

LOCAL DEVELOPMENT II — PROVINCIAL

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JULY 1991 INTERNAL REVIEW

LD II PROJECT ACCOUNTING

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Executive Summary

The July 1991 internal review of LDII's project accounting systems and procedures found, in general, that accounting systems are in place and procedures followed by the accounting department comply with the guidelines and regulations set by AID, the Chemonics home office, and standard accounting principles.

The internal review examined nine areas of accounting: the responsibilities of the accounting staff (both local responsibilities and those to the home office); cash management practices; accounting filing and record keeping; coding and billing procedures of invoices and vendor transactions; training needs for the project's bookkeeping system; monitoring systems for the budget and encumbered funds; salary policies and procedures; and compliance with AID regulations.

This report outlines the responsibilities of the accounting staff and the management systems established to ensure that both the home office and the deputy chief of party monitor the activities of the accounting department on a daily basis.

The accounting department needs to upgrade its accounting software and procure additional computer equipment. At the moment, the department is working off of Solomon version 3.0 which is unable to print checks in local currency. Also, the staff of five is working from one computer. It is recommended that the accounting department purchase an additional computer, upgrade to Solomon 7.0, and provide training on the new Solomon accounting package.

Other recommendations supported by this report are that the Chemonics home and field offices finalize a system to monitor encumbered funds to include all funds in the equipment and training line items, and that the chief accountant obtain approval from the contracting officer whenever Chemonics exceeds the number of allowable overtime hours for support staff.

All documentation regarding subcontractors, salary policies, billing procedures, training, temporary lodging, education allowances, fringe calculations, and "other direct costs" was found to be in order and in compliance with the guidelines and regulations set by AID and the Chemonics home office.

July 1991 Internal Review

An internal evaluation of LDII's project accounting systems and procedures was conducted in July, 1991. In general, the review found that project accounting systems are in place, and that procedures followed by the accounting department comply with the guidelines and regulations set by AID, the Chemonics home office, and standard accounting principles.

This document is divided into the nine accounting areas on which the evaluation focused. Throughout the report, specific recommendations are indicated in bold type.

RESPONSIBILITIES OF THE ACCOUNTING STAFF

It is important to describe the responsibilities of each of the accounting staff and outline their responsibilities. Management systems are established to ensure that both the home office and the deputy chief of party monitor the activities of the accounting department on a daily basis.

The deputy chief of party of administration supervises the accounting department. The accounting staff consists of a chief accountant, an accountant, two bookkeepers and a cashier.

The deputy's responsibilities are as follows:

- reviews and signs all vouchers
- reviews the bank reconciliation
- reviews payroll summary and signs payroll checks
- reviews the local accounts sent to the home office
- reviews the invoice prior to submitting to AID

The chief accountant's responsibilities are as follows:

- supervises the accountant, two bookkeepers, and one cashier
- reviews all the work detailed below for the staff
- responsible for the local subcontractors (reviews invoices and overhead rates with their accountant and conducts internal review of their accounting systems)
- reviews the petty cash reconciliation on a weekly basis
- monitors the level of effort for the long and short termers

- updates the LE budget monitor on a monthly basis
- prepares quarterly expenditures reports
- prepares monthly projections for local expenditures
- prepares the monthly invoice
- responsible for weekly Solomon backup
- responsible for VNB checks
- prepares Level of Effort Summary Report detailing LOE used and LOE remaining for local long and short termers.
- monitors all allowances (quarterly, educational and travel) for expats in compliance with AID regulations
- monitors overhead accounts and expenses

The accountant's responsibilities are as follows:

- prepares the bank reconciliation
- reviews all project related contracts (all maintenance, office equipment and leases)
- reports on payments due on related contracts
- prepares fringe payments (medical, accident, life insurance)
- reviews all invoices related to the above
- issues checks
- prepares related disbursement memos for Solomon
- prints and reviews all Solomon-related reports
- reviews all per diem calculations before cashier reconciliation

The bookkeeper #1 has the following responsibilities:

- prepares all training items
- reviews the training budget and projections
- reviews budget versus actuals for training
- prepares checks for short termers and training
- calculates per diem for Amana, Ordev and short termers
- prepares checks for training and short termers
- prepares related disbursement memos for Solomon
- prints and reviews all Solomon related reports

The bookkeeper #2 has the following responsibilities:

- prepares all long termers' local salary checks
- calculates per diem for long-term professionals and support staff
- calculates overtime for support staff
- prepares related disbursement memos
- issues checks
- inputs all related disbursement memos into Solomon

- prints and reviews all Solomon-related reports

Cashier's responsibilities include the following:

- issues travel advances
- details petty cash payments (petty cash will be addressed below)
- reviews petty cash balance with general ledger balance
- codes and inputs petty cash information into Solomon

RESPONSIBILITIES OF THE ACCOUNTING STAFF TO THE HOME OFFICE

The home office requests the following documentations from the field office:

- all local accounts, as well as the backup, on a monthly basis, including:
 - trial balance (summarizes the current period expenses either as credit or debit)
 - posted transaction list (details monthly transactions)
 - anticipated cash needs for the upcoming month
 - VNB check (a summary of all US dollar checks written throughout the month, including the check number, the date and amount of the check, to whom the check was made payable, and the purpose of the check)
- all original receipts which are paid in dollars by VNB checks
- time sheets for all expatriates
- expenses paid out of overhead with receipts and approvals
- subcontractors' monthly invoices
- updated procurement inventory
- long- and short-term employee forms
- termination notices of long-term employees

CASH MANAGEMENT PRACTICES

Local checking account procedures are as follows:

- 1) A receipt memo is prepared every time money is deposited. A bank deposit slip is attached for backup. Source of funds is listed. This memo is entered into Solomon.

- 2) A disbursement memo is prepared and entered into Solomon for each payment. Each time a check is drawn against the local bank account, a disbursement memo is prepared. This is included as part of the supporting documentation and contains all necessary approvals by the bookkeeper and chief accountant.

Recommendation 1: A photocopy of all checks issued should be attached to the vouchers as backup.

- 3) At the end of each month, the bank statement is received and a reconciliation is made between Solomon and the bank. This is prepared by the accountant, reviewed by the chief accountant, and finally reviewed by the deputy chief of party who signs it as approved.
- 4) The batch total is reviewed so that the totals of the debit and credit columns are the same to ensure the correct coding of line items.

A review of several bank statements indicates bank reconciliation with Solomon and the ledger.

A review of the petty cash fund was conducted and reconciled accurately. Petty cash is replenished weekly in the amount LE 30,000. Petty cash is kept to pay for the following:

- per diem
- all vehicle maintenance and spare parts
- technical materials
- utilities for expat housing and office (electricity, water, gas and newspaper)
- office maintenance

A petty cash voucher is prepared for each withdrawal. Each cash voucher is signed and approved by the chief accountant. The voucher and all receipts are attached for supporting documentation. Petty cash is balanced daily by the cashier and is reviewed by the chief accountant on a weekly basis.

The petty cash is kept in the safe. Only the cashier and the chief accountant have the safe combination. The chief accountant is the only person who has the keys to the safe.

Recommendation 2: The safe combination and a set of keys should be given to the chief of party. I also suggest that a new petty cash box be purchased to keep the money intact and separate from important documents which are also kept in the safe.

ACCOUNTING FILING AND RECORD KEEPING

The filing system, based on the Solomon system, has been instituted to provide reliable access to backup materials and reports relating to Solomon project financial activities. Reports encompass all print-outs generated by Solomon. Files are divided into two sub-sections:

- 1) Batch backup reports - Solomon automatically issues a batch number for each document entered into the system. Files are set up so that reports are arranged numerically in groups of 50 per file. Batch labels contain both the beginning and ending batch numbers for that group.
- 2) Reference reports (including trial balance, posted transaction list, and chart of accounts list) - Subaccount lists are filed separately by month and fiscal period.

Recommendation 3: All reports should be filed together chronologically by month and fiscal period to allow easier access.

A review of all the files below indicates that accurate and up-to-date information is being kept.

Copies of the following are included in the batch backup reports and separate files have been created for the following categories for easy access of information for administrative purposes:

- time sheets (filed by month)
- subcontractor files that include time sheets and invoices
- fringe benefits payments
- all personnel contracts
- housing leases
- maintenance and equipment rental contracts
- training courses and seminars

- invoices (local and USD)

Recommendation 4: Separate files should be established for all procurement related items.

CODING AND BILLING PROCEDURES OF INVOICES AND VENDOR TRANSACTIONS

I have reviewed the coded monthly transactions to ensure that they were billed to the correct line item. Where transactions were improperly coded, adjustments have been made to correct the entries.

TRAINING NEEDS FOR BOOKKEEPING SYSTEM

The accounting department needs to upgrade its accounting software and to procure additional computer equipment. At the moment, the department is working from Solomon version 3.0 which is unable to print checks in local currency. Therefore, all checks are individually typed instead of being run off the computer. Solomon version 7.0, due out in September 1991, is expected to be able to print checks in local currency.

Recommendation 5: Upgrade to Solomon 7.0 and provide training on the new Solomon accounting package.

Also, the staff of five is working from one computer.

Recommendation 6: An additional computer should be procured for the accounting department.

MONITORING SYSTEMS FOR THE BUDGET AND ENCUMBERED FUNDS

A budget monitor for LE, USD and combined LE & USD has been established and is monitored both by the field and the home office. All line items are monitored closely. The project officer is advised in writing when the cost of any individual line item is nearing or more than 15 percent of such line item, except for indirect costs. A monitor is also in place to carefully review the local cost financing to prevent exceeding the amounts in Modification No. 6.

Recommendation 7: The home and field offices should finalize a system to monitor encumbered funds to include all funds in the equipment and training line items. This information will be provided to the chief of party, all section heads and the project supervisor on a monthly basis.

SALARY POLICIES AND PROCEDURES OF LOCAL PROFESSIONALS

Level of effort for the local long and short termers is monitored closely. Level of effort is calculated at 173.3 person hours = 1 person month. At the end of each month a detailed summary of level of effort is prepared showing the level of effort utilized and remaining amount for long and short termers. This summary is provided to the chief of party, the senior administrative officer and all section heads on a monthly basis.

All information relating to the employee (such as emergency locator form, biodata) is provided to AID. Chemonics follows AID salary scale when setting salaries for local staff. All salaries for new hires are approved by the contracting officer. Under the current USAID policies, the contracting officer only approves salaries submitted to him by the project officer. An annual salary merit plan covering all employees is submitted to the contracting officer for approval.

COMPLIANCE WITH AID REGULATIONS

Billing Procedures

A review of billing procedures for equipment, vehicles and freight line items was conducted. Wherever possible, all goods (vehicles, equipment, materials and supplies) are procured and shipped from the United States. The items that are procured locally include non-expendable supplies and office equipment.

All proper documentation for expenditures was found. All requests for items are approved by the section head and the local administrator, with a copy of the authorization provided to the procurement officer. At the end of the fiscal year, an annual report on all non-expendable property is submitted to the contracting officer.

The LDII field office has recently added two additional floors to accommodate the increase in staff requirements. The staff and much of the equipment is in the process of being relocated. Because of this move and the need to procure additional office equipment, a review of the accuracy of the inventory list was not possible. A review of the system, however, was conducted with the procurement agent who has established a very good setup following AID regulations. She will complete a comprehensive list of all items since the start of the project. A physical inventory of all property is being conducted, during which all furniture will be properly re-tagged.

Shipment of all items follows AID regulations. The supplier notifies USAID/Egypt and the consignee by cable of carrier's name, bill of lading number, and estimated arrival date at port of entry. The USAID project officer and office of financial management both receive the proper paperwork.

Chemonics seeks to ensure that contract-financed vehicles are used only for project related trips. Vehicle management systems have been put in place by the administration department to ensure that this policy is followed.

The contractor has ascertained that all privately owned vehicles are covered by an insurance policy and is at the cost of the employee. A copy of the insurance policy has been forwarded to the home office.

Education Allowance

The education allowance was reviewed to ensure that only the allowable costs set by AID were paid. Costs covered under education allowances include only those for tuition and books.

Fringe Calculations

A review of the fringe calculations for accuracy and compliance with the Egyptian Labor Laws was conducted and found to be accurate. This review included payments deducted from the employee and Chemonics.

International Travel

All international travel has prior written approval by the contracting officer. Due to the large volume of travel, the contractor is unable to provide a detailed itinerary to the contracting officer prior to a consultant's arrival.

Recommendation 8: A copy of the short termers' itinerary should be submitted after he/she is fielded.

All international tickets purchased from the field and the home offices are on American carriers whenever possible. Documentation on the use of other carriers is on file, as required in the AID regulations.

The administration department makes arrangements for both domestic and international travel. The tickets go to the chief accountant who makes a copy of the original ticket and prepares a receipt voucher for the employee. The employee signs for the ticket, and after their trip, returns the stub to the accounting department. Until the ticket stub is received in accounting, the amount stays on their account as receivable. The home office is advised when tickets such as R&R and home leave are issued on VNB checks.

Other Direct Costs

A review of costs under "Other Direct Costs" was conducted. All costs are supported by proper documentation and approvals. A complete review of items billed to "Miscellaneous" was also conducted.

Per Diem and Travel Authorizations

A review of per diem and travel authorization procedures is detailed below. In order for Chemonics to carry out its tasks effectively and appropriately, there is considerable time spent in the field. An employee fills out a travel authorization that includes dates, location, purpose of trip, and approval from the section head and administrator. All travel advances are issued against travel authorization. The travel advances are issued in cash. The cashier calculates the total per diem of days and issues the employee seventy-five percent of total per diem. The chief accountant reviews and approves the advance. A petty cash receipt is signed by the employee and the chief accountant.

Upon the employee's return, he/she will submit an expense report to the administration department. An administrative assistant reviews the calculation and gives it to the local administrator for approval. The expense report is then submitted to the accounting department for accountant review. The cashier will review the report against the accounts receivable, deduct previous advance, and issue a petty cash receipt. The chief accountant reviews and approves the amount owed to or, if the advance exceeded actual expenses, paid by the employee.

Quarterly Summaries

A summary of all quarters is prepared by the accountant and carefully reviewed to ensure that the AID allowance is not exceeded. The home office also monitors all payments to ensure that total amounts do not exceed AID allowances. Quarterly payments include rent, maintenance and any costs for electricity, water, fuel and gas. Rent checks are issued according to the conditions of the contract, and utilities are paid each month. Prior approval for all the leases was obtained from the contracting officer.

Salaries

A review of salary calculations was conducted for all local staff and determined to be accurate.

It is the policy of Chemonics International to pay overtime to staff in non-professional or support positions. Most of the overtime is paid to drivers who are in the field driving professional staff on project business, often in order to meet contract-imposed time-in-the-field requirements. Contracts allow drivers, secretaries, and office boys/messengers 100, 20, or 60 hours respectively of overtime per month. Overtime hours worked over that amount should receive contracting approval.

Recommendation 9: The chief accountant should obtain approval from the contracting officer whenever Chemonics exceeds the allowable overtime hours for the support staff.

Salary checks for the local staff are prepared as follows:

The administration department prepares a summary of all long term's' leave (annual, sick, maternity, leave without

pay, etc.). The chief accountant receives and reviews the summary to ascertain that the employee is not over his/her leave balance. She then prepares a summary of each employee's pay with adjustments of their leave. This summary is given to an accountant who prepares the voucher and disbursement check for each employee. The voucher is approved by the accountant and then routed to both the chief accountant and the deputy chief of party, who review the voucher, check, and summary. At the end of the month, the employee submits a time sheet that has already been approved by the section head to the accounting department. When an employee turns in his/her time sheet, they receive their check. A bookkeeper inputs the information into a spreadsheet file. A record is kept of all long termers' working hours plus any leave taken. This information is used to monitor the level of effort.

Subcontractors

The chief accountant and the project administrator have examined and reviewed all the local subcontractors' books, records, documents and other data, and have found them to be in order.

A subcontractor submits their invoice by the twentieth of each month, and the chief accountant reviews the invoice and issues a check for their net salary only. When Chemonics receives payment from AID, the remainder is paid to the subcontractor. A budget monitor for IDC and ARABSOFT has been established, and is updated and monitored by the chief accountant.

Temporary Lodging

A review of all temporary lodging payments was made, confirming that accurate payment was paid according to AID regulations. Expat employees were given every assistance to accelerate the process of locating a lease. This assistance has successfully allowed Chemonics to reduce the TLA days from 90 to 42 days.

Training Line Item

A review of the training line item indicates that all training is well documented. A form is filled out for every training workshop and seminar that includes all relevant information such as purpose of training and trainee. The

accounting department receives the budget projections from the local administrator. The accountant reviews the number of trainees and calculates accommodations, meals, incidentals, travel, per diem and technical support expenses. Sciomon reports are generated which document all the actuals for training.

SUMMARY OF RECOMMENDATIONS

- 1) A photocopy of all issued checks should be attached to the vouchers as backup.
- 2) The safe combination and a set of keys should be given to the chief of party, and a new petty cash box should be purchased.
- 3) Reports should be filed together chronologically by month and fiscal period.
- 4) Separate files should be established for all procurement-related items.
- 5) Upgrade software to Solomon 7.0 and provide further training on the new Solomon accounting package.
- 6) An additional computer should be procured for the accounting department.
- 7) A system to monitor encumbered funds in the equipment, vehicle, freight and training line items should be finalized.
- 8) A copy of the short termers' itinerary will be submitted to the contracting officer after he/she is fielded.
- 9) The chief accountant should obtain approval from the contracting officer whenever Chemonics exceeds the allowable overtime hours for the support staff.