advantage of the wide variety of software in that language. The USAID Mission has at least one Wang with an IBM board if interfacing with the Mission is required.
4. Before purchasing a particular make of computer, with the assistance of IPPF, FPAK should investigate the local computer market to determine what kinds of service contracts are available. IBM operates in Kenya and there appears to be adequate post-service support for IBM computers. While IBM clones are cheaper and of equal quality, if there is no service available for those machines, it may be neither wise nor cost-effective to buy them.
5. Related to the above point is the availability of staff training on the use of the software packages. There are a wide variety of word processing, spread sheet, and data base systems available, but it would be wise to investigate the capability of local organization to train FPAK staff in those programmes. Software is only as powerful and useful as the knowledge of the individuals using those programmes.
6. While at least one local computer consulting company has offered to design an accounting system from scratch, the consultant recommends that FPAK, with the assistance of IPPF/London or this consultant, purchase an off the shelf fund accounting package for less than \$US 2 000 (KShs. 32,000). FPAK will need to obtain a package that includes a general ledger, accounts payable, payroll, and report writing capability. A local firm can then assist FPAK in programme writing to fine tune the accounting package to their specific needs.
7. At a minimum, the consultant recommends that FPAK purchase four software packages: word processing, data base management, spreadsheet, and fund accounting. These four packages are critical to computerize the programme management and accounting functions.

Changes in the Accounting System

As stated elsewhere in this report, there are several areas in which the accounting system needs alterations in order to prepare for computerization. It is recommended that a local accounting firm work with FPAK in order to implement these changes before the system is computerized. This section summarizes those changes.

1. The chart of accounts must be standardized. At present, the expense codes are not consistent between projects.
2. The "IPPF Cash Receipts Book" needs to be modified to include only that cash deposited in the main IPPF checking account. At present, in addition to actual cash receipts into the IPPF bank account, it also includes cash in the area offices and cash on deposit with the area-level collection accounts.
3. While Journal Vouchers are used at the present time, with computerization their use can be amplified. At present, Subsidiary Journals are used as the basis for entry into the ledger. With the computerization of the accounting system, Journal Vouchers can be used as originating documentation, streamlining the system considerably.
4. Income needs to be recorded in the month that the Area Income Reports are received, not in the month that the income is received by the area offices. The month should be closed on the 5th at the latest; headquarters should not wait until the last Income Report is received.
5. Send one check to the area offices for expenses for all donors. Adjustments should be made by journal entry in the Accounts Department. That has not worked in the past but with the strength of the new systems as well as with computerization, journal entries through an Accounts Receivable Account for each donor should provide adequate control. Checks are expensive as the local banks charge relatively large fees for each up-country check cleared. By sending one check instead of three, the monthly bank charges paid by area offices will drop significantly.

Time Table for Implementation

FPAK should aim to be fully computerized in the accounting section by fiscal year 1989. In 1988, they should aim to have a system up by July 1 so that they can run parallel systems for six months. The activities below are based on that goal.

1. Establish information needs for computerized system--both financial and programmatic. This process has begun and is discussed in detail throughout this report, especially in the chapter on Management Information Systems.

2. Develop specific forms for the output reports and data input.
3. Determine what kinds of post-service support is available for hardware.

Determine whether to go with IBM or with clones, based on that information.

STRENGTHENING OF AREA OFFICES

Area personnel interviewed by the consultant were motivated, intelligent, and anxious to do their jobs well. The consultant identified five areas which can be addressed that would result in the strengthening of area office management, a rise in staff productivity and improvement in programme implementation: timely and appropriate financial information and feedback, programme resources and information, adequate training of area personnel, simple management tools, and reorganization of Area Clerk work. Many of the specific recommendations have been addressed in greater detail in other parts of this document; this section presents an overview of those recommendations.

Financial Information and Feedback

At the present time, area offices operate with little financial information and feedback. They operate without an approved area-specific budget, without information on the availability of funds to implement planned and approved activities, and without information on status of projects and donor funding. Until fairly recently, they had not received feedback on their advance accounts.

This document has presented various systems and procedures that address these areas and assist the area offices in managing their local operations more professionally. Under the present reorganization, Area Officers have been given more responsibility. The information required under this new structure changes. In order to plan and implement their programmes more effectively, in the future, Area Managers will require a wider variety of financial information in more detail. The section on "Management Information Systems" addresses this issue in detail and outlines the systems that will ensure that they receive the information they need, when they need it and in a format that is useful to them.

Programme Resources and Information

Area personnel requested materials and publications related to family planning programmes. The consultant recommends that FPAK assess the kinds of technical information that is available for distribution to Area Managers. The following represents an initial listing of possible materials:

1. Family Planning periodicals such as People and Family Planning Perspectives
 2. Monthly status report on donor funding
 3. Research publications and reference books on population issues, including specific information on Kenya (growth rate, fertility rates, etc.)
 4. Monthly FPAK newsletter (published on simple, inexpensive paper) with general information on such topics as:
 - programme successes
 - staff achievements
 - information on new staff or staff promotions
 - information on relationships with and projects done in conjunction with the government of Kenya
 - information on relationships with and project done in conjunction with donors
 - case studies of FPAK programmes
 - other FPAK news in general
- The publication could also serve as general means of educating FPAK staff and keeping them informed on such issues as recent legislation, FPAK fund raising, etc.

There are several benefits to providing staff with the aforementioned information. One, the provision of technical resources to programme staff will assist in their professional development. They will become more sophisticated and better informed decision makers and programme planners. Two, through the publication of an organizational newsletter, field staff will feel like members of a national team that is growing in size and complexity each year. Receiving periodic information from headquarters will reduce possible rumors and improve employee morale and productivity.

Training of Area Personnel

While it was beyond the scope of this consultancy to design training courses for FPAK staff, training was identified by staff as a critical need. All staff interviewed requested ongoing training in their areas of expertise. This section will address management-related areas only. The consultant recommends that a participatory methodology be used, especially for staff such as the Area Clerks. Training for these individuals must include a component that provides support in order to develop their self-confidence. The hiring of a Training Manager will facilitate this process.

The training needs identified by the consultant include the following:

Area Managers and Assistant Programme Officers:

Training for this group of individuals reflects the greater authority and responsibility given them under the systems presented in this document. Training is required to provide them with the skills they require to perform their tasks adequately:

Management by Objective (MBO)
Programme Planning
Budgeting
Cash Flow Projections
Budget Monitoring
Program Evaluation and Analysis
Staff Supervision

Area Clerks:

Area Clerks are responsible for all area-level bookkeeping functions. They manage check books, cash, and control and report expenses and income. These individuals, however, have not generally received higher education in bookkeeping. While the functions that they have do not require formal schooling in bookkeeping or administration, they do require minimal training in a number of financial areas:

Bookkeeping
Control of Petty Cash
Maintenance of Records and Bank Books
Control of Clinic Income and Maintenance of Income Records

The training for Area Clerks might involve three phases:

- 1) initial training of theoretical concepts and presentation of bookkeeping tools
- 2) quarterly field visits by Accounts Staff to answer questions, reinforce theoretical concepts, and assist them in solving problems
- 3) follow-up training six months later

Simple Management Tools

The development of simplified bookkeeping tools will also assist the Area Clerks in their bookkeeping functions. Simple bookkeeping forms were developed and presented to the Area Clerks when the consultant was in the field. Financial Manual for Grantees, a manual on single-entry accounting system developed by Management Development International for The Pathfinder Fund, was given to the Accountant. This manual, which lays out a simple single-entry accounting system appropriate for the control of area-level funds, should be distributed to the Area Clerks as a complement to the training described above. Recommended changes in the bookkeeping formats will make the work clearer and simpler, streamlining the work of the Area Clerks.

Reorganization of Area Clerk Work

Area Clerks complained that because they serve as the secretary to the Area Manager, with responsibilities for typing and reception, they didn't have enough time to complete their financial functions. The consultant believes that if the work is well organized, if simpler bookkeeping formats are used, and if adequate training is provided to the Area Clerks, that they can perform all their functions. In some cases, other area staff are underutilized and the Area Manager could utilize those individuals as necessary to assist the Area Clerk in reception and other minor clerical functions.

REQUIRED CHANGES IN THE ACCOUNTING SYSTEM

While the consultant did not have the time to address required changes in the accounting system in great detail, she did note several areas which require assistance. These areas are critical if FPAK is to implement the financial management and control systems presented elsewhere in this document and is going to computerize the accounting system as planned. As discussed later in this chapter, it is suggested that FPAK utilize the services of a local accounting firm to work with them to address these issues.

Use of Cash Receipts Book

Presently, the Cash Receipts Book is operated as an Income Journal. That is, when income is reported by the Area Offices in their Monthly Income Reports, whether that income is still in their office, in the local collection account, or with the Nairobi main account, it is counted as cash received and entered in the Cash Receipts Book. There are two problems that stem from this.

1. The books are not closed until the Accounts Department receives all the Income Reports from the Area Offices. This results in extreme delays in the preparation of the monthly Trial Balance. For example, the October books were not closed until the 25th of November and the Trial Balance was not prepared until the first week of December.
2. It is extremely difficult to do a bank reconciliation since there is, in effect, no bank book. At the end of the month, the Accounts Clerk must take into account money that has not entered the collection account (Accounts Receivable or Cash in Transit) as well as cash that is in the collection accounts but not yet in the main account. This mixture of different kinds of "cash" makes it extremely difficult to determine the daily balance of the IPPF account.

The consultant has spoken with the Accountant as well as with the Managing Auditor of their auditing firm, Deloitte, Haskins, and

Sells (DHS), about this matter. In order to increase control over cash, ensure that there are adequate funds in the IPPF bank account, and to prepare for computerization, these three kinds of cash must be separated on the balance sheet. The main IPPF Cash Receipts Book should only include actual cash deposited in that account.

This separation will also then in effect ensure that the books close at the end of the month. Income will be recorded in the month that headquarters receives the Income Report not in the month that the income was generated. Trial balances can then be prepared upon receipt of the bank statements, after bank reconciliations are completed.

Use of Journal Vouchers Rather than Subsidiary Journals

While FPAK does use Journal Vouchers, they are not utilized as widely as they could be. The Cash Disbursements Journal does not have adequate columns, so a column is set up called Office Imprest Clearing Account. Payments made to the area offices are debited to this account. Then a subsequent journal entry credits that and based on a worksheet prepared for each imprest advance surrender, the journal indicates the debits to the various expense accounts. Later that is reversed and the expenses are posted to the general ledger. This detail is, therefore, recorded on a worksheet, in a Journal Voucher, in the Area Office Imprest Clearing Account, and in the ledger.

After speaking with DHS and the Accountant, the consultant recommends that FPAK eliminate the subsidiary journal and use the Journal Vouchers as the control device coupled with a control account for each area that would not include any detail. This would streamline this transaction without losing control. When computerized, these Journal Vouchers would then be used as the source documents for journal entries.

Strengthen Inter-Donor Accounting

At present, when disbursing to area offices, headquarters disburses from the three donor checking accounts. This appears to be adequate in most cases. However, area offices pay hefty fees for the clearing of up-country checks. The consultant recommends, therefore, that all disbursements under a specific amount be disbursed in conjunction with monthly imprest disbursements. In addition, if the inter-donor accounting control practices as described elsewhere are instituted, it will be possible once again to reimburse imprest accounts with only one check from the IPPF account. All reconciliations will then take place through journal entries and quarterly checks between the donor accounts.

Expense Codes (Chart of Accounts)

At present, the Chart of Accounts is programmatically rather than financially orientated. It is set according to the detailed project budgets of the respective grants. This works effectively now but in order to computerize, the expense codes must be standardized. The consultant recommends that the chart be organized as follows:

Source of Funds--Area--Project--Expense

STRUCTURE OF THE ACCOUNTS DEPARTMENT

This section presents general recommendations concerning the structure of the Accounts Department and the professional development of staff.

Reassessment of Structure of the Accounts Department

Presently, the Accounts Department has four administrative levels; the Accountant, the Assistant Accountant, an Accounts Assistant, and Accounts Clerks. The budget for FY88 increases the number of Assistant Accountants to two. This structure has worked well in the past. However, in the face of impending computerization of the accounting system and in view of the changes proposed elsewhere in this document, that may no longer be the most appropriate structure. The consultant recommends that FPAK reassess this structure. There are a number of specific recommendations that the consultant believes would strengthen the department and improve efficiency and productivity.

1. Freeze Hiring Until Completion of Computerization

The needs of the Accounts Department are going to change significantly when the accounting system is computerized. The consultant recommends that until this process is completed that no additional accounting staff be hired. The only exception would be the Internal Auditor, a position that is of critical importance. With the computerization of the department completed, an analysis can be made of staffing needs and individuals recruited for those positions.

2. Relieve Accounts Assistant of Supervisory Responsibilities

It may be more effective for (one of) the Assistant Accountant(s) to be responsible for supervision of Accounts Clerks, as well as of the Accounts Assistant. There seems to be little advantage to this additional supervisory level between the Accounts Clerks and the Assistant Accountant.

3. Classification of Accounts Clerks

When interviewed, the Accounts Clerks stated that they felt frustrated because they saw little chance for advancement within FPAK. Most of the Accounts Clerks continue to pursue their studies; however, there is no recognition by FPAK of this effort. The consultant recommends that another position above Accounts Clerks be created, perhaps called Accounts Assistant in order to recognize their commitment and advancement. An Accounts Clerk could become eligible for promotion to this position through acquiring a minimum number of points, based on three criteria:

- a. Education: courses completed: CPA I, CPA II, etc.
- b. Professional experience: years of work in the field of accounting or bookkeeping
- c. Longevity with FPAK: years of work with FPAK Accounts Department

As soon as an Accounts Clerk obtains the necessary number of points, s/he is eligible for promotion to Accounts Assistant. Promotion would then be based on job performance as measured through the annual evaluation.

4. Job Functions of Assistant Accountant

With the implementation of the financial management systems presented in this document and the impending computerization of the Accounts Department, the functions of the Assistant Accounts will change. For example, the Assistant Accountant would probably be the most appropriate individual to take over the budget monitoring responsibilities of the Management Accountant, a position that is no longer considered for FY88. A new job description for that position should take those requirements into account. A local accounting firm can be useful during this process.

5. Separation of Tasks by Function, not Donor

Elsewhere in this report, the consultant has recommended that work be organized by function rather than be donor in order to tighten internal controls. This is critical. One individual should be responsible for all transactions concerning that task for all donors; for example, in the preparation of Journal Vouchers, review of PIAs and PERs, review of AOIRs, review of TAFs and TERs, maintenance of Cash Journals, etc. A local accounting firm can be useful during this process.

Professional Development of the Accounts Department Staff

When the Training Manager joins FPAK and a training policy is developed, accounting and administrative staff should be included in that policy along with programme staff. While the nature of the training might be different from that of programme staff, the need is no less critical and opportunities should be made available to them. FPAK might consider paying half of the

tuition costs for ongoing course work and allow them to plan their annual leave around exams.

SCOPE OF WORK FOR LOCAL ACCOUNTING FIRM

One of the tasks of this consultancy was to identify those technical assistance needs better served by a local accounting firm. During the course of this consultancy, several areas arose which need to be addressed by a local firm. It is suggested that FPAK request several local firms to bid on the job. If they are competitive on price, it is recommended that FPAK use the management consulting division of their auditing firm, Deloitte, Haskins, and Sells. Using the same firm will increase the probability that technical assistance received will be appropriate because the auditing division, already aware of their systems and problems, can brief the management consulting team.

The three areas requiring technical assistance are discussed below.

Job Descriptions of Accounts Department Staff

While the consultant was there, Peter Shipp and Coopers and Lybrand had developed a generic job description for the Accounts Clerks as well as job descriptions for the other three positions. These job descriptions were for salary review purposes and do not necessarily reflect the staffing needs of the department.

It is recommended that a local firm work with the Finance and Administration Manager and the Accountant to analyze work flows, responsibilities and functions of the Accounts Department in light of the systems and procedures presented in this document. Based on that analysis, a more appropriate administrative structure for the department should be developed and detailed job descriptions for all staff be written. As possible, this should be done in conjunction with the computerization in order to effectively assess the staffing needs for a computerized department.

Development of Expense Codes (Chart of Accounts)

As stated elsewhere in this chapter, expense codes are programmatically oriented and not consistent across projects. In order to computerize the accounting system, they must be standardized. The local accounting firm can assist FPAK in the development of an internally consistent chart of accounts.

Computerization of the FPAK Accounting System

During installation of the computerized accounting system, assistance will be required to tailor that system to the specific needs of FPAK. A local accounting firm can provide that technical

assistance, working with the computer consultants, or even bidding for that contract as well. This is necessary to ensure that the system adequately reflects the needs of FPAK and to ensure that appropriate and necessary financial reports can be generated by the system. This is discussed in more detail elsewhere in this chapter.

APPENDICES

- A Scope of Work
- B Persons Contacted
- C Activities Realized

Appendix A

Scope of Work Family Planning Association of Kenya

The purpose of this consultancy is to develop financial management and control systems and procedures that will enhance FPAK's ability to plan, budget, and monitor programmatic expenditures.

Specific Objectives

1. Strengthen internal control procedures and systems.
 - a. Personnel management and fringe benefits.
 - b. Petrol control procedures.
 - c. Area imprest accounts.
 - d. Inter-donor accounting.
 - e. Travel and expense reports.
 - f. Purchasing of supplies, equipment, services and contraceptives.
 - g. Inventory of supplies, equipment, and contraceptives.
 - h. Accounts Department staff functions.
2. Develop annual budgeting system and periodic budget monitoring system.
3. Develop monthly, quarterly, and yearly financial reporting systems for reporting to Senior Management, the Management Committee, and Area Managers.
4. Design procedures for conducting annual cash flow analyses.
5. Propose recommendations for disbursement system for USAID grants.
6. Develop scope of work for local accounting firm to support the above activities, including input required to prepare for computerization of the FPAK accounting system.
7. Develop a set of parameters and recommendations for eventual computerization of the financial planning and record keeping system.

Appendix B

Persons Contacted

- I. Management Sciences for Health
 - Peter Shipp
 - Jean Baker
 - Ken Heise
- II. United States Agency for International Development
 - Molly Gingerich, Program Officer
 - David Oot, Director, Public Health Officer
 - Barry McDonald, Projects Officer
- III. Family Planning Association of Kenya
 - A. Nairobi
 - Sr. Chief Muteru, Volunteer and Board Member Central Province
 - Kalinda Mworira, Executive Director
 - Godwin Mzenge, Finance and Administration Manager
 - Jennifer Mukolwe, Programme Manager
 - John Macharia, Accountant
 - Millicent Kabuga, Supplies Officer
 - Eunice Kithinji, Assistant Programme Officer
 - A.B.K. Kituku, Assistant to the Accountant
 - Charles M. Ndinge, Accounts Assistant
 - John Mutura, Accounts Clerk
 - Susan Muraya, Accounts Clerk
 - John Macharia, Accounts Clerk
 - P Ndichu, Accounts Clerk
 - P Mahira, Accounts Clerk
 - M Makibior, Accounts Clerk
 - Salim Nyagoa, Statistical Clerk
 - B. Kisumu
 - H.O. Okendo, Volunteer and Area Chairman
 - Abishai Oyoo, Acting Area Officer (APO)
 - Margaret Makungu Nyabera, Acting Area Clerk
 - C. Kakamega
 - Zederiah Luvavo, Acting Area Officer (APO)
 - Dorcas Chemasa, Area Clerk
 - Helen Obilo, Nursing Sister

D. Eldoret

Philip K. Mugun, Area Officer
John Otanga, Assistant Area Officer
Julia Cheruiyot, Area Clerk
Samson Lukhuili, Clinic Clerk

IV. Other Local Family Planning Organizations

A. The Pathfinder Fund

Ayo Ajayi, Regional Representative
Nelson Keynozo, Assistant Regional Representative

B. International Planned Parenthood Federation

Moses Mukasa, Regional Director
Justice Pobi, Financial and Administration Coordinator
Smauel Gathitu, Regional Supplies Coordinator

C. Association of Voluntary Surgical Contraception

Joseph Dwyer, Regional Director

V. Deloitte, Haskins, and Sells

George Opiyo, Managing Director

Appendix C

Activities Realized

- November 21 Papke arrives in Nairobi.
- November 22 Briefing by Jean Baker, MSH.
- November 23 Meetings with Kalinda Mworja and John Macharia of FPAK. Meeting with Molly Gingerich of USAID. Meeting with Jean Baker and Peter Shipp of MSH.
- November 24 Meetings with John Macharia and Godwin Mzenge of FPAK.
- November 25 Meetings with John Macharia and Godwin Mzenge of FPAK and Nelson Keyonzo of The Pathfinder Fund.
- November 26 Meeting with John Macharia of FPAK and review of documents.
- November 27 Meeting with Godwin Mzenge and the Accounting Clerks of FPAK. Meeting with Molly Gingerich of USAID. Development of draft management systems.
- November 28 Development of draft management systems.
- November 30 Meeting with Jennifer Mukolwe and Eunice Kithinji of FPAK. Development of draft management systems.
- December 1 Meeting with John Macharia of FPAK. Development of draft management systems.
- December 2 Papke leaves for Kisumu with John Macharia. Meetings with H.O. Okendo, Abishai Oyoo, and Margaret Makungu Nyabera of FPAK. Papke leaves for Kakamega.
- December 3 Meetings with Zederiah Luvavo, Dorcas Chemasa, and Helen Obilo of FPAK.
- December 4 Papke leaves for Eldoret. Meetings with Philip Mugun, John Otanga, Julia Cheruiyot, and Samson Lukhuili of FPAK.
- December 8 Visit to West Pokot District and meeting with FPAK Field Educator.

December 6 Papke leaves Eldoret for Nairobi.

December 7 Meetings with John Macharia and other FPAK
accounting staff. Development of draft management
systems.

December 8 Meeting with Godwin Mzenge and Kalinda Mworira of
FPAK. Development of draft management systems.

December 9 Meetings with Moses Mukasa, Justice Pobi, and
Samuel Gathitu of IPPF. Development of draft
management systems.

December 10 Meeting with George Opiyo of FPAK's auditing firm,
Deloitte, Haskins and Sells. Meeting with Joseph
Dwyer of Association of Voluntary Surgical Contra-
ception. Development of draft management systems.

December 11 Development of draft management systems.

December 12 Development of draft management systems.

December 13 Development of draft management systems.

December 14 Meeting with Nelson Keyonzo of The Pathfinder
Fund. Debriefing and discussion of the draft
management systems with Godwin Mzenge and John
Macharia.

December 15 Debriefing with Molly Gingerich of USAID.

December 16 Papke leaves Nairobi for New York.

January 6 Debriefing with Ken Heise and other staff of
Management Sciences for Health.