

IMPROVING FINANCIAL ACCOUNTABILITY

AND FINANCIAL MANAGEMENT.

IN THE SAHEL

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## Executive Summary

### INTRODUCTION

In 1980, AID's Inspector General audited various aspects of development efforts in the Sahel. The findings on financial and accounting controls for local currency expenditures were considered serious enough by AFR/SWA to warrant remedial action. The more serious deficiencies cited were the lack of adequate financial controls, the possible misuse of millions of dollars in local currency and the inability on the part of the Sahelian institutions and projects to meet AID's financial reporting requirements.

In March 1981, a financial management improvement team was sent to the Sahel to study the causes for the lack of financial accountability, and to devise strategies to improve management in those institutions. The team designed an accounting system that would either replace those considered inadequate or be modified to improve existing ones. The model system was presented to USAIDs and host country institutions and, where necessary, changes were made.

Models for a training strategy were also developed for installation of the new accounting system to deal with the problems of financial integration and to address the issues of decision-making and organizational development.

### Scope

Inspector General reports #81-35 and #81-52 contained recommendations concerning several problem areas. Those addressed by the team included: 1. to hold discussions with the Club du Sahel and the Permanent Interstate Committee for Drought Control in the Sahel, known by its French acronym CILSS, regarding the development of a financial training program; 2. to establish an accounting system in those institutions; 3. to ensure that sufficient financial personnel are available for designing and monitoring AID-financed projects; 4. to discuss with Sahelian government officials the adequacy of their own government's financial management systems; and 5. to develop financial training programs to improve existing systems.

In addition to the CILSS and the Club du Sahel, the team interviewed personnel of the Sahel Institute (INSAH), the USAID Missions in Dakar, Upper Volta and Mali and the Voltaic and Malian institutions, OFNACER and OPAM, which handle the sales and account for local currency proceeds of P.L. 480 commodities. The records and files of selected bilateral projects were reviewed with host country accountants and project managers. The team also met with several Sahelian training institutions and with recognized U.S. accounting firms located in Abidjan with a view toward their possible participation in a Sahel-wide management improvement effort.

### Summary of Findings and Recommendations

- Sahelian Missions have become increasingly concerned about problems of project implementation and have requested audit assistance as a means of improving performance (p. 14).
- USAIDs/Mali and Upper Volta have already taken some steps to alleviate the problems of accountability, but serious deficiencies remain in some bilateral and regional projects (p. 6).
- While USAID projects in the Sahel have grown in size, number and complexity, little attention has been given to improving management capabilities. Problems arising from a lack of planning in earlier periods have now become critical (p. 9).
- The role of the accountant in most Sahelian institutions is that of a bookkeeper with limited authority or financial control over an institution's resources. Turnover is high, and there is little incentive to improve job performance (p. 10).
- Although AID may not be a major donor to some Sahelian organizations or projects, its demands for accountability are often more stringent than those who are. Other donors place less emphasis on institution building by managing their own financial systems (p. 11).
- A previous attempt to install a USAID-designed accounting system at the CILSS was unsuccessful. A simplified fund accounting system based on budgets, encumbrances and expenditures appears adequate for the CILSS and other Sahelian institutions and projects (p. 12).
- Improving the performance of A.I.D. project and financial officers is critical to improving financial management. The managerial role of the Project Officer is ambiguous, and both Project and Financial Officers often have little implementation experience (p. 26).
- The essentials for improving financial management of all USAID projects are: 1. the installation of a basic, simple financial system; 2. the strengthening of internal controls to prevent misuse of donor resources; 3. the training of staff to use these systems (pp. 29 to 36).
- Financial management improvement may be attained at three levels: through accountability for AID funds; financial integration of the development budget of host country organizations; or a comprehensive management system. The level of improvement to be achieved depends upon the interests of the USAIDs and host country institutions. The achievement of the highest level requires technical assistance (p. 22).
- Some host country and regional institutions require the development and use of comprehensive management systems which will provide an opportunity to forecast and measure financial and development performance in addition to recording transactions and establishing internal controls (p. 38).

## TABLE OF CONTENTS

	<u>Page</u>
A. Background	1
B. The Financial Management Improvement Team's Objective, Scope and Activities	2
C. Overview of the Institutional Reconnaissance	5
D. Observations on Realities and Constraints for Improving Financial Management	8
E. Organizational Structures of Host Country Institutions	16
F. A Strategy to Improve Financial Management in the Sahel	20
G. Improving USAID Management Performance	26
H. The Basic Accounting System and Modifications	29
I. Strategy for Achieving Financial Accountability (Level 1)	33
J. Strategy for Achieving Improved Financial Management (Levels 2 and 3)	37
K. Summary of Recommendations	39
 <u>Appendices:</u>	
A. Objectives and Scope of the Proposed System	A-1
B. The Accounting System for Control of Sales Proceeds of P.L. 480 Title II Commodities	B-1
C. Recent Reports on Sahel Management	C-1
D. Sahel Training Resources	D-1
E. List of Persons Visited	E-1
F. Management Courses and Materials Available Through FM/TD	F-1
G. Draft of Prequalification and Design Questionnaire	G-1

## A. Background

Recent audit reports of the Sahel Development Program have raised serious concerns regarding its viability and effectiveness. 1/ A number of key issues have been identified highlighting limits of absorptive capacity for development assistance in the region, inability of host governments to finance recurrent costs and inadequate financial controls and management. The validity of these concerns is supported by the conclusions of other general audits on implementation of A.I.D. projects 2/ and by the observations in audit reports on specific projects. 3/ The findings of these audits present a great threat to the survival of A.I.D.'s contribution to the long-term development of the Sahel. Specific steps must be taken immediately to address the primary concerns or the total program will suffer.

Serious deficiencies in the accounting for funds in both bilateral and regional institutional support projects are among the most critical issues raised. Audit Report 81-35 states that the Inspector General's review of 9 projects in the Sahel "indicated serious problems in regard to local currency expenditures" and on the basis of 13 projects the Inspector General concluded that financial controls of the identifiable \$41.7 million expended in local currency as of December 31, 1979 were totally inadequate and that "millions of dollars in local currencies are possibly being misused." Another audit of the Sahel Regional Aid Coordination Project, 625-0911, specifically criticized the CILSS and the Sahel Institute for having inadequate control over expenditures and for lacking the capacity to meet A.I.D.'s financial reporting requirements. Disbursements from FY 76-79 were made on the basis of incomplete financial data. CILSS' grant funds were cut 50% in FY 80 and releases of monies have not been made in FY 81 for funds obligated in FY 80. These illustrations are typical of financial control and management problems which have been identified by audits and mission observations on other projects.

The need to improve financial management is most pervasive among the concerns and recommendations arising from the audits. Ultimately, however, financial management solutions must address not only the specific issues of accountability but also the issues of performance and meeting the program and project objectives. The challenge facing the Sahel program is to resolve both financial and general management problems. The problems identified are serious, but they are not unique. These management issues confront not only A.I.D. in the Sahel; they typify problems of implementation throughout the Agency.

- 1/ Improvements must be made in the Sahel Regional Development Program, Audit Report No. 81-52, and Problems in Host Country Accounting for Utilization of AID Funds in the Sahel, Audit Report No. 81-35.
- 2/ AID slow in dealing with Project Planning and Implementation Problems. Audit No. ID 80-33.
- 3/ Problems in Implementing AID's Livestock Sector Projects' Activities in Mali Audit No. 80-67.

B. The Financial Management Improvement Team's Objective, Scope and Activities

In response to the problems identified in the latest reports, the Director of AFR/SWA undertook several initiatives to find ways for improving financial management within the Sahel program. In recognition that such an effort must be carried out in cooperation with other sections of the Agency, especially the Office of Financial Management, he appointed a Financial Management Improvement Team to identify and develop ways to improve financial management in Sahelian institutions.

The team was first convened in January. Its initial step was to clarify the objectives and scope of the assignment. The team's primary objective was to develop a strategy for improving financial management capability in Sahelian institutions in order to ensure maximum utilization of U.S. and other resources for the implementation of development projects and programs. The strategy was to address financial management capabilities in three typical situations:

- Sahelian interstate organizations, such as the CILSS and the Sahel Institute (INSAH);
- Organizations managing local currency funds generated by P.L. 480 sales, such as OFNACER in Upper Volta and OPAM in Mali.
- Host country government organizations responsible for the coordination and implementation of bilateral projects.

The team undertook the assignment on the premise that accounting is only one aspect of responsible financial management, and that all financial management functions are related to other management functions, as exemplified by the relationship of budgeting to planning, or accounting to monitoring. Innovation and change in one aspect of the organization, such as improved financial management, affects other aspects because of the interaction between various organizational functions and behaviors. Therefore, it was determined that the strategy for improving financial management should include the training of accounting personnel only as one part of a more comprehensive strategy aimed at effectively revising accounting and financial management procedures, practices and systems in the client institutions.

The team studied problems and past implementation experiences to identify alternative approaches and solutions. For example, the failure of an attempt to install a USAID-designed financial accounting system at the CILSS was thoroughly reviewed with those who had worked on the system and their observations were incorporated. Based on such practical examples, along with team members' own field experiences, it became clear that a successful strategy must include two basic components:

- technical content, i.e., specific designs for accounting and financial management systems including documentation, document flows and controls; and
- training processes, i.e., the steps, training and relationships to be undertaken by relevant organizations for the effective installation and implementation of the systems.

As future funding was already threatened for the CILSS and several bilateral projects, the team developed an operational plan in response to the urgency of the problems. This provided an opportunity for testing the acceptability of proposed strategies and promoting the first steps of a quick response to demands for improved financial management in specific project situations. The team's plan involved the following basic steps:

1. to develop models and designs of accounting systems and training strategies to solve basic problems;
2. to conduct institutional reconnaissance to test the acceptability of these solutions on specific projects;
3. to finalize the strategy in a report which would include the framework for acceptable and appropriate accounting systems, the outlines for training strategies, and a set of action-steps to move towards implementation;
4. to begin installation in several test areas, monitor and adapt the strategy based on experience; and
5. to develop further plans for expanding the effort through cooperating and supporting institutions.

This approach provided a strategy which, after receiving preliminary field testing, could be quickly applied and adapted, and would ensure that funds would be kept flowing while financial management capabilities were being developed.

The primary tool for improving financial management is the installation of adequate accounting systems. The training strategy is oriented toward the persons on the job in the organization to help them install the systems to solve problems of accountability. Specific job assignments, relationships and skills required for implementing the system will be improved and will result in better performance of basic financial management functions.

As a result of the preliminary study and previous field experiences, model solutions were developed which could be tested for acceptability in the field. A basic accounting/financial control system was designed to meet the needs of the Sahelian institutions. An action-training strategy\* aimed at creating capabilities to implement and reinforce the institutionalization of the basic accounting and financial control system was developed.

\*An action-training strategy is one in which new skills and concepts are learned and immediately applied to actual work situations.

C. Overview of the Institutional Reconnaissance

The institutional reconnaissance provided an opportunity to test the relevance and acceptability of the model solutions. One of the key assumptions was that the climate of acceptance must exist both in USAIDs and in host institutions for the strategy to succeed. This experience played a critical role in designing the plan of action because of two basic assumptions accepted by the team. First, to assure achievement of improved financial management, the methods employed must be appropriate to the needs and characteristics of the recipient institutions and their immediate environment. Therefore, a detailed action plan should be designed only after close investigation of the organization's needs and circumstances and the needs and expectations of the client donor/agencies. Secondly, to assure the institutionalization of revised financial management practices and procedures, the training methodologies must be designed to fit the organizational and cultural context. Therefore, appropriate use should be made of organizational data during design of the training.

Besides providing the team with an opportunity to test the proposed solutions, the field visits also permitted observation of actual problems and constraints which had been documented in the audits and other reports. The team tried to learn as much as possible from the experiences, perceptions and expectations of USAIDs and host institutions in introducing the proposed accounting system and training strategies. Although limited field time restricted the team's observations and testing of the accounting system and training strategies, there was sufficient opportunity to judge the conditions and the acceptability of the design in selected situations.

Three basic sets of questions were formulated:

- a set of technical questions about the adequacy and appropriateness of the accounting system and the capacity of personnel to use the system;
- a set of questions about the receptivity, support and encouragement for the training and innovations required to install the systems successfully; and
- a set of questions about the activities presently being undertaken in the field to resolve the problems of financial management and capabilities for carrying out these actions.

The team planned to test the acceptability of the proposed solutions both in A.I.D. and host institutions in Upper Volta and Mali through a process of contacting all relevant levels of the organizations that would be affected by the systems and training. A process was designed to establish a collaborative mode for developing, adapting and installing the training and accounting systems requiring multiple meetings with key persons. The process begins with introductory discussions where courses of action and objectives are discussed. This is followed by an intensive study of the present systems and procedures which will be modified. Tentative solutions are presented to the organization for discussion, examination and modification as appropriate. Finally, there is a discussion of the next steps and responsibilities for involvement of the organization. This process proved to be effective for introducing the changes and inducing understanding and acceptance at all levels.

The team's conclusion is that there is a commitment to improved financial management in USAIDs and specific host institutions which will support the proposed strategy. In some instances, the commitment and felt needs were quite high and the possibilities of success were evident from the brief interventions during the field visits. Limited actions by the USAIDs toward the improvement of financial management have already begun and the team's proposed strategy can provide the technical and training guidance.

To carry out the institutional reconnaissance in Mali and Upper Volta, the team was expanded from three to five members. It was divided into two groups, one worked with the interstate and PL 480 organizations and the other with bilateral projects. In addition, there were discussions with other donor agencies and with several training, educational and accounting institutions. The groundwork by the Missions and previous planning by the team made it possible to test the proposed solutions with the interstate and PL 480 organizations. In general, the team felt that the institutional reconnaissance did provide adequate information as a basis for finalizing proposed designs. Final meetings with USAIDs and host institutions indicated active encouragement and support for this effort.

The following is a brief overview of the trip and the primary institutions visited.\*

1. Paris - OECD/Club du Sahel

The objective of visiting the OECD/Club du Sahel was to review their accounting and financial management systems which had been found acceptable by A.I.D. auditors, to discuss perceptions of the problems with the officials of the Club du Sahel, and to gain their understanding and support for the proposed A.I.D. initiative in this area.

2. Dakar - USAID Mission

The objective in Dakar was to observe the training of the foreign national staff in the Controller's office. A training session was observed and discussions were held regarding the accounting practices on one regional and one bilateral project. Replicability of similar actions for other Missions and for host country institutions was discussed with the Controller.

3. Ouagadougou - USAID Mission, regional institutions, host country organizations, and other donors

The team conducted an in-depth examination of the relevance and acceptability of its proposals in regional institutions (the CILSS), PL 480 organizations (OFNACER) and bilateral projects (Operation Haute Vallee, E. ORD Rural Roads, and Training of Women in the Sahel). Discussions were also held with other donors (CIDA, UNDP, the World Bank, and the Cooperation Suisse) concerning observations and approaches to financial management of development resources. Several training and educational institutions were visited to explore their capabilities for financial management and accounting training in country.

4. Bamako - USAID Mission, regional institutions, and host country organizations

Bamako provided an opportunity to further examine the appropriateness and acceptability of the proposed designs and to observe how they could be modified to fit different national settings. The systems were introduced to a regional institution (INSAH) and the PL 480 organization (OPAM). Existing accounting systems in selected bilateral projects (Mali Livestock, Riz-Sorgho and Operation Mils) were reviewed.

\*A complete listing of organizations and officials visited is contained in Appendix E.

D. Observations on Realities and Constraints for Improving Financial Management

Although only a limited time was spent with host country institution officials, it is clear that their perceptions of problems differed from those held by AID staff. Host country personnel believed that A.I.D. was more demanding in its regulations than other donors, and that the institutions' staff needed training in A.I.D. practices and regulations regarding project development and accounting to meet A.I.D. requirements. They also stressed that some of the problems of management stem from the lack of timely and precise translations of project documentation. In general, these officials agreed that proper documentation supported by vouchers and other evidence of payment receipts was seriously lacking and should be improved.

USAID management saw the problems centering around a lack of emphasis on project implementation, inadequate host country accounting systems and personnel, and inexperienced A.I.D. project officers. The latter were said to be well qualified with technical expertise, but were placed in positions of substantive management with only minimal management training. Similarly, the host country project managers were viewed as technical experts placed in senior management positions with little, if any, management experience or training.

In general, mission controllers regarded the audit reports as overly critical and unrealistic and felt that their offices had already taken steps to rectify some of the weaknesses identified. They highlighted shortage of qualified host country accounting staff as one of the primary reasons for financial management problems. They also felt that their own staffs needed training. Emphasis on obligation of funds rather than project implementation was commonly accepted as contributing to problems. The Controllers observed that project officers needed more general and financial management training prior to assuming managerial responsibilities. In general, it was felt that project-related, on-site training could benefit host country personnel as well as USAID staff.

Some project officers believed that financial management was not their responsibility. They viewed themselves as responsible for technical and daily monitoring of project activities. To them, financial control was the responsibility of the Controller's Office and they felt that, where necessary, A.I.D. should provide additional personnel for such matters. Project Officers also stated that Controllers were inconsistent.

on reporting requirements. For example, the lack of quarterly pipeline reports was regarded by some project officers as the loss of an important management tool. Project officers generally acknowledged their lack of elementary accounting and financial management experience and some felt inadequate even for general management responsibilities.

Despite differences in the perceptions of the problems, symptoms and causes, certain general observations can be made which are relevant to the strategy proposed in this report. The following section summarizes the team's observations of the problems of financial accountability encountered in the Sahel, identifies key constraints which affect the proposed effort for improving financial management, and suggests a range of recommendations which can be undertaken to add support to a strategy for improvements.

a.. The Development of the A.I.D. Program in the Sahel

The historical development of the A.I.D. program in the Sahel contributed to the present financial management problems. The program was initially developed in response to the drought disaster. Large grants, given under the Foreign Assistance Act of 1974 as part of the international relief effort were primarily in goods and services and were handled by A.I.D.'s central or regional facilities. The shift from relief and rehabilitation activities to development programs came too quickly and some projects were undertaken without adequate experience or analysis. During the initial years of the Sahel Development Program, there was a strong emphasis to obligate funds. This forced implementation issues, such as the management and accountability of funds, to become secondary considerations. The size, number and complexity of projects have grown without appropriate analysis and strengthening of USAIDs and/or host institution management capabilities. USAIDs have been established relatively recently in the Sahel and local staffs are still being developed. Recent Mission growth and difficulties of staffing have led to dependence on USAID staff who are relatively inexperienced in terms of both Agency and managerial experience. In addition, host institutions are over-burdened and many projects are not integrated into Ministry functions. Some key problems now emerging stem from a lack of planning, discipline and misunderstandings in earlier periods which have now become critical. Steps can be undertaken in the future to minimize or avoid such problems.

Recommendation 1: A standardized pre-qualification and design questionnaire should be developed to aid in the assessment and design of financial management components for projects. This questionnaire should be used for new and on-going projects, those with at least two more years until project completion date. (See Appendix G)

Recommendation 2: Specific criteria for the certification of financial systems for host country institutions and projects should be developed and utilized by USAID controllers as part of a total program to tighten financial controls.

Recommendation 3: There should be a more effective use of existing A.I.D. instruments, such as Project Agreements (PROAGS), Project Implementation Letters (FILS), and Conditions Precedent (CPs) to ensure installation of adequate accounting and financial management systems and adherence to project objectives.

b. Financial Management and the Role of Accountants

Some problems of accountability may be resolved through the training and upgrading of accountants. Attention must be given to the broader organizational context in which the accountant performs. In many Sahelian institutions, an accountant is seen as a bookkeeper who primarily takes orders and is expected to carry these out without question. The accountant does not have the authority to establish even a minimum of financial control or to assume responsibility for accountability. There are few professionally trained accountants to meet national demands and the level of pay is often low. There are high levels of turnover among accounting personnel, and few incentives for changing the conditions in which the accountant performs. Often, host country institution managers do not understand the contribution financial personnel make to overall management. Financial data is not prepared, analyzed and used in decision-making. Consequently, financial management is inadequate and financial information does not play an important role in the problem-solving process. Although financial management can be improved by the technical training of accountants, of even greater importance is improving the organizational context in which they function.

Recommendation 4: Existing regional manpower development programs should be used to provide educational opportunities in accounting and financial management.

Recommendation 5: Regional and host country institutions such as the Pan African Institute for Development (PAID) should develop specialized short courses or longer programs in accounting and financial management. Short programs should be promoted to provide wider coverage and give broader capacity for Sahelian financial, technical and management personnel. Existing programs in the French language should be explored and technical assistance given for curriculum and course development for different aspects of financial management with emphasis on accounting.

Recommendation 6: Persons receiving training under participant training programs often move quickly into managerial positions. Management training should be a required component, e.g. three hours of basic accounting and three hours of general management for all participants and the specifications for such programs should be carefully developed and oriented towards management skills.

c. Donor Practices Regarding Accountability

A.I.D. assistance is frequently handled differently from that of other donors. Most donors tend to be less dependent upon indigenous systems for financial control and accountability. Much development assistance is in the form of goods and services handled by the donors themselves. Where there are large amounts of local currency expenditures, expatriate financial management personnel are often assigned. Insignificant monies in the form of subsidies or grants require little documentation. Where local personnel are used, their salaries are often supplemented but this practice is lessening due to pressure by host governments to preserve the integrity of their salary systems. In general, A.I.D. was more concerned over the accountability issue than other donors, but there was general agreement on the need for efforts to improve financial management.

Recommendation 7: Projects with high levels of funding should have administrative support and management development components designed to improve institutional capabilities. The need for such components should be identified early in the design stage.

Recommendation 8: The Controller's Office should become more actively involved in project identification, project design, assessment and evaluation.

Recommendation 9: The education of host institution officials on A.I.D. regulations should be addressed through discussions, seminars and workshops defining common approaches to meeting A.I.D. requirements.

d. Appropriate Accounting Systems

Difficulties have been encountered by audit teams verifying and certifying some expenditures even when documentation exists. This can be partly corrected by using the budget categories specified in project agreements. A commercial type double-entry accounting system is unnecessary for non-profit organizations. Fund accounting is adequate and is similar to existing practices, and does not require the maintenance that a double-entry system demands. Fund accounting, similar to that used by government and public organizations in the U.S. and Europe permits adequate levels of control. The team found that there was a high degree of acceptability for the proposed core accounting system and that the minimal changes recommended, such as recording encumbrances by line items, were readily understood and accepted as useful to the host institution as well as the donor. Systems developed by other donors on specific projects, such as that of the Germans with the PL 480 organizations, can also be used to revise other less effective systems. A fund accounting system based on budget encumbrances and expenditures seems adequate for most situations and can be modified to meet specific needs, such as those of organizations managing PL 480 funds. To support an accounting system, a minimum amount of supplies are required and these are often missing or inadequate in Sahelian institutions.

Recommendation 10: Where possible, existing systems should be used and certified in accounting for A.I.D. funds. Where it is necessary to install a revised accounting system, there should be careful analysis to maintain congruence to the maximum extent possible with the present system.

Recommendation 11: Assessment of financial management capabilities should identify the support requirements for adequate accounting and, where there is a lack of basic office equipment and supplies, funding should be provided to ensure continued operation of the system.

Recommendation 12: Accounting systems should isolate the receipts and expenditures of funds by donor.

e. Special Circumstances on Some Bilateral Projects

It will be necessary to adapt the accounting system and training to the special circumstances of each country and institution even though a general strategy is deemed to be appropriate in this report. These special circumstances include the non-acceptance of purchase orders and check payments by vendors, inadequate office supplies and isolated locations of project offices posing travel and communication difficulties. In small projects with few personnel, the separation of functions for adequate internal control is limited. In many small projects, the amount of time and cost for USAIDs to check and receive documentation may be inordinate when relatively small amounts of money are involved. There can be more attention paid to appropriate use of an accounting system and more reliance on Project Officers' monitoring of project performance.

Recommendation 13: The strategy for improving financial management should be chosen by the mission so that it can be adapted to the special needs of small or dispersed projects. Missions should have the authority to determine the levels of financial accountability and management desirable for specific projects.

Recommendation 14: Consideration should be given to establishing a project accounting station for USAIDs or countries where accounting capability cannot be developed in the host institutions.

f. Previous Financial Management Improvement Activities

The concerns of inadequate financial management on projects are not new. Implementation problems are becoming serious, and as a result Missions have already begun to take some steps to correct some of the identified problems. The awareness of the problems has increased due to project reports, financial audits, restriction of funds and the obvious evidence of concern and interest of AID/W in sound financial management and implementation of programs. Missions have, in fact, requested further audits to determine the nature of the problems as a step to improving performance.

In Mali, several reports have stressed the need for improved management, systems development and training. The report of the Denver Research Institute <sup>4/</sup> and the Rousch report <sup>5/</sup> provide an excellent overview of management problems and suggest definite approaches toward solutions. In general, the team found that their conclusions and recommendations are supported by the findings of these reports. For example, the problems identified include the lack of accounting skills, the need for improved financial accountability and general management, the need for training of both Mission and host institution personnel, and the need for review and improvement of existing management procedures and systems. Beyond these studies, which have not yet led to action, the Controller's Office instituted procedures and questionnaires to review the accounting and control systems for bilateral projects. The review was incomplete and the approaches were not standardized. In one instance, financial reports were part of management documentation, but these were judged dysfunctional and were discontinued. Yet financial reports are a critical tool for Mission management. It would be valuable to share experiences and information among Missions on a coordinated basis to devise and standardize effective approaches for dealing with financial management both in Missions and with host country institutions. Thus, although there is a relatively high awareness of the need for and commitment to improved financial management, there is a need to develop ways in which the awareness and commitment can be turned into action.

<sup>4/</sup> AID contract with Denver Research Institute, University of Denver.

<sup>5/</sup> Development is a Joint Effort, discussion paper on Improving the Effectiveness of USAID-Funded Technical Assistance to Mali - by James Rousch, Consultant.

Recommendation 15: Periodic workshops and conferences should be held on a regional basis to promote development of useful and standardized financial management instruments. For example, Controllers might develop pipeline reporting formats and procedures for measuring project implementation.

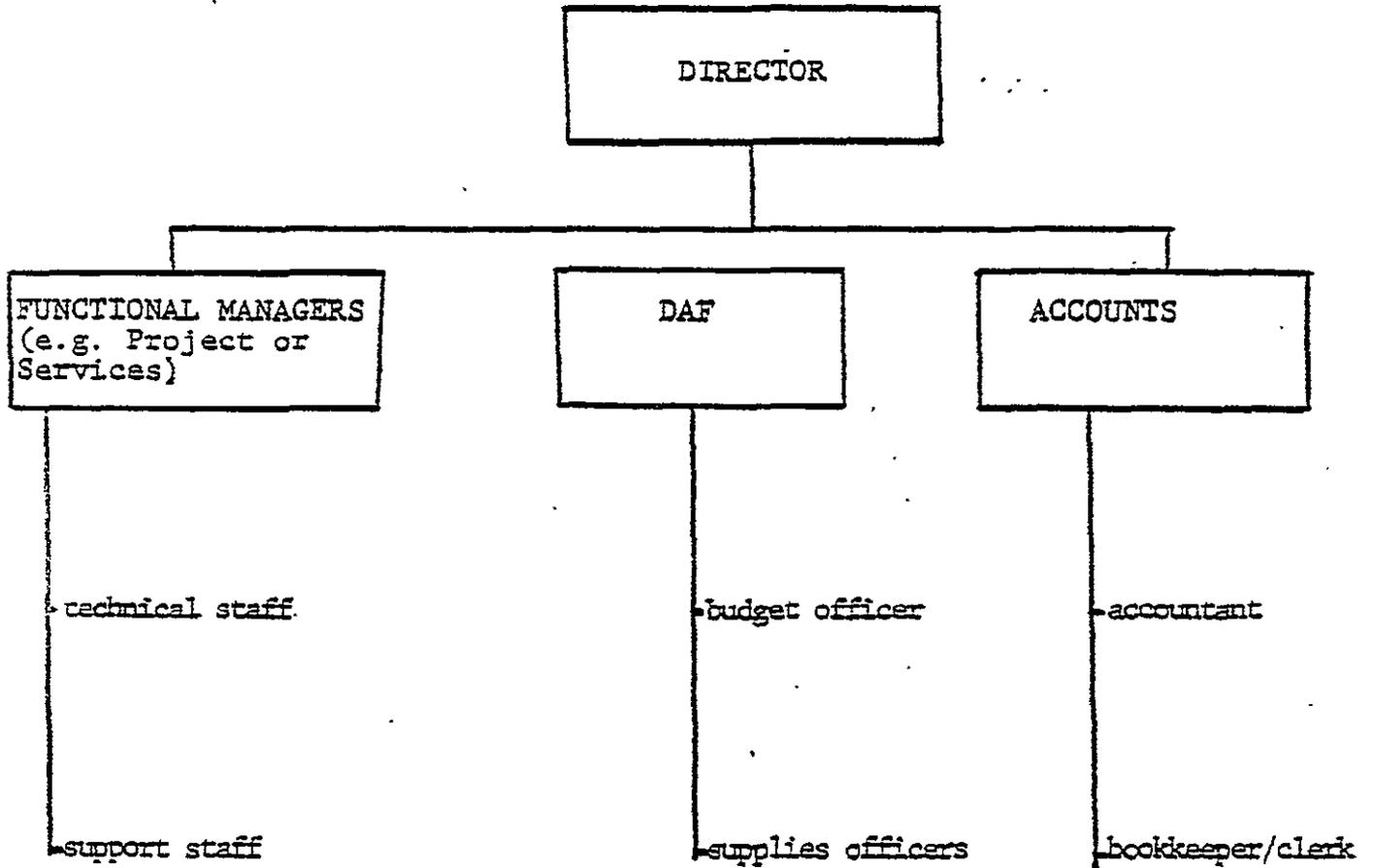
E. Organizational Structures of Host Country Institutions

The financial management improvement strategy proposed by this team is based upon the installation of an adequate and appropriate accounting system in host country organizations. Successful installation requires an understanding of the organizational context, structures and behaviors that must be modified to accept and use the accounting system.

In many Sahelian institutions, there are two sections which although separate and distinct, are functionally integrated and share the basic responsibility for financial management. One of these, the Direction Administrative et Financiere (DAF) is the center of financial control. It has the responsibility for controlling encumbrances against the budget, and performs financial advisory functions for top management. The other section, the Agence Comptable (AC) is primarily responsible for the day-to-day execution of the budget, accounting and recording functions and reporting functions. Finally, as seen in Figure 1, there are functional divisions or project teams which are responsible for undertaking commitments and expenditures in performing their activities.

In preparing a comprehensive strategy to deal with the problems of financial management, all three areas, the DAF, the AC and functional or project services, must be affected. This strategy should be oriented toward meeting the organizational performance needs of all persons involved in accounting systems and financial management.

Figure 1: Organization Structure



Although it was found that host country institutions generally follow the organizational structures outlined above, this was not the case for all projects. In some instances, the dividing lines between the functions are not distinct especially in cases of small projects, distant locations and limited staff. While organizational arrangements may differ and conformity to a model is of no particular significance, it is essential that the key functions are identified and discharged successfully. The most important issue for the successful improvement of financial management is not to whom specific responsibilities are assigned, but whether these functions are performed in a timely, effective, accurate and auditable fashion.

The team's proposed financial management training will be oriented toward improving the performance of the person on the job, so that the financial management system can be installed and effectively implemented. Therefore, it is important that specific functions, assignments, relationships and skills in the system are defined to clarify responsibilities and identify the skills necessary to perform those responsibilities. Financial management functions can be divided into three general categories: (1) basic accounting, (2) financial control, and (3) financial management.

Basic accounting functions involving the allocation and tracking of funds, include general accounting in which financial events are recorded and reported. This can be viewed as scorekeeping in which expenditures and encumbrances are recorded and measured against allocations. This group of functions include:

- Cash Management
- Accounts Payable and Disbursements
- Maintaining Journals and Ledgers
- Recording Transactions
- Payroll
- Coding
- Summarizing Transactions
- Reporting
- General Accounting

Financial control functions complement accounting and involve budget preparation, monitoring, and the control of organizational resources including personnel, inventory and supplies and monies. This group of functions includes:

- Budget Preparation
- Budget Execution
- Funds Control
- Property Control
- Internal Control

Financial Management involves the use of information produced by the accounting and control system for organizational problem-solving and decision-making. This group includes:

- Cost Analysis
- Cost Accounting
- Financial Forecasting
- Auditing
- Reporting
- Decision Making
- Communications

F. A Strategy to Improve Financial Management in the Sahel

Improving financial management involves not only developing accounting competency, but also a broader set of organizational and technical problems requiring management training and organization development. It will be necessary, for example, to deal with the role and perceptions of accountants, the control functions, delegations and use of authority, and decision making. Achieving high levels of sound financial management may not be possible in all instances. It may suffice for some projects to achieve only financial accountability for USAID appropriate funds in the host institution. In other projects, the achievement of improved financial management may be a primary objective and a very important institution-building component of the total project.

Financial accountability is the accumulation of adequate evidence in support of encumbrances and disbursements made by the Agency under its project activities. This means an adequate audit trail exists from the vouchers and reports submitted by implementing agencies requesting reimbursement. Financial transactions should be traceable to documents within the institution in order to determine their accuracy and appropriateness. Internal control is necessary to assure that the documents represent evidence of transactions which took place in the manner and for the purposes stated.

Financial management takes into account a larger sphere and is limitless in its application and scope. It encompasses the accumulation of accurate financial information for utilization as a management tool for decision-making during project implementation and/or modification. This requires not only the collection of information but the knowledge and ability to properly interpret and apply that information in a successful manner.

The strategy recommended in this report recognizes that there can be different levels of achievement for improving financial management. Three different levels have been identified ranging from basic accountability to financial integration to comprehensive financial and organizational management.



Level 1: Financial Accountability for USAID Funds is characterized by the accountability for U.S. funds within a project or organization. A basic accounting system appropriate to the project situation can be installed so that USAID funds are auditable, i.e., are documented and can be traced. In this instance, the USAID contribution will be generally isolated from other organizational funds, and its use determined by the budget of the project agreement. Encumbrances and expenditures and recording of transactions will be closely controlled, or at least monitored, by USAID representatives.

Level 2: Financial Integration of Development Resources can be characterized as a step beyond mere accountability for the A.I.D. contribution to fuller financial control within the host institution. Concern for accountability for USAID contributions is integrated with a broader concern for the total developmental and/or organizational budget of the host institution. There is a deliberate improvement in the control and coordination of all development resources at all stages from planning, obtaining funds, allocating funds and resources, to expenditures and inventory/supplies controls. At level 2, there is an integration of budgeting, internal control, accountability and property controls, and fuller coordination of functions between donors, the DAF and the AC. The direct responsibility of the USAID representatives is less than with level 1, but they continue to be involved as they support the financial system and carry out their functions with respect to A.I.D.-supported activities.

Level 3: Comprehensive Financial Management is characterized by the development of accounting and financial control systems which are fully integrated into the higher levels of organizational management. At this level, the concern is expanded beyond accountability and integration to use these as instruments contributing to organizational management. Level 3 moves beyond scorekeeping and resource control to managerial accounting in the sense that the accounting and control functions become relevant to other functions of the organization. For example, this level involves the preparation of financial forecasts relative to observable objectives, the development and monitoring of performance budgets, the coordination of organizational behavior and productivity, and the presentation of financial and performance implications of these patterns. Management information systems must be developed to record the past and present, to establish additional internal controls and also predict development. Level 3 requires host country and A.I.D. commitment to full involvement at all levels. Managers need to master the objectives and structure of performance budgets and capital budgeting, along with other managerial tools to discharge their responsibilities for planning, managing and problem-solving more effectively.

Each level represents specific objectives, as shown in Figure 3. The selection of the appropriate financial improvement level will depend on a number of variables, such as the characteristics of that situation, the resources and organizational constraints, and the objectives of A.I.D.

Figure 3: Financial Management Levels and Objectives

Objectives

- Level 1: FINANCIAL ACCOUNTABILITY (Encumbrances and expenditures for A.I.D. funds)
  
- Level 2: FINANCIAL INTEGRATION (Integrated host institutional budget, stock and expenditure control)
  
- Level 3: COMPREHENSIVE FINANCIAL MANAGEMENT (financial accountability and integration with organizational decision-making)

There are definite implications in terms of the financial management systems and training that are appropriate for each level. Each specific situation must be assessed to determine what is appropriate. At a minimum, Level 1 should be achieved for all projects. In collaboration with host institutions, USAIDs determine which level is appropriate for individual projects. Some criteria may be offered to help determine the appropriate level for each financial management improvement effort. These are summarized in Figure 4.

Figure 4: Criteria for Determining Financial Management

A.I.D. Objective

- financial accountability
- financial control
- financial management

Scope and Size of the Project

- total \$ involved
- % of total project/program funded by A.I.D.
- available or required resources/components

Host Institution Commitment

- commitment to management development
- commitment to financial control
- commitment to meeting regulations to receive A.I.D. funds

The Objectives of A.I.D. will be a major factor in selecting the appropriate level for financial management improvement. In some instances, the building of institutional capabilities is a priority concern and critical to project success, such as in large sector-wide projects in which it is desirable to achieve Level 3. In other cases, institution-building may be of little concern and would involve substantial trade offs in actual outputs of the project, in which case Level 1 would be sufficient. The objectives of A.I.D. are generally incorporated into the project design, but may need to be expanded depending on the experience and performance of the project.

The Scope of the Project is another important factor. In the case of small projects with limited time horizons and limited personnel, there will be more tendency to achieve Level 1. In the case of large and comprehensive projects, there is greater need for achieving higher levels of improved financial management (Level 2 or 3) and more justification for the contribution of additional resources required to achieve those levels. As an example, the Livestock Sector Project or the Haute Vallee Project in Mali are comprehensive projects in which management development can be a major component of institution-building.

The Size of the A.I.D. Contribution is a further determinant of an appropriate strategy. In some instances, A.I.D. plays a minimal role in the total project funding in which case, Level 1 may be appropriate. In other projects, A.I.D. may be a significant funding source providing the basis for achieving Levels 2 or 3. It may sometimes be necessary to build management components into the project design to develop and maintain institutional capacities to handle high levels of development assistance competently.

The Nature of A.I.D. Involvement as well as the size of that involvement can determine the level which is desirable. In some instances, the A.I.D. contribution may be limited to funding without a direct technical assistance component. In others, there may be persons who can provide the technical assistance for the required management development component in the project. The A.I.D. involvement may call for financial management and organizational development so the implementing organization can adequately handle A.I.D. development assistance.

The Host Country Commitment is one of the most critical factors for the selection of the appropriate level. If there is a full commitment by the management of the implementing organization to improved financial management, it is possible to promote the achievement of Level 3. If the commitment is limited to financial integration, Level 2 is appropriate and the efforts to achieve Level 3 would probably be unsuccessful. Where the host country institution is simply meeting A.I.D. requirements to obtain A.I.D. funding and assistance, Level 1 would be adequate.

G. Improving USAID Management Performance

Improvement of the performance of A.I.D. project and financial officers is critical to improving financial management. A need for training A.I.D. personnel to help them relate to host country institutions is generally acknowledged. Some financial problems can be attributed to the relationships of A.I.D. with host country institutions and to the shortage of A.I.D. staff.

A.I.D. officials who are directly involved in financial management can benefit from training to install and implement appropriate accounting systems -- Project Officers in addition to Financial Officers (the Controller and his staff). The roles of the Project Officers are defined in policy and operational statements, but the team observed that they were exercised differently in the two Missions visited. A great deal of ambiguity about actual responsibilities for financial management of projects exists. The role and responsibilities of the Controller's Office have been expanding in direct response to the problems identified. Controller's Offices are assuming more active roles in relating to host country institutions as exemplified in their efforts to certify accounting systems and monitor project funds. Additional responsibilities require more time and expertise on the part of the Controller and his staff. Financial management practices must be uniformly applied.

Primary training concerns were raised with respect to Project Officers who have management responsibility and Financial Analysts or Accountants assigned to monitor project funds. Project Officers are frequently specialized technical personnel who find themselves in management positions, with little management experience or training. Many do not have a working knowledge of A.I.D. procedures and regulations nor of general management. The Financial Officers, though usually well-trained in accounting and A.I.D. financial regulations and procedures, have little practical project implementation experience. Therefore, a strategy for financial management improvement must incorporate training for these officials and other A.I.D. staff. Figure 5 contains a list of the information and skills which Project Officers and Financial Officers assigned to projects should have to improve financial management in host institutions. Significant research and effort have been made to produce materials for training A.I.D. personnel. A review of these materials should be made to see if they can be adapted to meet Mission training needs.

Figure 5: Knowledge & Skill Requirements for USAID Project and Financial Officers

Project Officers

Financial Officers

To Install System  
for Financial Accountability

The Accounting System  
Host Institution Regulations  
Reporting  
A.I.D. Regulations  
Host Country Procedures  
Project Management  
Management Styles

The Accounting System  
Host Institution Regulations  
Reporting  
A.I.D. Regulations  
Accounting  
Auditing  
Host Country Procedures  
Financial Management

To Improve Financial Management  
(Include All Of The Above)

Financial Management  
Management Information Systems  
Spot Audits  
Administrative Analysis  
Project Planning  
General Management

Financial Analysis  
General Management  
Management Styles  
Systems Design  
Project Management

Recommendation 16: Experienced A.I.D. personnel should be assigned to the Sahel. This would facilitate improved financial management and training of less experienced personnel.

Recommendation 17: Missions should survey their training needs for carrying out actual responsibilities and establish plans for in-house training, using existing Mission resources and personnel.

Recommendation 18: PM/TD, which now offers management courses for A.I.D. personnel, should be involved in this effort to the maximum extent. They could catalogue materials available to Missions, revise existing materials to meet specific Mission needs, and develop special plans for helping Missions provide appropriate training. Workshops might be conducted to meet special needs.

H. The Basic Accounting System and Modifications

The key factors in the strategy to improve financial management are (1) installation of an adequate and appropriate accounting control system and, (2) training a staff to develop skills needed to implement and use that system. As mentioned previously, a system that is too complex is unacceptable. The team designed a model which was tested in the field for acceptability and appropriateness. It was found that the system was fundamentally appropriate, but some modifications were made as the trip progressed.

The purpose of the accounting system is to correct deficiencies related to the accounting, controlling and reporting on the use of A.I.D. and other donor funds, and the control of proceeds from the sale of PL 480 Title II commodities. The systems must have the capacity to:

- (1) provide accurate, complete and timely accounting information;
- (2) strengthen internal controls preventing misuse and waste of donor-generated resources and ensure compliance with conditions of project agreements; and
- (3) provide a system of accurate and auditable financial reporting that will assist USAIDs and other donors in monitoring project implementation, host country institution's cash requirements and periodically assessing financial management capability and performance.

System acceptance is the goal of any accounting system design effort. A general accounting system requires modification to meet the needs and circumstances of the various implementing organizations. The criteria determining the acceptability of an accounting system are:

- (1) it must meet A.I.D. requirements;
- (2) it must be simple to operate and its use defined;
- (3) to the maximum extent possible, it must be congruent with existing organizational structures, internal procedures and forms, etc.;
- (4) it must create an audit trail.

Based on the original system design and the results of the field visit, the team proposed a basic accounting system which, with modification can meet the needs of interstate organizations and bilateral projects.\*

The core accounting system facilitates financial control of disbursements and encumbrances of funds against budgets. It is designed so that modules or components can be easily added, i.e., if a revolving fund must be attached for revenues or fee collection.

When a Project Agreement is signed, the DAF creates a donor receivable account and a general journal to control encumbrances against the approved budget contained in the Project Agreement. The AC creates a Cash Receipts and Disbursement Control Ledger into which advances and disbursements in previously designated categories are recorded. As funds are received by the DAF, they are credited to the donor receivable account, deposited in separate bank accounts and recorded by the AC in the Cash Receipts and Disbursement Control Ledger. The flow of documents for control between the DAF and the AC is explained in Appendix A. The AC takes primary responsibility for review and processing of disbursement transactions while the DAF maintains budget control functions and reviews budget encumbrance documentation. For each transaction, there will be a package of documents, including the vendor's invoice, the purchase order, the receiving report and a duplicate of the check which has been fully authorized and certified by organizational management procedures. This system controls encumbrances and disbursements, and retains a file of documentation which can be later referenced for audit purposes.

\*See full explanation of the system in Appendix A.

This core accounting system summarizes encumbrances and disbursements in simple monthly reports which can be issued to organizational management and to the donors. A basic report might show by line item:\*

- (1) Latest Budget
- (2) Cumulative Encumbrances
- (3) Previous Period Disbursements
- (4) Current Period Disbursements
- (5) Cumulative Disbursements
- (6) Undisbursed Encumbrances
- (7) Balances

The core system facilitates bank reconciliation and cash flow analysis. A bank reconciliation can be easily done utilizing the balance column of the Cash Receipts and Disbursement Control Ledger and the figure on the bank's statement. A cash flow analysis format as shown in Appendix A can help donors provide optimal amounts of advances to encourage project implementation yet exercise conscientious cash management.

As organizations' needs become greater and they become more familiar with the accounting system, additional information could be required. Data regarding the status of various activities, techniques such as accruals, accrued expenditures forecasting and comparisons between planned and actual accrued expenditures will become components of the system.

West African local procurement practices are such that the widespread acceptance of purchase orders to secure goods, as in the developed countries, is rare. The West African procurement procedure is generally a cash-and-carry policy. A petty cash purchasing fund is a critical component of the financial system to permit petty cash and general cash purchases.\* This can be controlled through checks issued as advances on the Cash Receipts and Disbursement Control Ledger which establishes the petty cash purchasing fund.

\*See Appendix A.

Host country implementing organizations will have many varied operations that will require modifications of the core accounting control system. Travel advances are a common problem in many organizations and can be handled by the system with a simple technique explained in Appendix A. Other situations, for example, revolving credit funds that provide small amounts of credit to farmers or other target groups, may also be accommodated.

Special attention must be given to accounting for control of sales proceeds of PL 480 Title II commodities. The accounting system for use with host country organizations charged with the full spectrum of activities related to PL 480 Title II commodities is simple and is patterned after the organizational structures currently used in Upper Volta (OFNACER) and Mali (OPAM).\*

The system shown in Appendix B is based on observations of operations in Ouagadougou and Bamako. It is similar to that used by other donors over the past several years. It utilizes an organizational structure consisting of an accounting office, a warehousing function and a Direction Commerciale. It is possible to know the status of a food campaign by reviewing records of the warehouse, the bank account and accounts receivable. A blocked account ensures that funds are released only with the approval of the host government and the U.S. Government.

\* See Appendix B

I. Strategy for Achieving Financial Accountability (Level 1)

In meeting the objectives of improved financial management, three levels have been identified -- financial accountability, financial integration and financial/organizational management. Financial accountability is the minimal acceptable level for all USAID projects and should be achieved as quickly as possible to ensure proper use of development assistance. The key to improved financial accountability is the installation of appropriate accounting systems and the training of personnel to operate and use these systems. The process of installing the accounting system and the skills required to implement the system are the core of the training needs associated with this strategy.

Level 1, Financial Accountability, should be applied to all USAID projects. The primary concern is for the accountability of U.S. funds. In its most elementary form, improved financial accountability involves isolating U.S. funds and controlling and documenting their use. Control is determined by the budget of the project agreement. The strategy for determining Level 1 is designed so it can be carried out by existing Mission personnel.

The system, as described above, includes at a minimum, a donor receipts record, encumbrance record, cash receipts, disbursement journal, a separate bank account and a reporting format and procedure. The installation of this system will be overseen by Mission personnel. They will need orientation to understand the system and the processes of installation. The host institution accountant must be trained to operate the system and prepare the reports. In addition, higher level host institution managers must be informed and approve of the system.

The requirements for achieving Level 1 are:

- (1) A Users Manual outlining the basic accounting systems with adaptations to specific situations and providing guidance on the actual operation of the systems, including:

- voucher processing and reviews;
- sample transactions in system;
- check payments and cash payments;
- budget changes; and
- modules for special situations such as revolving credit activities, sales and accounts receivable, travel and per diem transactions, advances, etc.

- (2) An Installation Guide outlining procedures for the introduction of the system into host institutions, basic training materials for use of the system, and general orientation materials, including:
- A.I.D.'s regulations and requirements and why they are imposed;
  - Basic U.S. Government accounting procedures;
  - Internal control and why it is necessary; and
  - Developing processes for introducing a new system in host institutions including steps and exercises to be followed.

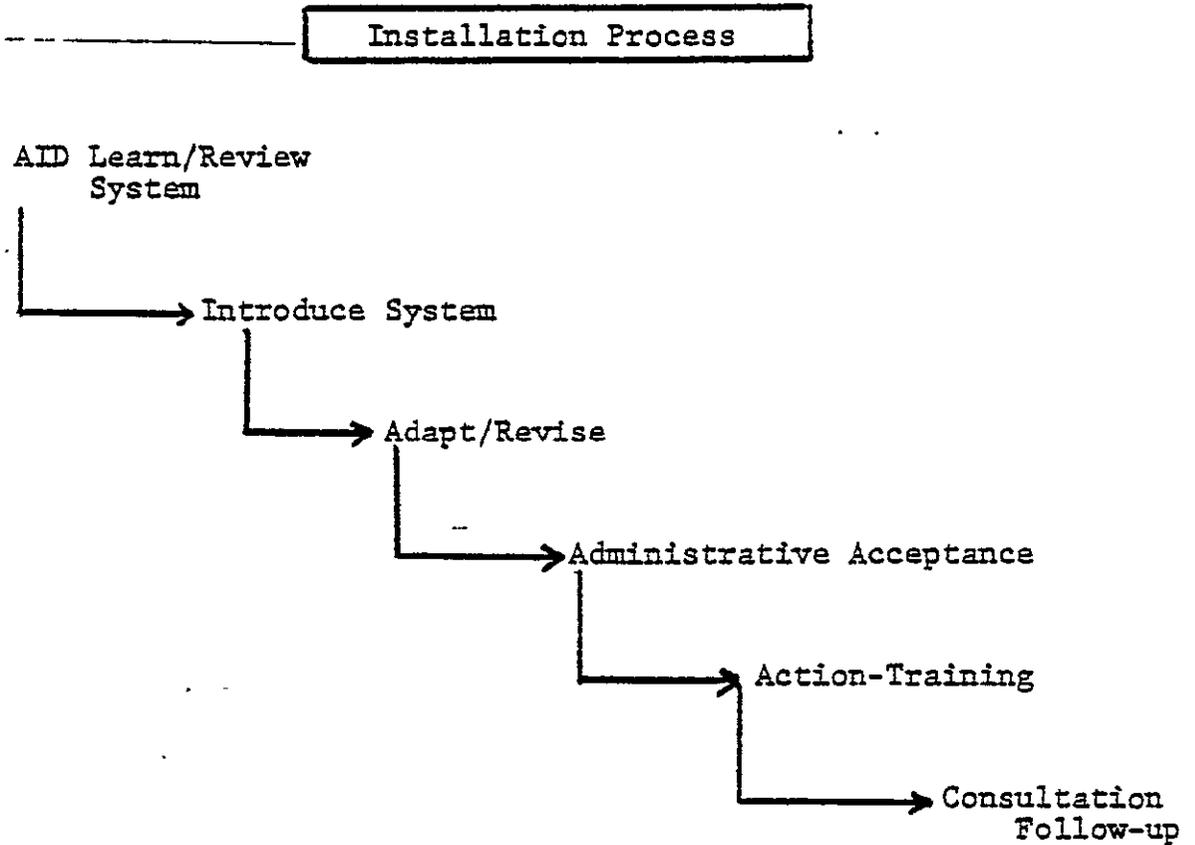
The immediate impact on financial management is based upon the successful installation of an adequate, appropriate accounting system. However, the installation is as important as the characteristics of the system. It is necessary to assure that the methods employed are appropriate to the needs and characteristics of the client institutions and their immediate environment. It is also necessary to adopt methods which will ensure effective system installation using simple practices and procedures which reinforce learning and effect behavioral change within the operational context of the institution.

Although the problem has been characterized as one of accounting, the training of accounting personnel should be part of a total process aimed at effectively implanting revised accounting procedures, practices and behaviors in the client institutions.

The installation of the new system will begin by examining the institution's present accounting system. The installation should be a collaborative effort involving the distinct steps illustrated in Figure 6. This process encourages the host institution to share responsibility for the system and modify it to meet its needs.

Figure 6: Installation of Accounting System for Level 1.

IMMEDIATE IMPACT is based on successful installation of the accounting system.



The Process of Installation is as important as the system.

The strategy for Level 1 is designed so that it can be achieved by Missions with minimal external assistance. It will, however, be necessary to provide orientation before introducing the system to USAIDs and to provide guidance on the process of installation in host institutions. Orientation workshops can help Missions develop plans for improved financial accounting.

Recommendation 19: A User's Manual and an Installation Guide should be written for adapting and placing the basic accounting system in host institutions.

Recommendation 20: Orientation should be given to selected USAIDs to introduce the User's Manual and Installation Guide and to help the Missions move toward achieving improved financial accountability.

Recommendation 21: Plans should be made to (a) evaluate the success of the effort for achievement of Level 1 in the test Missions and (b) adapt the systems and methods for introduction to other USAIDs.

J. Strategy for Achieving Improved Financial Management Levels 2 and 3

The strategy for achieving Level 1, as previously described, provides a relatively immediate impact for improving financial management only in terms of the accountability of USAID funds. It establishes a basis for achieving Levels 2 and 3. These levels require a more comprehensive organization development strategy which has broader effects throughout the organization. They address improved financial management by ensuring an integration of USAID contributions within the management systems of the total organization and by integrating financial control and management with the overall organization management.

Level 2 is characterized by a concern not only for accountability of USAID funds, but a broader concern for the management of the total development and/or organization budget. At this level there is need for coordination of planning, budgeting, obtaining and allocating funds and resources, internal and property controls, audits, etc. This level affects personnel on projects, and in functional divisions, as well as those in the DAF and the AC.

To implement Level 2 training, technical assistance would be provided through a consultant who would work in the host country institution on a full-time basis (or with two organizations depending on the amount of work required) for a limited period of time. An alternative to this would be a national or regional training/consultancy team that would conduct training seminars and workshops on management as well as training to host country institutions of a practical nature. The Mission staff would offer support through orientations, follow-up, contract management and guidance. The system would be installed through close coordination with the Mission staff and once an adequate level of competency is reached, the Mission personnel would take over the monitoring and consultation until the system is fully certified. This strategy is recommended for CILSS and INSAH at the present time.

Level 3, Financial Management, involves a further integration of financial accounting and control within overall organization management. The products of the accounting and financial control system become more sophisticated and are utilized as general management tools. These may include financial forecasts, development and monitoring of performance budgets, and operational analysis in terms of financial trends, productivity, and problem solving. Level 3 requires the development and use of a comprehensive management information system which not only records transactions and establishes internal controls, but would also provide the opportunity for forecasting and measuring financial and performance development. At Level 3, managers learn to discharge their responsibilities of planning, problem-solving and decision making more effectively.

Level 3 training would be carried out through the technical assistance provided by a consultant or a training team. In the case of large projects, such as the Mali Livestock, it would be preferable to use a team. Such a team would be most effective if it were multi-disciplinary and if several of the members were host country nationals. It could serve as a resource for management development throughout the institution and could work at all levels of the organization to improve management performance. This would be most appropriate with projects whose objectives include institution building.

In light of previous failures to install innovative and improved systems, it will be necessary to have an appropriate accounting-financial management system, as well as a general climate of receptivity to clarify assignments, structures and relationships. The organization's conditions, attitudes and resources must be supportive of improving financial management.

Recommendation 22: A.I.D. should introduce Levels 2 and 3 for appropriate projects or sectors.

Recommendation 23: A consultant should be provided to carry out the strategy for level 2 in relation to the CILSS and INSAH.

Recommendation 24: An inventory should be made of the capabilities of cooperating institutions in the region, such as training institutions, accounting firms, and universities. Distinct strategies for developing the capabilities of these institutions through curriculum development, workshops and orientation should be formulated so they can become involved in an expansion of the effort.

Recommendation 25: Opportunities should be explored for special financial management development projects on a sectoral, national or multi-national level based on the creation of training consultant teams. These teams could assist a broad range of projects and host institutions.

K. Summary of Findings & Recommendations

Financial management in Sahelian institutions receiving assistance under the Sahel Development Program must be improved. Three levels of improved financial management have been identified.

Level 1: Financial Accountability for USAID Funds;

Level 2: Financial Integration; and

Level 3: Comprehensive Financial Management

It is necessary that Level 1, Financial Accountability, be achieved for all activities receiving USAID assistance. For some projects, it is desirable to achieve higher levels of financial management control. The key to establishing improved financial management is the installation of an adequate accounting system, as is proposed within this report and training the required persons to effectively operate this system. Use of such a system will provide accurate and timely financial information which is auditable and prevents waste and misuse by ensuring compliance with the conditions of project agreements.

Due to the wide variety of situations in the various countries involved in the Sahel Development Program, it will be necessary to assess the appropriateness of design of the accounting system on a project-by-project basis. This requires that the individual USAID assume an active role in improving financial management. USAIDs can adapt this strategy to meet the special needs of their projects by determining the appropriate level of financial accountability and management desirable for specific projects. (Recommendation 13 - p. 13). Missions should take immediate steps to assess present financial management performance. This assessment should include not only the accuracy and auditability of financial accounting, but also the total financial management capabilities of the institution based upon its competence to perform basic financial management functions. (Recommendation 11 - p. 13). Where possible, existing systems should be used and approved for the accounting of USAID-provided funds (Recommendation 10 - p. 12). This will require the development of standardized criteria for the certification of financial systems of host institutions and projects. (Recommendation 2 - p. 10). Whether the existing system is used or a modified system is introduced, it is advisable to isolate development assistance by donor agency to identify applications of external assistance. (Recommendation 12 - p. 13).

As a minimum requirement, Financial Accountability (Level 1), should be achieved for all USAID projects and programs. Missions should take immediate steps to install the Basic Accounting System. In instances where it is necessary to improve or modify present situations, such modifications should be as congruent as possible with existing practices. (Recommendation 10 - p. 12). To help the Missions with the installation of a new system, a User's Manual explaining the operation of the Basic Accounting System should be prepared along with an Installation Guide explaining the process of introducing and implementing the system. (Recommendation 19 - p. 36). In addition, USAIDs should hold seminars with all recipient organizations on a regular basis to explain A.I.D. regulations and procedures and to discuss the implications of these for the recipient organizations. (Recommendation 9 - p. 12). Where it is impractical to establish financial accountability, consideration should be given to the establishment of a project accounting station to handle special cases, such as for several small projects where limited accounting capability exists.

The Missions should also identify those projects or situations in which it is desirable to achieve the higher levels of Financial Integration (Level 2) or Financial Management (Level 3). For example, on larger projects it is desirable to have administrative support and management development components designed to develop long-term financial management capabilities. (Recommendation 7 - p. 11). Where appropriate, A.I.D. should create necessary special projects on a regional, national or sectoral basis using in-country training-consultancy teams for general and financial management development. (Recommendation 14 - p. 13). Several projects should be identified immediately as a test of this strategy for improving financial management. (Recommendation 23 - p. 38). There is an immediate opportunity to test this strategy with the use of a consultant for a limited period in CILSS and then in INSAH. (Recommendation 24 - p. 38).

The overall strategy should be tested in several Missions, such as Mali and Upper Volta, where the team did the initial institutional reconnaissance. Plans should be made to evaluate the impact and effectiveness of the strategy and to adapt it, as necessary, for introduction into other Missions. (Recommendation 21 - p. 36). As the strategy is proven, cooperating institutions such as training institutions, universities, and accounting firms, should be identified in the region which can assist with its further implementation. (Recommendation 25 - p. 38).

In order to improve financial accountability and management on all projects, existing A.I.D. documents, such as ProAgs, PILs and CPs must be used more effectively. (Recommendation 3 - p. 10). To help in the process of ensuring adequate financial management, the A.I.D. Controller's Office should become more involved in project identification, design, assessment and evaluation. Besides the development of standardized criteria for accounting system certification (Recommendation 2 - p. 10), Prequalification and Design Questionnaires should be developed and introduced to better assess and design financial management systems for the proposed project environment. (Recommendation 1 - p. 10). This questionnaire could be applied to all proposed projects and to all projects with at least two more years until the project activity completion date.

This strategy can be complemented by longer-term development efforts tied into existing training programs and by institutional support. Existing regional manpower development programs can be used to provide long-term training and short-term programs offering a certificate in financial management. (Recommendation 5 - p. 11). Regional and host country institutions, such as PAID and universities, already receiving funds under other A.I.D. programs, should be encouraged to develop specialized short courses in accounting and financial management. (Recommendation 5 - p. 11). Finally, persons receiving training under existing participant training programs should have a definite requirement for basic accounting and financial management as part of their course of study, preferably in the last two semesters of their academic training. (Recommendation 5 - p. 11).

As part of the implementation of the strategy, USAIDs must consider the training of their own project-related personnel, such as Project Officers and Financial Analysts or Accountants, to ensure that they can effectively carry out their responsibilities with respect to the installation of Basic Accounting Systems and monitoring financial management and performance on their projects. Orientation must be held in Missions to introduce the basic accounting systems and methods of installation. (Recommendation 20 - p. 36). In addition, USAIDs should survey their training needs against actual responsibilities and establish plans for in-house training using existing Mission resources and personnel to the maximum extent. (Recommendation 17 - p. 27). This will be facilitated if more experienced A.I.D. personnel are assigned to Sahelian posts. (Recommendation 16 - p. 27). Training of A.I.D. personnel can be facilitated by AID/TD which could support on-site training efforts by such actions as revising existing materials to meet specific USAID needs, developing special plans to help Missions with their training and conducting workshops to meet special needs. (Recommendation 18 - p. 27).

Finally, periodic workshops and conferences should be held to promote the sharing of experiences, the development of useful financial management instruments, and to find ways in which to be more effective in dealing with problems of financial management. (Recommendation 15 - p. 15).

Objectives and Scope of the Proposed System

The purpose of the accounting control system package to be installed in host country and implementing organizations' financial offices is to correct deficiencies in the financial management practices relating to the accounting, controlling and reporting on the use of A.I.D. and other donor funds and the control of proceeds from the sale of PL 480 Title II commodities. The systems shall have the capacity to:

- (1) Provide accurate, complete and timely host country accounting information.
- (2) Strengthen internal controls preventing misuse and waste of donor-generated resources and ensure compliance with conditions of project agreements.
- (3) Provide a system of financial reporting that will assist USAIDs and other donors in monitoring project implementation, oversee host country implementing agency cash requirements and periodically assess financial management capability in the implementing organizations.

Although any accounting system requires modification to meet the specific needs of the utilizing organization, the two core systems designed and reviewed in the following sections are for use by (1) bilateral implementing organizations and regional organizations coordinating, formulating and implementing donor funded projects; and, (2) host country organizations responsible for the sales, accounting, collection, depositing and releasing of local currency funds generated from the sale of food provided under the PL 480 Title II program.

System acceptance is the goal of any accounting system design effort. Several past efforts to install an accounting package have failed in the Sahel region. The hypotheses differ as to the cause but the range of theories is from too detailed systems to an inappropriate installation package. It was felt that any acceptable design of an accounting package would ultimately depend on to what extent it could be:

- (1) simple;
- (2) designed to utilize existing organization structure, internal procedures and forms; and
- (3) auditable.

The simplicity of an accounting system is of paramount importance in developing countries. As was mentioned previously, a detailed double entry accounting system that was meticulously designed and reviewed for which journals, ledgers and forms were prepared for use by CILSS in Ouagadougou was never used.

The team's proposed accounting system was explained and reviewed in detail at both the CILSS headquarters in Ouagadougou and the Sahel Institute in Bamako. It was apparent from the receptivity and comparisons made to the current system by the accountants of these organizations that the proposed system was not a major deviation from the way business was currently being handled. The primary differences at CILSS and INSAH (Sahel Institute) between the team's proposed accounting systems are:

- (1) All donor funds are currently disbursed from a central account rather than separate donor accounts.
- (2) Journals for fund encumbrances are kept, but no control of available budget by line number of donor is maintained rendering the exercise virtually useless.
- (3) Cash disbursements and receipts are kept but not on a line item basis and not on an individual donor basis.
- (4) Reports are not timely and are unauditable.
- (5) Internal control procedures are lax if they exist at all.
- (6) Donors are unable to monitor projects effectively and are placed in an increasingly compromised position as expenditure justification remains extremely difficult at best.

The Accounting System for Bilateral Projects and Regional Organizations

The accounting system proposed for use with bilateral projects and regional organizations has the following core components:

- (1) separate bank account;
- (2) journals for fund encumbrance;
- (3) a Cash Receipt and Disbursement Control Ledger;
- (4) orderly system of files to accomodate system of temporary holding files for accounts payable;
- (5) timely reporting;
- (6) internal control applicable to the organization structure; and
- (7) USAID monitoring requirements in a decreasing pattern.

The system assumes an organization structure within the financial office that consists of two major sections: a Budget section and an Accounting section.

FINANCIAL OFFICE

DAF (Budget)	Accounting
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Upon signature of a Project Agreement, the Direction Administrative et Financiere (DAF) would create a donors receivable account as well as a general journal to control encumbrances against the approved budget contained in the Project Agreement. The Accounting Section, (Agence Comptable) within the Financial Office would also receive a copy of the project agreement and create a Cash Receipts and Disbursement Control Ledger. A \$500,000 project agreement transaction would result in the following:

Donor Receivable	
	Balance
500,000	500,000



After the conditions precedent are met and any other actions required prior to A.I.D.'s first disbursement, the initial advance (\$50,000) then enters the system. The Budget section (the DAF) would receive the check, and enter it as a credit to its donor receivables. The check is then sent to the Accounting section for deposit into a separate account and for recording it into the receipts and advance column of the Cash Receipts and Disbursement Control Ledger. The state of the Journal and Control Ledger would look as follows:

Donor Receivables		
		Balance
500,000		500,000
	50,000	450,000

Encumbrance Journal				
	Tools	Gasoline	Materials	Total
Budget	200,000	100,000	200,000	500,000

Cash Receipts and Disbursement Control Ledger

No.	Descript.	Disb.	Receipt	Advance	Tools	Gasoline	Materials	Balance
D#i	Advance		50,000	x				50,000

The organization would establish a central point where requests for purchases, travel authorizations, contracts, etc., could be directed. The encumbrance document can then be prepared and controlled from this central point. The document, for example, a purchase order for \$10,000, would then be approved by the administrative office and forwarded to the DAF for a validation and availability of funds check. Upon approval by the DAF, the document, which would be prepared in four copies, would then be returned to the administrative office for distribution. The four copies would then be distributed as follows:

- (1) original to vendor;
- (2) copy supports Admin./Purchasing records;
- (3) copy sent to the DAF; and
- (4) copy sent to the DAF for entry and hold.

The DAF will enter the encumbrance in the appropriate journal and place one of the two copies of the document in a permanent file to support all encumbrance entries in the journal. The remaining copy of the encumbrance document is placed in a temporary holding file which would function as an outstanding accounts payable file (or ledger). This file would be organized alphabetically by vendor, by budget category, in chronological order or in any fashion that would give the DAF section ready access to the document. The Encumbrance Journal would appear as shown below after the transaction with the Donor Receivables Account and Cash Receipts and Disbursement Control Ledger unaffected:

---

Encumbrance Journal

	Tools	Gasoline	Materials	Total
Budget	200,000	100,000	200,000	500,000
P.O. 1	10,000			10,000

Generally, every organization has a receiving office or internal procedures that document the receipt of goods or services by the organization. CILSS, INSAH and many of the implementing offices of the bilateral projects have a type of receiving report already in existence. The receiving reports would be prepared in two copies (original + one) with the copy filed in the office of the receiving function and the other forwarded to the DAF. Upon receipt of the receiving report, the DAF would immediately attempt to match the receiving report with the outstanding "bon de commande" (purchase order) in the temporary holding file.

Vendors' invoices would flow into the system through the Admin./Purchasing sections. The Admin./Purchasing section would review the document to check if, in fact, the goods or services were ordered, and then, if valid, pass them to the DAF section. The DAF section would then match the vendor's invoice with the purchase order and receiving report being held together in the temporary holding file. The entire package would then be forwarded to the Accounting section for review and processing.

Accounting Section would review the documents checking the arithmetic and comparing the quantities ordered with those received and billed. If the documents are valid and in agreement, a check is prepared in the special account check register that automatically creates a copy plus check stub. The check is forwarded with supporting documentation to the authorized signatory in the executive branch of the organization. Once signed the package is then sent to the representative of the Financial Office who is the authorized signatory for review of the documentation and certification. With the two required signatures in place, the check can be simultaneously released to the vendor and entered in the Cash Receipts and Disbursement Control Ledger as shown.

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Cash Receipts and Disbursement Control Ledger

No.	Descript.	Disb.	Receipt	Advance	Tools	Gasoline	Materials	Balance
D#1	Advance		50,000	x				50,000
C101	Pymt. P.O. 1	10,000			10,000			40,000

The check stub remains in the checkbook and the carbon copy of the check is filed along with the purchase order, vendor's invoice and receiving report. All the above mentioned documents are permanently filed by check number and are easily traced back from the financial reports to the source documents. The overall systems flow would appear as follows:

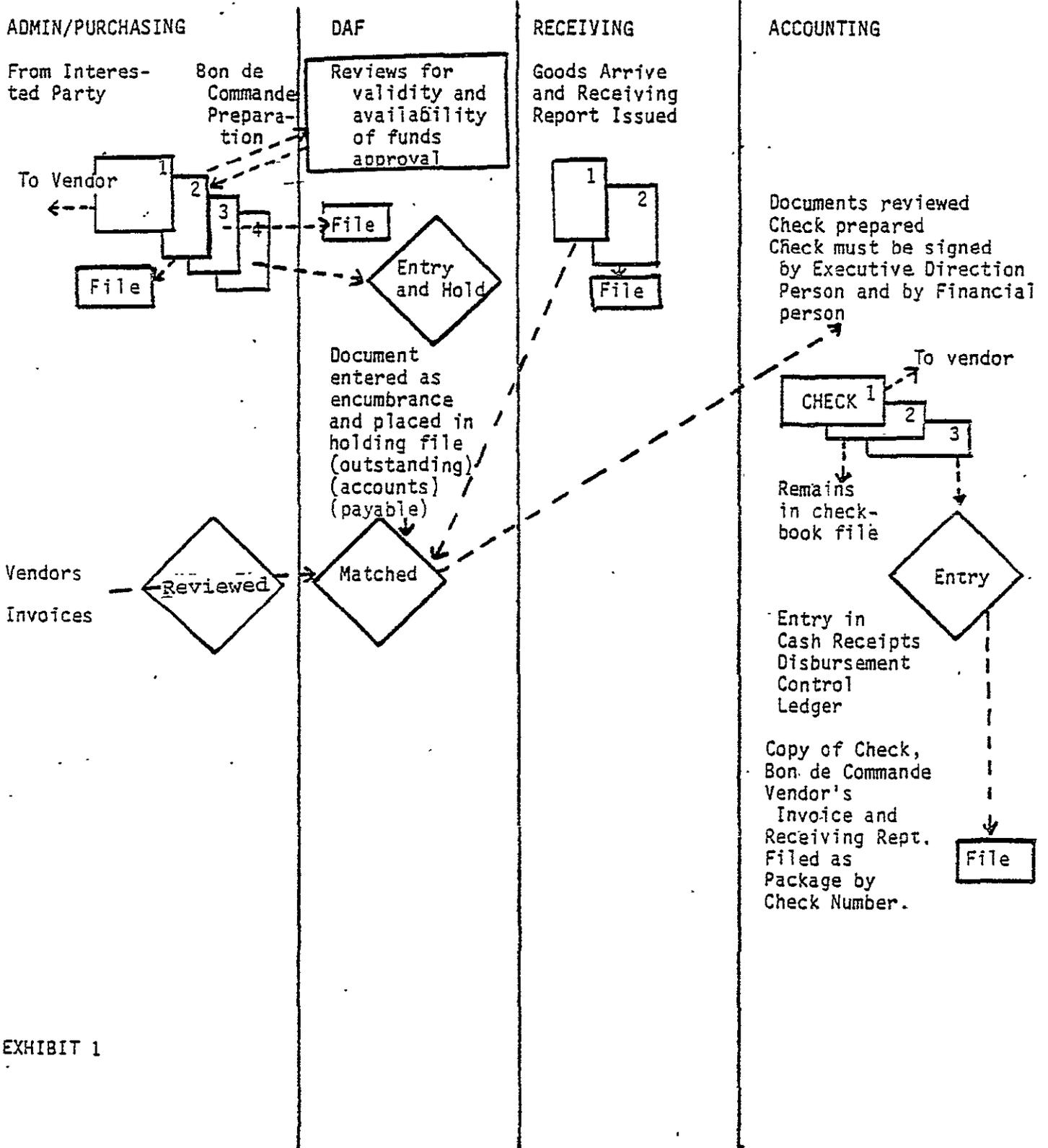


EXHIBIT 1

A simplified example of monthly reports to be issued to the organizations' management and to the donor is the logical product of the system. Assuming the following state of accounts, journal and ledger after the first month of operation, examples of the reports to be produced are on pages A-10 and A-11.

Donor Receivables

		Balance
500,000		500,000
	50,000	450,000

Encumbrance Journal

	Tools	Gasoline	Materials	Total
BUDGET	200,000	100,000	200,000	500,000
P.O. 1	10,000			10,000
P.O. 2			30,000	30,000
Month Total	10,000	0	30,000	40,000
Avail.	190,000	100,000	170,000	460,000

Cash Receipts and Disbursements Control Ledger

No	Descript	Disb.	Receipt	Advance	Tools	Gasoline	Materials	Balance
D#1	Advance		50,000	X				50,000
C101	Payt P.O.1	10,000			10,000			40,000
C102	Payt P.O.2	30,000					30,000	10,000
Month End		40,000	50,000		10,000		30,000	10,000

Report #1

Category	Budget	Cumulative Encumbrances	Previous Period Expenses	This Period Expenses	Cumulative Expenses	Balance Unliquidated Encumbrances
Tools	200,000	10,000	0	10,000	10,000	0
Gasoline	100,000	0	0	0	0	0
Materials	200,000	30,000	0	10,000	30,000	0
Total	500,000	40,000	0	40,000	40,000	0

The Report will show by line item

- 1) Latest Budget
- 2) Cumulative Encumbrances
- 3) Previous Period Disbursements
- 4) Current Period Disbursements
- 5) Cumulative Disbursements
- 6) Undisbursed Encumbrances

Report #2

Category	Budget	Previous Period Encumbrances	Current Period Encumbrances	Cumulative Encumbrances	Unencumbered Balance
Tools	200,000	0	10,000	10,000	190,000
Gasoline	100,000	0	0	0	100,000
Materials	200,000	0	30,000	30,000	170,000
Total	500,000	0	40,000	40,000	460,000

The Report will show by line item

- 1) Latest Budget
- 2) Previous Period Encumbrances
- 3) Current Period Encumbrances
- 4) Unencumbered Budget

Report #3

Category	Budget	Cumulative Encumbrances	Cumulative Expenses	Accruals	Cumulative Accrued Expenditures	% Encumbrances	% Accrued Expenditures
Tools	200,000	10,000	10,000	0	10,000	5	5
Gasoline	100,000	0	0	0	0	0	0
Materials	200,000	30,000	30,000	0	30,000	15	15
Totals	500,000	40,000	40,000	0	40,000	8	8

The Report will show by line item:

- 1) Latest Budget
- 2) Cumulative Encumbrances
- 3) Cumulative Disbursements
- 4) Accruals
- 5) Accrued Expenditures
- 6) Percentage Encumbered (Budget)
- 7) Percentage Accrued Expenditures (Budget)



A review of report 3 reveals two new components, accruals and accrued expenditures. Accruals are costs incurred for goods or services received but not paid for as of the reporting period. Accrued expenditures are the actual disbursements plus accruals. As organizations become more familiar with the accounting system and management requires additional accuracy and information regarding the status of various activities, techniques such as accruals, accrued expenditures, forecasting and comparisons between planned and actual accrued expenditures will become components of the system.

A bank reconciliation can easily be done using the balance column of the Cash Receipts and Disbursement Control Ledger and the balance figure on the bank's statement.

A cash flow analysis format (see page A-14) is also included to help aid donors in providing optimal amounts of advances to encourage project implementation yet exercise conscientious cash management.

West African local procurement practices are such that the utilization of purchase orders to procure goods used is rare. The West African procurement procedure is generally a cash and carry policy. The illustration on page A-15 depicts the general flow chart of petty cash purchases as envisioned in the proposed accounting system. A check is issued and an advance is recorded on the Cash Receipts and Disbursement Control Ledger which established the petty cash purchasing fund. The check is predicated on a request for a petty cash advance from the Administrative/Purchasing section of the organization. The employee charged with procurement from the Petty Cash Fund utilizes his advanced cash resources and procures items within specified limits. As the cash on hand decreases and the receipts for items increases, the petty cash manager prepares a request for reimbursement of his resources which would be a covering summary voucher with supporting documentation in the form of receipts and receiving reports. The reimbursement voucher is forwarded to the DAF section for review and recording of encumbrances by line item. The reimbursement voucher is then forwarded to the Accounting Section where the documents are reviewed, and if in order, a check is prepared in the amount of the approved petty cash voucher. The check is entered in the check register and allocated to the appropriate expenditure categories and sent to the appropriate executive and financial representatives for signature. After the check is signed, it is forwarded to the manager of the Petty Cash Fund and the petty cash procurement cycle repeats itself. The petty cash reimbursement voucher, supporting invoices and receiving reports and a copy of the check are filed together by check number.

Cash Flow Analysis

	Cash on Hand (Beginning Period Balance)	_____
Add	Cash Inflows for the Period	_____
Less	Cash Disbursements for the Period	_____
	Balance (End of Period Balance)	_____
Less	Estimated Disbursements Next Period	_____
Add	Estimated Cash Refunds for Next Period	_____
Add	Required Advance for Next Period	_____
	Desired Ending Balance Next Period	_____



Host country implementing organizations will have many varied operations that will require modifications of the core accounting control system. Travel advances are a common problem in many organizations and are handled in the system by a simple technique. A travel advance request enters the system and is reviewed by the DAF to ensure that funds have previously been encumbered by a travel authorization. If valid, the travel advance request is passed to the accounting section for check issuance and recording. The entry in the Cash Receipts and Disbursement Control Ledger for the travel advance would be made to the appropriate expenditure category and a check mark or other signifying entry would be made in a column called "advances." The copy of the check with the travel advance request would be filed by check number. An additional copy of the travel advance request would be filed in a temporary file by the Accounting section called "outstanding advances." Periodically the Cash Receipts and Disbursement Control Ledger can be reviewed for outstanding advances. Each organization will have its own guidelines for travel vouchers for clearing advances. If the travel advance was less than the travel voucher, an additional check would be issued and handled like any other disbursement. If the traveler's approved expenses were less than the travel advance, the deposit to the account (deposit slip for the overpaid funds) will be entered in the Cash Receipts and Disbursement Control Ledger as a receipt on the balance and a reduction to the pertinent expenditure category. The advance column indicator should also be altered to signify the clearing of that particular advance. The Request for Advance being temporarily held in the outstanding travel advance file, can be filed with the additional payment of receipt of funds, travel authorization, travel voucher, and copy of the traveler's last check or deposit slip by number of deposit or check. See page A-17 for examples of affected journals and ledger.

After Travel Authorization Issuance

Donor Receivable		
		Balance
500,000		500,000
	50,000	450,000

Encumbrance Journal				
Budget	Tools	Travel	Materials	Total
Budget	200,000	100,000	200,000	500,000
TA 1		1,000		1,000

After Receipt of Advance

Cash Receipts and Disbursement Control Ledger								
No.	Descript.	Disb.	Receipt	Advance	Tools	Travel	Materials	Balance
#1	Advance		50,000	x				50,000
#101	Trav. Adv.	800		x		800		49,200

After Clearing of Travel Voucher

Cash Receipts and Disbursement Control Ledger								
No.	Descript.	Disb.	Receipt	Advance	Tools	Travel	Materials	Balance
#1	Advance		50,000	x				50,000
#101	Trav. Adv.	800		(x)		800		49,200
#102	Add'l Trv.	200				200		49,000

Revolving funds established for small amounts of credit to farmers and other Sahelian target groups seem to be a popular design technique. The system will contain a method to be used in the central accounting office or at an off-site accounting station to deal with them. A request for disbursement from the revolving credit fund would be received by the DAF which would check for availability of funds and encumber the amount of funds under the appropriate category. The document, with the necessary availability of funds approvals, would then be forwarded to the Accounting section for review, check issuance and recording in the Cash Receipts and Disbursement Control Ledger. After review and signatures, the check is recorded as a disbursement, similar to any other appropriate disbursement under the expenditure category for the revolving loan or credit fund. The subsidiary system would look as follows after receipt of the check establishing the Loan or Credit Fund:

Cash	Loan Equity
500	500

As money is released to parties requesting credit, cash is credited and a receivable is established that can have a follow-up listing or be at the debtor level.

Cash	Loan Equity
500	500
400	
Loan Receivable	
100	

As time elapses interest will accrue. Periodic interest accruals should be made, preferably quarterly but dependent on in-country practices relating to payback periods. The interest accrual transaction would appear as follows:

Interest Receivable	Loan Equity
12	500
	12
	512

Any loan deemed uncollectible could be written off as follows:

Loan Receivable	
100	100
0	0

Loan Equity	
112	512
	400

Interest Receivable	
12	12
0	0

At any point in time one can see the amount of cash available for loans, loan and interest receivables and the total amount of the loan fund (including interest paid, receivables and reductions due to uncollectible or bad loans).

The Accounting System for Control of Sales Proceeds of  
PL 480 Title II Commodities

The accounting system proposed for use with host country organizations charged with the full spectrum of activities relating to PL 480 Title II commodities is simple and is patterned after the organizational structures currently in existence in Upper Volta (OFNACER) and Mali (OPAM). The elements of the system are:

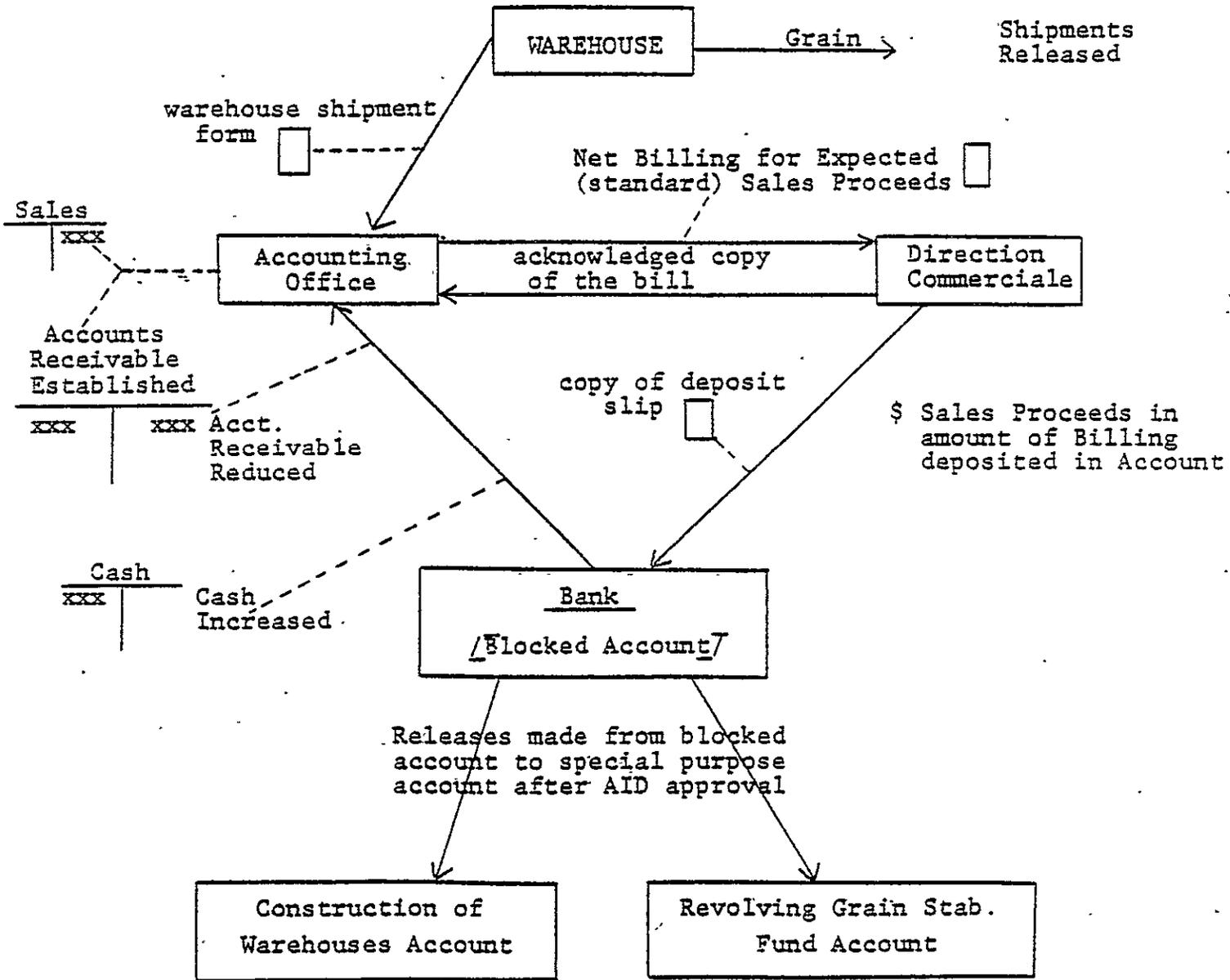
- 1) blocked separate bank account;
- 2) general journal (optional);
- 3) general ledger with only three subsidiary ledgers;
- 4) orderly filing system;
- 5) timely reports;
- 6) internal control applicable to the existing organization structure; and
- 7) USAID monitoring requirements generally on a decreasing pattern and the ability to audit and produce tables of standard costs for handling of commodities from central receiving points to distribution outlets in the country.

Exhibit 1 is a general systems flow of how the accounting system will work. Some assumptions based on observations of operations in Ouagadougou and Bamako are as follows:

- 1) Shipments enter a central warehouse or several central warehouses in an acceptable fashion.
- 2) Current system for movement of sales proceeds from ultimate distribution points back to central location has been acceptable in the past, or the Government is willing to guarantee deposit of proceeds regardless of current system.
- 3) Standard cost tables can be prepared based on audits of past records or from consultations with transporters and/or handling organizations for distribution. Standard costs could have provision for annual review if extraordinary losses or gains are being evidenced as a result of unforeseen circumstances, i.e., catastrophic occurrence, Governmental decree on wages, hyper-inflated fuel costs, etc.

EXHIBIT 1

SYSTEM FOR CONTROL OF SALES PROCEEDS  
OF PL 480 TITLE II COMMODITIES



Both OFNACER and OPAM are structured with an accounting section, an operations section (Direction Commercial), and a warehousing function..

As grain is released from the warehouse, the warehouseman prepares an advice of delivery. This advice of delivery (or release) would instruct the accounting office as to the nature of the grain, the donors, the destination and the amount shipped. The warehouseman would prepare this advice of delivery in three copies (original + two). One is kept for inventory, and two are sent to the accounting office. The accounting office enters the anticipated sales proceeds in a general or sales journal and posts from the general sales journal to the ledger. The anticipated sales proceeds are easily determined from the previously prepared table by locating the destination, type of commodity and multiplying that figure by the shipped quantity. The entry for the net sales proceeds would be:

Sales	Accounts Receivable
1,000	1,000

The accounting office then sends a copy of the advice of shipment and the calculated net sales proceeds to the Direction Commerciale for confirmation. The calculations sheet is prepared in triplicate. One is filed by the accounting office supporting the entry, two sent to the Direction Commerciale. One is returned by the Direction Commerciale with confirmation indicated.

As the proceeds are deposited by the Direction Commerciale to the blocked account, confirmed deposit slips would be sent directly by the Direction Commercial or the bank to the accounting section. Once the receipt of cash by the bank is acknowledged, the accounting section would make an entry as follows:

Accounts Receivable	Cash
1,000	800
200	

One can balance cash and accounts receivable to sales; sales plus estimated proceeds from stock on hand balanced to the original anticipated shipment's sales proceeds.

The blocked account would release money to specific project purpose accounts upon an exchange of letters or any release

mechanisms that ensures funds release only with the approval of the U.S. Government and the host country government. The new specialized purpose project funded from sales proceeds could use the accounting control system for bilateral projects and regional organizations if desired.

Recent Reports on Sahel Management Problems

A 1979 report that was helpful to the team in substantiating its findings and recommendations for training is the Denver Institute's draft report, "Mali Project Management Performance and Development".<sup>1/</sup> This was conducted with the objective "to design a course of study which will upgrade administration and management skills of local employees of AID projects."

The report provides an excellent account of the variety of management problems in Mali, which, we assume, are prevalent as well in other Sahel missions. The problems identified include a lack of accounting skills, and the need for improved performance in financial accountability, and financial and general management. The problems cited reflect the concerns of both mission and host country personnel, and are similar to those found by the team in Mali and Upper Volta. They are both technical and non-technical, the latter involving not so much the need for a new skill as much as a change of attitudes and the use of different management and leadership styles as the situation requires.

The Denver Research Institute included in its draft a proposal program whose objectives for training Malian managers included:

1. Develop an understanding of the "organization" as a system (be it Ministry, firm or project), of the role and importance of objectives for an organized activity, of the meaning and relevance of strategy, of the nature of the management process and the role of the manager.
2. Develop an understanding and appreciation of the importance to an "Operation" of external relations (with community, regional and local government, other agencies, Ministry, donor), develop appropriate approaches to external relations and ability to apply them.
3. Develop an understanding and appreciation of planning as a process and as a management tool, of its numerous applications (e.g., to activities and to allocation of human, financial and material resources at various organizational levels) and of its value to management; develop the ability to apply basic planning principles and to use selected, specific techniques.

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<sup>1/</sup> AID contract with Denver Research Institute of the University of Denver.

4. Develop an understanding and appreciation of the role of information and communications in management, and of different information systems and their components; outline a basic information system and develop guidelines for its adaptation to individual project needs.
5. Develop an understanding and appreciation of the tools and uses of financial management, including accounting, budgeting and control systems; learn special requirements associated with AID funding and how to satisfy them.
6. Develop an understanding and appreciation of human resources management; identify ways to increase delegation of authority (and responsibility), accelerate decision-making, reduce bottlenecks in the authorization process, increase staff initiative, increase effectiveness of advisory personnel, increase staff capability.
7. Develop an understanding and appreciation of the implications of managing material, particularly procurement, inventory control and maintenance aspects; become familiar with tools and systems relevant to project needs and special requirements or problems in this area.
8. Develop an understanding and appreciation of the concept and techniques of control, particularly control by results (and objectives); identify information needs for effective control; plan control system development for "Operations".
9. Develop an understanding and appreciation of the importance to an "Operation" of the marketing function (with respect to technical services, credit and materials).
10. Develop improved understanding and teamwork within the management ranks of individual projects and between them and others with whom they must interact, including AID personnel.

A more recent study published in December, 1980,<sup>1/</sup> further elaborates on management problems related to Sahel programs, perhaps Agency programs in general.

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<sup>1/</sup> Development is a Joint Effort, discussion paper on Improving the Effectiveness of USAID-Funded Technical Assistance to Mali, by James L. Rousch.

Discussed in the report as the fundamental causes of project implementation difficulties are:

- a. Insufficient USAID attention to the need for joint GRM-USAID collaboration in project design and formulation;
- b. Inappropriate attitudes toward joint GRM-USAID-contractor collaboration in project implementation (and re-design when needed), particularly in projects using the host country contracting mode;
- c. Inadequate planning during project design and project implementation;
- d. Misunderstandings regarding the purpose, uses and costs of technical assistance and the means of obtaining the maximum benefits from such assistance;
- e. Problems of communication because of different cultural patterns, values and life styles;
- f. Inexperienced and inadequately trained GRM Project Directors and USAID Project Managers;
- g. Insufficient attention to the implications and possible problems inherent in moving abruptly to the host-country contracting mode and thus inadequate preparation for that transition.

The study also points out the need to involve the host government at the early stages of a project, specifically at the program planning stage where USAID missions can determine if their proposals are considered appropriate by the host government for USAID financing.

The team considers it extremely important to make reference to the previously cited studies as the terms of reference are not that dissimilar from its own. The principal difference being the team's strategy for improving financial management capability in Sahelian inter-statal organizations, and organizations managing local currency funds generated by the sale of PL 480 commodities as well as bilateral projects. An even more significant reason for citing these studies is the team's hope that some action will be taken to deal with the problems identified. It is not only the team's impression, but that of consultant Rousch as well, that AID Washington was unaware of the DRI report:

"Denver Research Institute . . . found a number of weaknesses in the various elements of project management, while also finding indications of a serious concern for, and attempts at, improving project management. Their findings appear just as relevant

today as they were a year and a half ago. It is very discouraging, therefore, to find little knowledge of the existence of the draft report and apparently no action taken as a result of it."<sup>2/</sup>

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<sup>2/</sup> Ibid.

Sahel Training Resources

In an effort to contact institutions already in place in the Sahel which could conduct training courses for host country and AID personnel, the team met with representatives of several organizations in Upper Volta and three accounting firms in Abidjan.

Pan African Institute for Development (PAID)

The Pan African Institute for Development (PAID) has many years of experience in conducting management training courses in African nations. Both short- and long-term programs are available at PAID's training centers in Douala, and Buea, Cameroon, in French and English respectively.

Organization Privee pour L'Entreprise Voltaic (OPEV)

OPEV was established in 1970 to promote industry in Upper Volta. Germany and Holland provide the principal support for its operation which include lines of credit to businessmen, plant construction, the conduct of pre-feasibility and feasibility studies and training courses. Its activities are coordinated with the Ministry of Industry.

Training in accounting is conducted both days and evenings, the latter offering a degree program two nights per week over a three year period.

OPEV is presently in the process of opening its Centre de Perfectionnement de Management which will provide a range of courses in financial and general management.

Institut Universitaire de Technologie (IUT)

IUT is a member institution of the University of Ouagadougou. It offers a two year graduate program leading to a university diploma. The first year technical courses include financial analyses, business economics, business law, marketing and management, among others. During the students' second year there is a basic core of courses with electives in either the field of management or commerce.

Although the IUT program was not looked upon as a training resource itself, it was felt that its staff could provide assistance in training host country accountants in AID's accounting system.

Deloitte, Haskins & Sells, Abidjan

D.H.S. worked on the Mali Livestock Project among others in the Sahel. They made the following suggestions to improve accountability:

1. Train people for specific tasks.
2. Train people on the job they perform.
3. Develop an accounting system for each project.
4. Develop with the project officer a timetable for project implementation.

D.H.S. believes that its experience has afforded many opportunities to understand the problems and constraints to development in the Sahel, and expressed a great deal of interest in conducting training in accounting and financial management in that area.

The firm also suggested that it participate in a seminar for senior AID officials in Washington to acquaint them with its impressions of management problems in the Sahel. It has notified its Washington office in this regard.

Arthur Anderson, Abidjan

Arthur Anderson offers training courses in financial management and is in the process of translating materials into French to meet the needs of developing countries. Among those translated to date are:

1. Auditing;
2. Cost Accounting;
3. Introduction to Financial Statements; and
4. General Accounting.

Arthur Anderson conducts training in Abidjan which is coordinated by its international headquarters in Geneva. Training programs are designed following on-site surveys to determine specific needs and the numbers and levels of people to be trained. The Abidjan center also utilizes specially prepared video tapes to introduce subject matter, and these are followed by a question and answer period with an instructor.

Touche Ross, Abidjan

Touche Ross carried out an accounting and management study in the Sahel and concluded that people who are keeping records have no idea why they're being kept.

The firm believes that education, as to how and why host country institutions can benefit from accounting systems, would be a necessary first step in a training program.

Touche Ross feels capable of conducting management training, and pointed to its highly qualified French speaking team that introduced new financial management systems in Algeria.

List of Persons VisitedI. Paris - OECD/Club du Sahel

Art Fell, U.S. Mission - OECD  
 Anne de Lattre, Director, Club du Sahel  
 Georges Bourgoignie, CIDA Representative, Club du Sahel  
 Gérard Simulin, Budget Officer  
 M. Borius, Budget Director  
 M. Hervé, Chief Accountant

II. Dakar

Mel McCaw, Acting Director  
 Ray King, Controller  
 John Gruwell, Project Officer  
 Sam Rea, Program Officer  
 Julie Owen, Human Resources Development Officer

III. Ouagadougou

Richard Meyer, Mission Director  
 Emerson Melaven, Deputy Director  
 Gary Byllesby, Controller  
 George Barwick, Financial Analyst  
 Joe Hill, Acting Controller  
 Gary Coulter, Program Officer  
 Michael Rugh, Deputy Program Officer  
 Allan Strom, Project Officer  
 Howard Thomas, General Development Officer  
 Al Smith, Project Officer  
 Samir Zoghby, Project Officer  
 M. Seck, Executive Secretary, CILSS  
 M. Madingar, Director d'Affaires Financiers  
 M. Elkhairy, Chief Accountant, CILSS  
 M. Bayili, Accountant, CILSS  
 Jean Lan, CIDA  
 Peter Molt, UNDP  
 Claude Mottier, Cooperation Suisse  
 Mamadou Dia, World Bank  
 M. Kouanda, Chief, Services D'Entretien des Routes  
 Secondaires (SERS)  
 Nacro Alidov Bachir, Directeur General de l'OPEV  
 M. Triori, GOUV, Fond Developpment Rurale  
 Oudraogo Naboissom, GOUV Fond Developpment Rurale  
 Thierry Dewintre, Financial Expert, Organization Privee  
 pour l'Entreprise Voltaic (OPEV)  
 M. Jourdan, French Consultant to the GOUV Ministry of  
 Finance  
 M. Bonifade, PAID  
 Walter Benthe, Project Manager, OFNACER  
 Ray Nofsinger, Consultant on Project Design

IV. Bamako

George Eaton, Acting Director  
Ernest Hardy, Controller  
Pat Jacobs, Financial Analyst  
Michael Dwyre, Program Officer  
Myron Smith, Agriculture Development Officer  
Robert Shoemaker, Design and Evaluation Officer  
John Ford, General Development Officer  
Tom Park, Project Officer  
Maurice Fleming, Project Officer  
Jon Anderson, Project Officer  
Gail Shands, Project Officer  
Kurt Fuller, Project Officer  
Dr. Toure, Project Manager  
Stanley Mills, Project Officer  
Norman Rifkin, Human Resources Development Officer, SDPT  
Peter Knebel, Health Officer, SDPT  
Farhad Vakil, Louis Berger Associates  
M. Konate, Financial Manager, INSAH  
M. Keita, Accountant, INSAH  
Hansperg Von Bieler, OPAM  
H. Pfisterer, OPAM  
Abdoulaye Niang, OMBEVI

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V. Abidjan

G. Hedley Hunter, Deloitte, Haskins & Sells  
Richard E. Diamond, Deloitte, Haskins & Sells  
Daryl Wyer, Director, Akintola Williams & Company  
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Management Courses and Materials Available Through PM/TD

## A. Management Development Programs

1. Analytical Skills Workshop - A two-week workshop for project and management personnel to develop analytical skills needed in the identification, planning, design and implementation of projects in accordance with the Congressional Mandate. Content deals with the various concepts, tools and techniques related to diagnostic analysis, data gathering, operational analysis, modeling and systems dynamics.
2. Contracting for Non-Procurement Personnel - A two and a half day course designed for project officers and other technical program and administrative employees who are involved in operations which require contracting activities. The course covers all types of contracts and contracting procedures used by the Agency and explains services available from the Office of Contract Management.
3. Manager's Role in Personnel Management - A five-day course for all supervisors and managers to help increase awareness of the operation of AID's personnel administration/management system. The focus on the areas of labor relations, equal employment opportunity, human relations, employee relations, and AID's classification system.
4. Procedures in Financial Management - A two-day course designed for project officers and other technical and administrative personnel who are involved in operations which require financial activities. The course will emphasize the AID budget cycle and financial aspects of project design and program/project implementation.
5. Project Design and Evaluation (PD&E) Workshop - In this one week seminar, the system utilized by AID to design and subsequently evaluate projects is described and discussed in some detail. Participants are exposed to some of the working procedures of AID, and the essential concepts of project design and analytical methodologies with the "logical framework" as the central referent; then are given the opportunity to exercise their knowledge and skills by developing and analyzing project case situations, as team members of small working groups.
6. Project Management Implementation - This is a two week course in AID-specific project management fundamentals -- emphasizing the collateral technical and procedural aspects of AID project implementation for AID project officers and their host country counterparts.

- B. Video Tapes Available Through the Media Extension Education Training Service (MEETS)
1. Project Design & the Logical Framework - This module offers you basic knowledge about the "logical framework" as a project-level design tool. This knowledge includes: reasons for using the logframe, assumptions implicit in it, key requirements for using it wisely, and limitations you can expect to find. Length - 45 minutes.
  2. Heuristic Problem Solving - An exercise involving an abstract situation to highlight the mental processes involved in heuristic problem solving. Length - 45 minutes.
  3. Concept of Redundancy - In designing and operating organizations, two important aims are error avoidance and system reliability. Redundancy reduces an organization's vulnerability to internal failures of performance and judgment. Length - 30 minutes.
  4. Categories of Decision Making - Two decision-making strategies presented in this tape are "pragmatic decision making" and "bargaining and negotiating". Other strategies presented include "programmed decision making" and "inspirational decision making". Length - 30 minutes.
  5. Modeling for Management - This presentation expands on the theory and principle of the organizational model. Length - 50 minutes.
  6. AID Procurement Planning and Contracting Procedures - A discussion of the role of contracting in carrying out AID programs, services provided by the Office of Contract Management, procurement planning, and writing work statements. Length - 45 minutes.
  7. PERT #1: Operational Systems for Project Managers - Systems are used in different aspects of management from the planning, through implementation, to the evaluation process. Some systems are more important at one particular point while others are useful for the whole gamut. Three categories of management information systems are discussed: 1) Status; 2) Control; and 3) Comprehensive. Length - 40 minutes.
  8. PERT #2: Line of Balance - An operating support system that managers can use in monitoring the status of their projects. Length - 40 minutes.
  9. The Systems Approach: Analysis and Design Strategies - Discussion of the conventional strategy for systems

design and analysis, and the systems perspective used in development planning. Length - 45 minutes.

- C. Project Implementation Course for AID Project Officers prepared by Development Associates, Inc. - Course designed to help Project Officers better understand their implementation responsibilities and improve their performance in implementing contracting, financial management, commodity procurement, participant training and project monitoring.

Draft of Prequalification and Design Questionnaire

Donor: \_\_\_\_\_

**A. GENERAL**

1. Will there be involvement of AID personnel at the operating level of the project to provide:
  - a) representation at the top management level?
  - b) accounting expertise?
  - c) technical expertise?
  
2. Will AID be providing an on-site representative to monitor the accounting and reporting process?
  
3. Has a project budget been established which identifies each of the following:
  - a) Schedule of disbursements?
  - b) Schedule of cash requirements?
  - c) Projected cash flows (Funds Flow Statement)?
  
4. Can you estimate the time lapse between the initiation of a request for funds by the organization and the date it actually receives the requested funds?
  - a) For USAID financial contributions?
  - b) For Host Country financial contributions?

Yes	No	N/A	Comment

Donor: \_\_\_\_\_

Yes	No	N/A	Comment

**B. HOST COUNTRY CONTRIBUTION**

1. Will the financial contribution promised by the Host Country be reflected separately:
  - a) in the main estimates of the recipient?
  - b) in the budget of the Ministry, Department, or organization?
2. Do the organization's regulations and by-laws permit recipient country financial contributions to be deposited to an account segregated from its general operating funds?
3. If requested by AID could the Host Country or organization take its financial contribution at the beginning of its fiscal year, or at predetermined dates?

**C. AID PROJECT FUNDING FINANCIAL CONTROLS**

1. Will the funds provided by the USAID for this project be physically segregated from other operating funds of the organization (separate project bank account)?
2. Will interest earned on AID funds be deposited to a separate bank account where it will accumulate and remain on deposit until such time as instruction is received from AID on the disposition of this revenue?

1-2

Donor: \_\_\_\_\_

Yes	No	N/A	Comment
<p>3. Could the organization maintain a separate accounting coding system, specifically designed for a USAID project for the purpose of recording encumbrances and disbursements on a prespecified category basis?</p>			
<p>4. Will allocation of the expenditure categories be compiled at the field sites and totals by activity be reported to the central reporting unit or will all accounting be done from the centralized point?</p>			
<p>5. Can the organization prepare within thirty days of the end of each quarter,</p>			
<p>a) an expenditure report by activity?</p>			
<p>b) costs incurred for the period?</p>			
<p>c) estimated costs incurred but not paid?</p>			
<p>d) estimate of next reporting period's expenditures?</p>			
<p>6. For major projects, is it reasonable to expect the implementing organization to prepare documented procedures and organization charts specifically for the project outlining the:</p>			
<p>a) operating authority levels?</p>			
<p>b) signing authority levels?</p>			
<p>c) project accounting procedures?</p>			
<p>d) reporting guidelines and procedures?</p>			

Donor: \_\_\_\_\_

7. Will the procedures be mutually agreed upon by AID and the organization before they are adopted?
8. Will multi-copy, pre-numbered official receipts be issued for all incoming funds?
9. Are all disbursements except those from petty cash, made by check?
10. Will checks used for project disbursements be pre-numbered and controlled?
11. Will voided checks be presented and filed after appropriate invalidation?
12. Will there be a written prohibition against:
  - a) drawing checks to cash or bearer?
  - b) signing checks in advance?
13. Will all checks be signed by a minimum of two persons?
14. Is the check signing authority limited to one executor who does not have access to accounting records?
15. Will authority levels for the signature of checks be established and documented?
16. For grant-financed projects, would you agree to have an AID project representative as one of the signatories for all checks?

Yes	No	N/A	Comment

G-4

Donor: \_\_\_\_\_

Yes	No	N/A	Comments

- 17. Will each check signatory be presented with a full set of supporting documentation for review prior to his signature?
- 18. Will bank accounts be reviewed and reconciled monthly by persons other than those involved in the check issuing or cash handling process?
- 19. Do bank reconciliation procedures provide for:
  - a) accounting for check numbers?
  - b) comparison of all checks including voided ones with the check register or cash book?
  - c) inspection of signatures and endorsements?
  - d) investigation of old outstanding checks?
  - e) tracing and reviewing bank transfers?
- 20. Will there be documented control procedures for payments to be made from petty cash or imprest funds?

**D. FINANCIAL REPORTING**

- 1. Does the organization have adequate resources to:
  - a) prepare a quarterly financial status report?
  - b) prepare a quarterly cash flow report?

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- c) prepare each of these reports within 30 days of the end of each quarter?
- d) prepare a monthly bank reconciliation?
- 2. Will reports be received by the USAID within 60 days from the end of the quarter?
- 3. Can accounting data be effectively transmitted from remote project sites to the entity's headquarters preparing the financial reports?
- 4. Is the organization audited by an external or internal auditor?
  - a) By whom?
  - b) How often?
  - c) To whom would the audit reports be issued?
- 5. In addition to AID audits agreed upon in the project agreement, is the organization willing to have the project accounts audited by a private accounting firm mutually agreeable to AID and the organization?
- 6. Are sufficient personnel currently on board to handle the required financial accounting and management of this project?
- 7. What is the relationship of the accounting division to management?
  - a) To whom is the head of accounting responsible?

Yes	No	N/A	Comment

6/6

Donor: \_\_\_\_\_

Yes	No	N/A	Comment

b) Who monitors the accounting functions?

8. How does organizational management presently develop and use accounting information?

a) Which reports or data are presently a part of the system?

9. What are the present existing financial practices, such as the fiscal year, the budgeting cycle, etc.?

10. Does the organization have previous experience with this donor?

a) With other donors?

b) On what types of projects?

c) For what period?

11. Is any standardization of accounting possible?

12. Have the recurrent requirements from the organization for this project been fully explored, explained and accepted by the organization?

E. CONTROL OF PURCHASES

1. Does the organization have a separate purchasing department responsible for the purchasing of all material, supplies and equipment?

5-1

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2. Is the function of receiving materials performed by persons independent of the purchasing department?
3. Are serially numbered bons de commande used for all purchase transactions?
4. Are bons de commande sent to the Financial Management Office and used in the verification of invoices?
5. Does the Financial Management Office account for the serial number sequence of bons de commande?
6. Are there limitations by bons de commande amount for certain employees?
7. Do procedures exist to prevent the issuance of numerous bons de commande in small amounts rather than use of petty cash?
8. Are price files maintained for items purchased frequently?
9. Are all materials received at a central location, counted and inspected, and controlled by pre-numbered receiving reports?
10. Are receiving reports sent to the accounting department and used in the verification of invoices?
11. Does the accounting department account for the sequence of serial numbers of receiving reports?

Yes	No	N/A	Comment

C-8

Donor: \_\_\_\_\_

- 12. Are returned purchases recorded by the shipping department on shipping documents, and are these documents reconciled with credit memoranda received from suppliers?
- 13. Are invoices and supporting documents perforated or otherwise marked when approved for payment, in a manner which precludes the possibility of submission a second time?

Yes	No	N/A	Comment