

SHORT TERM CONSULTANT REPORT
L'VIV FINANCE PROJECT
March 21, 1996

SCOPE

The primary areas of concentration during my two week consulting assignment in L'viv Ukraine, included: 1. Financial systems improvement; and, 2. Development of a citizen survey. The majority of time was spent on finance related issues. The major products of this work are highlighted below:

- a Request for Proposal for auditing services to assist the City with determining its current financial position and improvements necessary to meet international accounting standards (Appendix D);
- spreadsheets and charts (in English and Ukrainian) of the City's actual revenue and expenditures for fiscal years 1994 and 1995 (Appendix C);
- current and proposed organization structure for the Finance Department (Appendix A and B);
- an improved understanding among Finance staff members of the need to improve the current financial system, the role of an internal audit division, and local government finance systems in the United States; and,
- a citizen survey designed to provide information the City Administration can use for priority setting, resource allocation, and employee training (Appendix E).

My work was guided by the MFM resident advisor and the following members of the Finance Task Force, who I met with throughout my stay:

- Lubov Maksymovych, Finance Director, Task Force Chair
- Vira Khodorovska, Deputy Finance Director - Revenue
- Olena Sytnyk, Deputy Finance Director - Expense
- Yaroslav Stetsky, Investments Director
- Ihor Dovhalyuk, Computer Support Director
- Mykola Bandra, Audit Director
- Rostislav Brusak, Deputy Director of Economic Development
- Stepan Vorona, City Attorney
- Maria Karpa, Deputy Director of City Tax Inspection

PROGRESS TO DATE

The Finance Director and other finance personnel have been reluctant to seriously analyze and improve the City's finance, accounting, and budgeting systems despite the RTI resident advisor's valiant efforts. As I understand it, the primary reasons for this reluctance, include:

- lack of financial stability due to national laws which severely limit local government ability to budget and plan;

- almost complete dependence on the national and oblast governments for funds to pay for local government services (e.g. the percentage of the value added tax given to the City was 12.5% in 1994, 44.3% in 1995, and is projected to be only 9.6% in 1996);
- legal requirement that all accounting records be kept in a structure set up by the Soviet Union before Ukrainian independence;
- rapid inflation which makes it very difficult for financial planning and budgeting;
- an organizational structure where the finance director works for both the national Finance Ministry and the City Administration. Moreover, the tax collection department is an oblast function, limiting the amount of City influence on revenue collection.

I believe there had also been an unspoken attitude that improving the City's finance system is not a priority when the City can not meet some of its most basic service demands (e.g. water, building maintenance, snow removal, etc.). Thus, other than the addition of a few computers and spreadsheet software, little progress has been made since independence to improve the City's finance system.

On the positive side, David Bauer, the MFM resident advisor prepared a report on the Finance Project status in L'viv. The report provides an overview of the current financial system in L'viv and recommendations for improvements in the operating and capital budgets, revenues, accounting, purchasing, and auditing. The members of the Task Force had no choice but to respond to the report or accept it as written. By responding, they began to develop their own proposals for improving the financial system. I believe this report has provided a much needed catalyst to the Finance Project.

CURRENT SITUATION

The L'viv Finance Department has a staff of 35. It is currently responsible for projecting revenue in concert with the economic department (most major revenue is collected by the Oblast Tax Inspectorate), preparing and implementing the annual budget, and providing accounting services to City departments. A departmental organization chart is attached in Appendix A. A proposed departmental structure is available in Appendix B.

The City's major revenue sources and expenditure categories are available in Appendix C. At this point, the City's 1996 budget is not final, waiting for national approval. Therefore, 1996 information was not available.

RECOMMENDATIONS

Despite the Finance staff's understandable reluctance to make a concerted effort on finance reform, there are some first steps which may lead the City Administration to more meaningful improvements. These recommended first steps are highlighted below.

- Contracting out an external audit to a firm with experience in international auditing standards -- The audit will provide the City with information on it's current financial position, recommendations for immediate improvements to the City's financial system, and the steps necessary to meet international accounting standards.

- Developing an internal audit and management analysis division -- The Mayor has approved creation of this unit, but there seems to be a lack of understanding of what the unit will do. The City has been provided with the work plan of a similar unit in a U.S. city. But, it is also necessary to provide training on audit and analysis techniques for the staff. With the uncertainty and lack of control on the revenue side, this emphasis on controlling and reducing expenditures would be a very positive step forward.
- Creating a purchasing function within the Finance Department -- The resident advisor has successfully demonstrated the value of competitive bidding of major contracts with the LIHS project. Moreover, the Mayor has decreed that all City purchases will now be made through competitive bid. The next step is for the Finance Department to develop a purchasing process and guidelines.
- Developing a financial information system built on the LIHS project -- the Deputy Finance Director is very interested in improving the efficiency of the budgeting and accounting functions through use of database software. It should be fairly simple to develop a basic data-base for departments to develop budget requests which can then be analyzed by the department and transferred into a general ledger system. The process of developing this system should also provide opportunities for improvement of the overall financial structure in the City.

It is imperative that the City Administration continue to press for changes in national laws to provide municipalities with local self-rule and control over their revenues and expenditures. But, the City should not wait for these reforms before trying to improve its financial system. To do nothing but wait for the national government to do something, is a choice which is not in the best interest of L'viv's citizens. In this light, the above recommendations can be implemented immediately without dependence on a decision from the national government.

*Submitted by Christopher P. Morrill
March 21, 1996*