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Sahel Regional Financial Management Project

VIRGINIA TECH and OICD

An AID funded project to improve host country financial accounting and management of development projects in Sahel and West Africa.



U. S. Agency
for International
Development



U. S. Department
of Agriculture



1252
Virginia Polytechnic
Institute and
State University

SAHEL REGIONAL FINANCIAL MANAGEMENT PROJECT

The objective of this AID funded project is to improve financial accounting and management of development projects in the Sahel, West Africa. The Office of International Agricultural Programs, Extension Division, Virginia Polytechnic Institute and State University (Va Tech), in cooperation with USDA's Development Project Management Center (DPMC), maintains an office staff with DPMC in Washington, D.C. Full-time financial management experts serve as team leaders in Mali, Niger, Upper Volta, Senegal and The Gambia. Three of the country teams each include a Sahelian financial management expert. The expert posted in Senegal also works with the governments of Mauritania and Cape Verde Islands as needed. Short-term consultants with specialized expertise assist country teams as needs are identified.

Sahelian Governments will assume full control and responsibility as the management mechanisms and processes introduced through the project become assimilated into host country institutions.

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PN AAN 841

A PRACTICAL MANUAL
FOR A
SIMPLIFIED ACCOUNTING SYSTEM

by

Mamadou Kante, Patricia Perkins, John Raleigh,
Christopher Ritzert and Nelson Robinson

(The system described in this manual was conceptualized by Mark Matthews (Financial Management Office, AID) and Merlyn Kettering (Development Project Management Center, USDA/OICD) for improving the financial management of AID projects. This edition, an extensive revision of the initial User's Manual for Basic Accounting System, reflects experience gained during field testing of the initial edition in West Africa during 1982).

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A. PURPOSE

The purpose of this Accounting User's Manual is to assist host countries to establish and maintain adequate project accounting systems in accordance with the minimal standards of accountability required by both USAID and the host countries.

This does not mean that the accounting system demonstrated in this manual must be "installed" or duplicated in USAID projects. This system, such as it is, is simply intended as a tool for comparison. The basic control and reporting functions illustrated herein are essential, but the specific procedures used to carry out the functions may vary with the country, the project and the accounting traditions or training of the region. In approving whatever procedures are established for USAID project accounting, the host country and the USAID Mission must agree that their mutual needs are served.

It is our hope, therefore, that this manual will be useful for those wishing (1) to analyze their existing systems to determine if acceptable USAID accounting functions are in place and operating properly, (2) to devise procedures to serve any essential control or reporting functions that do not currently exist, and (3) to have a basis of reference when maintaining the day-to-day accounting records for the local cost component of a USAID project.

Although the Manual is intended primarily for Implementing Agencies, it may also be used by contractors of Implementing Agencies whose accounting system's requirements are similar.

B. ACCOUNTING SYSTEM REQUIREMENTS

A Basic Accounting System consists of a series of operations relating to the recording, classifying, summarizing, and reporting of financial transactions, together with the procedures to prescribe the manner in which the operations will be performed. The accounting requirements are as follows:

(1) A budget for financial management purposes should be devised and used to enable accounting data to be compared to cost estimates of planned activities. The budget is the beginning point and the reference point used throughout the accounting period;

(2) Accounting records should provide the information needed to adequately identify the commitments (encumbrances) and funds that are due (donor receivables), as well as receipts and expenditures of AID funds authorized for local costs of the project according to approved budget categories;

(3) Entries in the accounting records should refer to supporting documentation filed in such a way that it can be readily located;

(4) Accurate and current financial reporting information, including periodic bank (or financial) reconciliation statements, should be provided;

(5) It should be possible for an auditor to readily trace each transaction from accounting reports through available records and back to source documents so that all funds expended can be accounted for to determine whether project expenditures have been valid;

(6) Internal controls must be established to assure integrity, accuracy, and usefulness of financial data.

The procedures discussed and illustrated in the Manual are not intended to be specifically applicable to any one project. They are intended to be sufficiently flexible to serve as a general guide so that parts of this Manual, as applicable, might be adopted for projects as needed. Not all detailed accounting methods and procedures are prescribed in this Manual. For example, it does not prescribe the type of employment records to be maintained, nor supporting documentation for payroll expenditures. Such accounting records should be established pursuant to local project requirements. It is essential, however, that the system adopted by the Implementing Agency meet the same control and accountability principles for effective financial management as specified in this User's Manual.

Illustrations of typical forms that may be used for specific accounting purposes have been included. These are intended only as examples; the specific format is not significant. They should be considered only as a basis for the development of a set of forms which provide for the specific needs in a particular project situation.

Objectives and Scope of the Proposed Systems

The purpose of the accounting control system illustrated in this Manual, as well as that of whatever system is eventually agreed upon for use in the project, is to assure the acceptability of the financial management practices relating to the accounting, controlling, and reporting on the use of AID funds. In many cases, the system illustrated in this manual will also accommodate other donor funds as well. This model system has the capacity to:

(a) Provide accurate, complete and timely host country accounting information for host country managers;

(b) Strengthen internal controls preventing misuse and waste of donor-generated resources and ensure compliance with conditions of project agreements;

(c) Provide a system of financial reporting that will assist USAID in monitoring project implementation, oversee host country Implementing Agency cash requirements, and periodically assess financial management.

Although any standard accounting system must be adapted to meet the specific needs of the organization using it, the core system described in the following sections is intended for those bilateral and regional organizations which coordinate, formulate and implement donor funded projects.

C. BASIS FOR REQUIRED FINANCIAL MANAGEMENT: PROJECT AGREEMENT, SUBSEQUENT AMENDMENTS AND PROJECT IMPLEMENTATION LETTERS

The basis for the required financial management of a project is defined in the Project Agreement, which contains the basic specifications and conditions required for reporting and managing AID resources. It also fixes the overall amount of the grant and allocates it accordingly over the defined life of the project. However, the project agreement could be significantly altered through amendments. These mostly concern shifts in the project objectives.

It should be noted that the project agreement establishes the allocation of funds to broad budget categories which will be accounted for by the host country (local currency funds) and those accounted for directly by USAID.

A more detailed budget of the local currency funds is agreed upon annually (or more frequently) and communicated in a Project Implementation Letter (PIL); from time to time, USAID and the host country may agree to changes in the initial letter within the constraints of the original project grant.

D. ACCOUNTING BOOKS TO BE MAINTAINED

The project must have some means of (1) recording funds received from AID, (2) keeping track of how much of the funds have been committed to specific purchases by budget category, and (3) recording and justifying all expenditures of USAID provided funds. It is further recommended that the project accounting system provide an easy way to readily determine (1) the funds budgeted for the use of the project but not yet received, (2) the amount of funds in the annual budget available for local use by the project by category that have not yet been committed to specific purchases, and (3) the amount of project resources consumed in comparison to the degree that project goals have

been accomplished. Periodic (most likely monthly) reconciliation reports must be done to assure that the project's records agree with those of the financial institution (bank or ministry) holding the project's local currency funds.

The specific procedures, books, and forms used to accomplish these functions must be agreed upon by the Mission and host country. For the purpose of this manual three basic accounting books will be used to illustrate one way of meeting minimal accounting requirements in a manner acceptable to AID.

Accounting transactions for each project will be reflected in three accounting books: (1) a donor receivable account, (2) an encumbrance journal, and (3) a cash receipts and disbursements control ledger.

While the official amount of the project grant established in the PROAG and recorded in the donor receivable account is expressed in dollars, the other project accounting books and records are kept in local currency.

The method of adjusting for fluctuations in exchange rates needs to be agreed upon and adjustments to the donor receivable account made periodically to reestablish agreement between the dollar and local currency figures.

1. Donor receivable account

When a Project Agreement is approved which contains a local currency component, a donor receivable account should be created at the project level, which provides the following information:

1. The date of each entry;
2. A reference number for each document or check;
3. The amount authorized both in dollars and in local currency;
4. The amount received both in dollars and in local currency;
5. The balance in both currencies.

For an illustration, see Illustration 1 on page 6. The opening balance of this account should be both the dollar and the local currency equivalent of the amount authorized by the donor for "local costs" throughout the life of the project (three or five years, for example). The balance of the receivable account should be decreased as funds are drawn from USAID. Upon receipt of the Project Agreement the transaction is recorded as follows:

- In the "Reference" column post the following statement:
"Signed Project Agreement" and number;
- In the "Amount Authorized" columns, post the total amounts in dollars and local currency the Donor Project Agreement has budgeted for local costs over the life of the project.

Upon receipt of an advance check from USAID, the transaction is recorded as follows:

- A reduction is made in the "Balance" column of the donor receivable account and the amount of the check is entered in both dollars and local currency in the "Amount Received" column;
- The local currency amount of the advance posted to the donor receivable account must agree with the amount posted simultaneously to the cash receipts and disbursements control ledger as a cash receipt;
- The closing local currency balance will be used to plan the cash requirements for the remainder of the project and the fund request for the next quarter.

2. Encumbrance journal

The purpose of the encumbrance journal is to establish an on-going record of all orders, contracts, or other commitments of funds against the project budget and to ensure that a project is not over committed. A suggested encumbrance journal should provide the following information:

1. The date of each entry;
2. The description of the transaction;
3. Two columns for references. The first would be for entering the reference number of the document supporting the encumbrance, the second the check or cash voucher number liquidating the encumbrance;
4. Budget categories. Each category should have two columns, one for the "Amount" of the entry and one for the "Balance". See the illustration on page 7. The beginning balance of each budget category is usually found in the first PIL;
5. Finally, there should be a total column showing the amount of every encumbrance and the total of the remaining funds unencumbered.

Illustration 1

PROJECT NUMBER: 478-0012

PROJECT TITLE: Irrigation

DONOR RECEIVABLE ACCOUNT

Date	Reference	\$ Amount Authorized	\$ Amount Received	\$ Balance	L.C. Amount Authorized	L.C. Amount Received	L.C. Balance

The "Balance" columns of the encumbrance journal initially reflect the annual budget amounts authorized in local currency for each budget category in the first Project Implementation Letter (PIL). Thereafter, each commitment of funds against the project budget is entered in the "Amount" column of the appropriate budget category and then subtracted from the amount previously entered in the "Balance" columns. (See illustration 2).

3. Cash receipts and disbursements control ledger

The cash receipts and disbursements control ledger contains a chronological listing of all deposits and checks issued, together with information on checks as to the date of issuance, name of the payee, and the budget category to be charged. Illustration 3 on page 9 contains the column headings used in establishing the cash receipts and disbursements control ledger for the project illustrated in the Manual. Initially, the column headings are based on the budget categories for local currency expenditures contained in the approved Project Agreement. The cash receipts and disbursements control ledger is designed to be used for writing and posting all checks including those for the payroll.

In addition to the normal budget categories, one column will be left blank for other purposes to be used later. (See "Establishing a petty cash account" in section E.13 below.

E. ACCOUNTING OPERATIONS

1. Approval of project agreement

The Project Agreement contains the budget of local cost items to be paid by the Implementing Agency including specific categories such as personnel, travel, tools, fertilizer, etc., to be used for controlling project funds. (This budget, contained in Annex I of the Project Agreement, is an authorized estimate of resources by budget categories which the project is expected to require over its life. The project is not assured of receiving all of these funds, as each year's outlays are subject to legislative review and approval during the annual congressional budget process in the United States.) Changes in these categories require donor authorization in either a Project Implementation Letter or an Amended Project Agreement.

Illustration 3

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Amount	Balance	Donor Advance	Total Balance
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance				

2

Purpose:

(a) To establish a contractual agreement between USAID and the host country;

(b) Provide a detailed budget of authorized local expenditures for the life of the project. (This budget is distinct from the budget for the first year of the project which is usually included in the first Project Implementation Letter (PIL). It is always annexed to the Project Agreement.)

Procedure:

(a) The two parties negotiate project activities as well as an implementation plan and the division of responsibilities.

(b) Establish the mechanisms for implementing, monitoring and evaluating project performance.

The following pages show an example of a Project Agreement document, together with its annexed Financial Plan. This document is of primary importance. It needs to be widely circulated among project personnel, especially those in the accounting unit of the project for it sets the legal boundaries within which the project must operate financially.

2. Establishing separate project accounting books and records

Purpose:

(a) To provide accountability for donor specific, project specific resources. (The funds must be separated since Project Agreement requirements for the use of and accounting for funds may vary from donor to donor. Requirements may also vary from project to project even when the funds for both projects come from the same donor.)

(b) To evaluate the use of USAID provided resources.

Procedures:

(a) Establish a separate bank or ministry account for the USAID donated funds for each project.

Illustration 4

PROJECT AGREEMENT

Number: 478-0012

Title: Irrigation Project

Date: October 5, 1980

BETWEEN The Republic of Senbia (beneficiary)
and The United States of America through the Agency for
International Development (AID)

Article I: The Agreement

This agreement establishes an understanding between the above named parties with respect to the understanding by the beneficiary of the project described below and with respect to the financing of this project by the interested parties.

Article II: The Project

Section 2.1 Definition of the Project. The project is an effort to provide assistance to the rural agriculture sector of Senbia.

Article III: Financing

3.1 The Grant. To assist the beneficiary to assume the costs related to the execution of the project, the AID (in accordance with the Foreign Assistance Act of 1961, as amended) agrees to provide the beneficiary, in accordance with the terms of the present agreement, a Grant of two million one hundred thousand dollars..

The Grant may be utilized to finance the costs of the goods and services necessary for the project in foreign exchange, for budget

-2-

categories No. 1, 2 and 3 of Annex I, and also the local currency costs, for budget categories No. 4-8 of Annex I.

Article IV: Duration of the Project

It is estimated that the project will be completed by the 30th day of November, 1985 (being a period of three years).

Article V: Execution

The Grant may be utilized to finance foreign exchange and local currency costs for the goods and services required by the project.

The execution of budget categories No. 1, 2 and 3 of the project, as contained in Annex I, will be the responsibility of USAID. Budget categories 4, 5, 6, 7, and 8 of the project will be the responsibility of the Implementing Agency of the Government of Senbia, which will utilize the local currency funds made available by the Grant.

Taking notice of the above, the beneficiary and the United States of America, each acting through the intermediary of its duly authorized representative, have signed the present agreement on the above date mentioned.

REPUBLIC OF SENBIA

UNITED STATES OF AMERICA

Illustration 4
(cont.)

Annex I: Financial Plan, Project No. 478-0012
Duration 3 Years

<u>Budget Categories</u>	<u>US Dollar</u>	<u>Approximate Equivalent in Local Currency</u>
1. Heavy Equipment	\$500,000	LC 50,000,000
2. Technical Assistance (expatriate)	600,000	60,000,000
3. Vehicles	250,000	25,000,000
4. Personnel	130,000	13,000,000
5. Materials	118,000	11,800,000
6. Irrigation Equipment	250,000	25,000,000
7. Loan Fund	180,000	18,000,000
8. Training	<u>72,000</u>	<u>7,200,000</u>
	\$2,100,000	LC 210,000,000

*"LC" is used throughout this manual is a fabricated currency symbol referring to a fictitious local currency with an exchange rate of LC100 = \$1.

(b) Establish and maintain the following accounting records for each separate project:

- Donor receivable account
- Encumbrance journal
- Cash receipts and disbursements control ledger
- "Open payable" and "closed payable" files

(c) Create column headings in the following books based on the budget categories established in the Project Agreement (PROAG) and the first Project Implementation Letter (PIL):

- Encumbrance journal (includes amounts)
- Cash receipts and disbursements control ledger

3. Recording approval of Project Agreement and the first Project Implementation Letter (PIL)

Purpose:

To document authorization and approval for the Implementing Agency to incur expenditures.

Procedures:

(a) Post the signed Project Agreement to the donor receivable account including:

- Date
- References
- Total amount authorized for local costs (throughout the life of the project) in both dollars and the local currency equivalent.

(b) Post the first Project Implementation Letter to the encumbrance journal, including the date, the number of the PIL in the first "Reference" column, and the annual approved amounts (expressed in local currency equivalents) in the "Balance" columns by budget categories.

Example

- (a) The locally managed portion of the Project Agreement budget on page 12 (items 4 through 8) amounts to an approved dollar budget of \$750,000 for the three year life of the project. This is estimated at LC 75,000,000 in local currency. Both the dollar and local currency amounts are recorded in the donor receivable account as indicated in table 1 on the following page.

- (b) The budget for the first year of the project (from the first Project Implementation Letter) on page 16 shows an approved local currency budget in the amount of LC 19,500,000. The amounts in this annual budget are posted to the encumbrance journal (see table 2) in the "Balance" columns by budget categories and in the "Total" column as indicated on page 18.

Table 1

PROJECT NUMBER: 478-0012

PROJECT TITLE: Irrigation

DONOR RECEIVABLE ACCOUNT

Date	Reference	\$ Amount Authorized	\$ Amount Received	\$ Balance	L.C. Amount Authorized	L.C. Amount Received	L.C. Balance
<u>1981</u> Dec.1	Pro/Agr No.478-0012	750,000		750,000	75,000,000		75,000,000

Illustration 5

Example of a Project Implementation Letter (PIL)

October 30, 1980

Mr. Moussa Diop
Permanent Secretary
Ministry of Agriculture (MOA)

Subject: AID Grant Agreement No. 478-0012
Irrigation Project
Implementation Letter No. 1

Dear Moussa:

In accordance with previous discussions we have had with you and others in the Ministry, we request that you open a deposit account exclusively for this project.

Please provide us in writing with information as to where the funds will be held, the account number and the name of the individual authorized to sign checks against the account. This special account will operate on a revolving fund basis, replenishments taking place as and when documentation described herein is prepared in support of the disbursements made.

The request for periodic advances should contain the following statement:

"The undersigned hereby certifies: (1) that the above represents the best estimate of funds needed for expenditures to be incurred over the three-month period, (2) that appropriate refund or credit to the grant will be made in the event funds are not expended, and (3) that appropriate refund will be made in the event of disallowance in accordance with the terms of this grant."

Outlined below is the annual budget and categories for which this special account is to be used:

-2-

<u>Budget Category</u>	<u>Dollar Amount</u>	<u>LC Amount</u>
Personnel	\$42,000	LC 4,200,000
Materials	22,000	2,200,000
Irrigation Equipment	86,000	8,600,000
Loan Fund	30,000	3,000,000
Training	15,000	1,500,000
Total	\$195,000	LC 19,500,000

Notes:

- (1) Conversion of U.S. dollars to Local Currency based on current exchange rate of \$1.00 US = LC 100.00
- (2) Budget total cannot be exceeded without an appropriate budget amendment by AID.

We request that financial records be maintained in accordance with sound accounting procedures adequate to show the receipts and disbursements of funds and the receipt of goods and services acquired. At a minimum, a check register should be maintained that show the issuance of checks in numerical and chronological order, the name of the payee, a basic description of the goods or services purchased and attribution of these purchases to one or more of the categories shown in the budget. All payments should be supported by vendor or contractor invoices, evidence of competitive price comparisons to the extent practical, and certification showing that the goods were received and/or that the services were performed. The support documentation should be retained by MOA. AID reserves the right to review, inspect and audit these documents and all ledgers maintained under this account. Based on these records, we request that MOA submit a report of disbursements to USAID at least on a quarterly basis, or sooner if replenishments are required, according to the following:

- (a) A financial statement as shown at Annex A which provides information on the budget, current

Illustration 3
(cont.)

-3-

disbursements and cumulative disbursement plus certification as to the statement's accuracy by you or your authorized representative.

- (b) A reconciliation as shown at Annex B which shows the difference between MOA's receipts and the accounting organization's records.

Also, your attention is invited to section D. 2 (E) of Annex 2 of the Project Agreement which points out that any interest earned on disbursed but unutilized funds must be refunded to the U.S. Government.*

Please confirm acceptance of this agreement by signing below and returning the letter to me. We will provide you with a copy for your files.

Sincerely,

WILLIAM A. JONES
AID Mission Director

MOUSSA DIOP

* This point is self explanatory, even though for reasons of brevity the sample PROAG on Page 10 does not have all the annexes.

Table 2

Project No: 478-0012

ENCUMBRANCE JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL	
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance
1981 Dec-1	PIL	1			4,200,000		2,200,000		8,600,000		3,000,000		1,500,000				19,500,000

18

4. Request USAID cash advance

Purpose:

To commence orderly implementation of the project.

Procedures:

Upon receipt of the executed Project Agreement, the first Project Implementation Letter, and assurance that conditions precedent to first disbursement have been satisfied, a request for funds by budget category should be initiated to obtain a cash advance from USAID based on immediate disbursement needs. The time period covered by the cash advance may vary, but it would normally be three months or less as based on the following type of analysis which should be attached to the Request for Advance (see illustration 6).

The "Reserve" in the annex to illustration 6 sometimes refers to either (a) buffer funds meant to carry over until the next period's advance has been approved and issued, and/or (b) contingency funds meant to allow for unforeseen expenses, and/or (c) allowance for inflation. Local USAID Mission policy may or may not permit a reserve. Ideally, good budgeting control would recommend that the reserve be limited to (a) above. Allowance for inflation should rather be taken into consideration when estimating budgetary requirements for each category. And contingency funds should be identified as such. They should never be considered a new "miscellaneous" budget category; their use should always be identified with an existing budgetary category within existing budgetary constraints.

After receipt of a Request for Advance, the USAID Mission will issue an advance check for the amount requested if the Mission concurs with the proposed request. It must be noted that the letter granting the request will also show the allocation of the advance by budget categories.

Illustration 6

REQUEST FOR ADVANCE

December 1, 1980

Mr. William A. Jones
AID Mission Director
Embassy of the United States
of America
Dakjul, Sembia

Dear Mr. Jones:

In reference to our discussions on the Irrigation Project, I am enclosing our anticipated expenses for the period December 1980 through February 1981 (Annex A).

It is understood that future requests for advances to the project will be accompanied by:

- (a) A financial statement which provides information on the budget, current disbursement and cumulative disbursement plus certification as to the statement's accuracy by an authorized representative (Annex A).
- (b) A reconciliation showing the differences between MOA's receipts and the accounting organization's records (Annex B) (Not attached this first period. There can be no bank reconciliation until after project has started. This will be attached to all subsequent advance requests.)

Sincerely,

DABY JALLOH
Irrigation Project .

Illustration 6 (cont.)

<u>Annex A (First period)</u>			
<u>Budget Categories</u>	<u>PIL Annual Budget</u>	<u>Estimated Disbursements Next Period</u>	<u>Ending Balance</u>
Personnel	4,200,000	1,000,000	3,200,000
Materials	2,200,000	800,000	1,400,000
Irrigation Equip.	8,600,000	2,000,000	6,600,000
Loan Fund	3,000,000	1,100,000	1,900,000
Training	1,500,000	300,000	1,200,000
Subtotal	19,500,000	<u>5,200,000</u>	14,300,000
Plus Reserve*		<u>-0-</u>	
Advance Requested		<u>5,200,000</u>	

<u>Annex A (Subsequent periods)</u>				
<u>Budget Categories</u>	<u>PIL Annual Budget</u>	<u>Accumulated Disbursements</u>	<u>Estimated Disbursements</u>	<u>Ending Balance</u>
Personnel	4,200,000	1,000,000	1,300,000	1,900,000
Materials	2,200,000	800,000	900,000	500,000
Irrigation Equip.	8,600,000	1,950,000	2,500,000	4,150,000
Loan Fund	3,000,000	1,100,000	1,450,000	450,000
Training	1,500,000	250,000	350,000	900,000
Subtotal	19,500,000	5,100,000	<u>6,500,000</u>	7,900,000
Cash on Hand			<u>100,000</u>	
TOTAL			<u>6,400,000</u>	
Plus Reserve*			500,000	
Advance Requested			<u>6,900,000</u>	

* / See the explanation of the "Reserve" on page 19.

Illustration 7

Project Implementation Letter No. 2
December 9, 1981

Director of Irrigation Project
Dakjul, Sembia

Following our phone conversation, we are pleased to concur with your request for the creation of a Travel Budget Category. The total amount allocated to this new category is \$4,000, to be taken from the Training Budget Category. The total annual amount allocated for Training is therefore \$11,000. The other budget categories remain unchanged:

	<u>\$ Amount</u>	<u>LC Amount</u>
Personnel	42,000	4,200,000
Irrigation Equipment	22,000	2,200,000
Material	86,000	8,600,000
Loan Fund	30,000	3,000,000
Training	11,000	1,100,000
Travel	4,000	400,000

Enclosed please find a US Government check in the amount of \$52,000 (LC 5,200,000) as a first advance for the Irrigation Project, allocated as follows:

Personnel	\$2,000,000
Materials	795,500
Irrigation Equipment	1,500,000
Loan Fund	649,500
Training	160,000
Travel	95,000
TOTAL	<u>\$5,200,000</u>

Sincerely,

WILLIAM A. JONES
USAID Mission Director

5. Adjusting budget for approved changes

The Project Director may decide that the project needs an additional budget category not included in the original grant agreement. The Director may not create such a category or shift budgeted amounts for this purpose without the written approval of the USAID mission (usually issued in a PIL) if USAID funds are to be used. Such a new budget category can be created by increasing the total funds available to the project (which is less likely and requires an amendment to the PROAG approved in Washington) or, the funds can be shifted from another existing category without affecting the total grant (requiring the USAID mission approval only). If the project is able to finance the additional budget category from some source other than AID, this of course, does not require AID approval.

Purpose:

To provide for budgetary flexibility and to maintain an official up-to-date record of the authorized amount of project expenditures by budget category.

Procedure:

(a) The Project Director (or another official designated by the Implementing Agency), with the concurrence of USAID, must issue a written authorization to effect any change in the approved budget amounts or budget categories. The Project Agreement, subsequent Project Implementation letters, or some stated policy agreed to by USAID, indicate the amount of budget flexibility which may be exercised by the Implementing Agency without obtaining prior written authorization from USAID.

(b) In the event adjustments are authorized in the annual budget, the adjustments must be explained in a journal voucher and recorded in the encumbrance journal with a separate entry.

(c) If changes in the budget establish new budget categories, create additional column headings in the encumbrance journal and in the cash receipts and disbursement control ledger.

(d) Indicate budget changes on the monthly financial reports.

Example (for an illustration, see Table 3):

The Project Director has, with the written approval of AID, decided to create a new budget category for "Travel" using LC 400,000 from the funds previously allotted to "Training."

Register the budget change in the encumbrance journal with following:

- (a) Reference the PIL authorizing the budget change;
- (b) Enter the LC 400,000 in parentheses in the "Amount" column under "Training" to indicate a deduction and reduce the "Balance" under "Training" to LC 1,100,000.
- (c) Enter LC 400,000 as an opening "Balance" under a newly created budget heading of "Travel." (Nothing appears in the "Amount" column under "Travel.")
- (d) Since the total budget for the project has been neither increased nor decreased, the "Total" columns are not affected.

Table 3

Project No: 478-0012

ENCOURAGEMENT JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL	
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance
1981																	
Dec.1	PIL	I		4,200,000	2,200,000		8,600,000		3,000,000		1,500,000						19,500,000
Dec.8	Budget change	PIL2	JVI							(400,000)	1,100,000		400,000				19,500,000

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6. Receipt of USAID advance of funds

Purpose:

To provide and record the initial cash for the project.

Procedure:

(a) Post both the dollar and the local currency amounts of the U.S. Government check issued by USAID to "amount received" columns of the donor receivable account. Subtract the value of the check from the previous dollar and local currency balances of the donor receivable account and indicate the remaining balance of USAID funds available under both the dollar and the local currency portion of the Project Agreement.* See table 4 for an illustration.

(b) Local funds must be deposited in a separate bank account and the deposit slip returned to the accountant responsible for posting the cash receipts and disbursements control ledger.

(c) The advance check should be accompanied by a letter from USAID explaining the portions of the advance to be allocated to each budget category (see table 5). Use the local currency amounts as the opening entries in the "Balance" columns of the cash receipts and disbursement control ledger (or additions to existing balances after project start up) for each budget category. Indicate the date of posting and reference the deposit slip and the USAID check number. Register the local currency deposit in the "Receipts" column and in the "Donor Advance" and the "Total" columns of the cash receipts and disbursement control ledger.

(d) Establish and maintain a separate file for all bank deposit slips and maintain them in chronological sequence. This file will be maintained by the person responsible for preparing the bank or financial reconciliation statement.

Disallowances

The implementing organization will make periodic requests for replenishment of its cash advance from USAID by submission of expenditure reports (drawn up from detailed supporting documentation). If, upon review, certain expenditures can not be justified by supporting documentation, or are determined to be outside the specification of the project agreement, they will be disallowed and not reimbursed by USAID.

*/ Reminder: Only the dollar amount is official.

Table 4

PROJECT NUMBER: 478-0012

PROJECT TITLE: Irrigation

DONOR RECEIVABLE ACCOUNT

Date	Reference	\$ Amount Authorized	\$ Amount Received	\$ Balance	L.C. Amount Authorized	L.C. Amount Received	L.C. Balance
1981 Dec. 1	Pro/Agr No. 478-0012	750,000		750,000	75,000,000		75,000,000
Dec. 9	Check No. 8759		52,000	698,000		5,200,000	69,800,000

Table 5

CASR RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Donor Advance	Total Balance	
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance			
<u>1981</u>																					
Dec. 9	USAID advance check	8759	010		5,200		2,000		795.5		1,500		649.5		160		95			5,200	5,200

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The reimbursement or advance replenishment will be the amount requested less the amount of any disallowed expenditures. The disallowances should be noted in a log to be kept by the host country finance ministry or budget section. The organization should work to a resolution of the discrepancy by either further clarification of the item with USAID or by making payment from another source of funds. If the implementing organization repays the account from other resources, the cash receipts and disbursement control ledger will show a receipt and will enter the credit to the same budget category as the disputed item. If the project uses host country funds as working capital, the disallowed expenditure simply is not reimbursed. A log should be kept as mentioned above and the encumbrances and disbursements will be permitted to exceed the project agreement amount by the amount of the disallowed items. In this case, the cumulative disallowances cannot exceed the working capital from host country funds. The working capital left at the end of the project will be the original amount reduced by the cumulative disallowances incurred throughout the life of the project.

7. Encumbrance of funds - issuing purchase orders, travel authorizations, and contracts

Purpose:

(a) To provide written authorization and approval for purchases of goods and services, travel and other transactions requiring encumbrance of funds;

(b) To assure availability of project funds.

Procedures:

The host country implementing agency will:

(a) Prepare transaction documents:

- Purchase orders
- Travel Authorizations
- Travel Advances
- Contracts
- Journal vouchers for encumbrance adjustments

(b) Certify availability of funds;

(c) Obtain authorized approvals;

(d) Issue the purchase order or other relevant document;

(e) Post encumbrance journal;

(f) File one copy of the encumbrance document (from "d", above) in an open payable file (and another copy of the same document in a permanent encumbrance support file if the project budget section is organizationally separate from the accounting section).

Example

- (1) On December 9, 1981, a purchase order is issued in the amount of LC 200,000 for the irrigation equipment.

Posting: Purchase order number 1001 is posted to the encumbrance journal. The "Amount" column under "Equipment" indicates the encumbrance, and the "Balance" column indicates the remaining amount available to be encumbered. See table 6.

- (2) On December 16, 1981, a purchase order is issued in the amount of LC 150,000 for materials.

Posting: Purchase order number 1002 is posted to the encumbrance journal. The "Amount" column under "Materials" indicates the encumbrance, and the "Balance" column indicates the remaining amount available to be encumbered. See table 7.

- (3) On December 17, 1981, a travel authorization is issued for LC 70,000 to Mr. Z. Anderson.

Posting: Travel authorization 4001 is posted to the encumbrance journal. The "Amount" column under "Travel" indicates the encumbrance, and the "Balance" column indicates the remaining amount available to be encumbered. See table 8.

- (4) On December 18, 1981, a contract for training is executed for LC 38,000.

Posting: Contract number 2001 in the amount of LC 38,000 is entered in the encumbrance journal similar to the items above. See table 9.

- (5) On December 28, 1981, a contract is issued in the amount of LC 12,000 for the translation of a project paper into French.

Posting: Service contract 3001 in the amount of LC 12,000 is posted to the encumbrance journal in the "Amount" column under "Personnel and Office Expenses", then the "Balance" column indicates the remainder to be encumbered. These steps are repeated under the "Total" column.

Table 6

EMIGRANCE JOURNAL

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL	
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance
1981																	
Dec.1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000					19,500,000
Dec.8	Budget change	PIL2	JV1									(400,000)	1,100,000	400,000			19,500,000
Dec.9	Purchase order	1001						200,000	8,400,000							200,000	19,300,000

Table 7

Project No: 478-0012

ENCUMBRANCE JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	
1981																		
Dec.1	PIL	1			4,200,000		2,200,000		8,600,000		3,000,000		1,500,000					19,500,000
Dec.8	Budget change	PIL2	JV1									(400,000)	1,100,000		400,000			19,500,000
Dec.9	Purchase order	1001						200,000	8,400,000								200,000	19,300,000
Dec.16	Purchase order	1002				150,000	2,050,000										150,000	19,150,000

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Table 8

ENCUMBRANCE JOURNAL

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	
1981																		
Dec.1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000						19,500,000
Dec.8	Budget change	PIL2	JVI								(400,000)	1,100,000		400,000				19,500,000
Dec.9	Purchase order	1001						200,000	8,400,000								200,000	19,300,000
Dec.16	Purchase order	1002				150,000	2,050,000										150,000	19,150,000
Dec.17	Travel authorization	4001											70,000	330,000		70,000		19,080,000

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Table 9

ENCUMBRANCE JOURNAL

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance			
1981																		
Dec.1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000						19,500,000
Dec.8	Budget change	PIL	JV1								(400,000)	1,100,000		400,000				19,500,000
Dec.9	Purchase order	1001						200,000	8,400,000								200,000	19,200,000
Dec.16	Purchase order	1002				150,000	2,050,000										150,000	19,150,000
Dec.17	Travel authorization	4001												70,000	330,000		70,000	19,080,000
Dec.18	Training contract	2001										38,000	1,062,000				38,000	19,042,000
Dec.28	Service contract	3001		12,000	4,188,000												12,000	19,030,000

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8. Adjustment to encumbrances

Purpose:

To make adjustments to the encumbrance journal for:

- (a) Travel;
- (b) Contracts; and
- (c) Purchase orders.

Procedure:

(a) For travel, disencumber the difference between the amount that had been encumbered by a travel authorization and the amount actually spent on the travel. When the travel expenses voucher is submitted the costs will be higher, lower or the same as the advance. If lower, the traveler will be required to reimburse the account. If higher, an additional check will be written to the traveler compensating him for the cost of his travel, (the additional check plus the advance equals the traveler's expenses). If the travel voucher equals the advance, no adjustment is required. The total traveler costs including cost of transportation should be compared to the amount encumbered by the travel authorization to decide if an upward or downward encumbrance adjustment is required. A journal voucher or travel authorization amendment would serve as the supporting document;

(b) For service contracts where the amount initially encumbered is greater than the amount actually expended, disencumber the unspent amount by making a negative entry in the encumbrance journal and indicating adjustment of service contract. A journal voucher would be one means of documenting the entry or perhaps a contract amendment;

(c) For purchase orders where the cost of the goods received is less than that originally encumbered, disencumber the difference between the amount encumbered and the amount billed by entering a negative in the same budget category and document it by a journal voucher or purchase order amendment which refers to the original purchase order.

Note: A journal voucher is an official accounting document supporting an entry in a journal or ledger; it is a multi-purpose document which can be used, for example, to document the partial encumbrance of services received under a long-term contract or to support and explain adjustments to a journal or a ledger, among other uses.

Example

On December 28, 1981, LC 80,000 of a LC 200,000 order of equipment from the Quality Equipment Company is cancelled. In order to reflect this change make the following adjustment to the encumbrance journal:

- (a) Complete a numbered journal voucher explaining the disencumbrance* and reference it as well as the original purchase order (see illustration 8 below);
- (b) Enter the LC 80,000 in parentheses in the "Amount" column under "Equipment". (The parentheses indicate that the amount is either negative or a reversal of a previous transaction.);
- (c) Increase the amount now available in the "Balance" column under "Equipment" to LC 8,480,000;
- (d) Enter LC 80,000 in parentheses in the "Amount" column under "Total" and increase the balance to LC 19,110,000 to indicate that the total project local currency budget has LC 80,000 more available and uncommitted. (See table 10 for an example.)

*/ To disencumber = to cancel an order, is different from to liquidate an encumbrance = to pay off an order.

Illustration 8

DATE

BUDGET CATEGORY	DEBIT		CREDIT	
TOTAL				

DESCRIPTION

PREPARED BY	DATE	APPROVED BY	DATE	POSTED BY	DATE
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Table 10

Project No: 478-0012

ENCUMBRANCE JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	
1981																		
Dec.1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000						19,500,000
Dec.8	Budget change	PIL2	JV1									(400,000)	1,100,000	400,000				19,500,000
Dec.9	Purchase order	1001	ck101					200,000	9,400,000								200,000	19,300,000
Dec.16	Purchase order	1002	ck102			150,000	2,050,000										150,000	19,150,000
Dec.17	Travel authorization	4001												70,000	330,000		70,000	19,080,000
Dec.18	Training contract	2001										38,000	1,062,000				38,000	19,042,000
Dec.28	Service contract	3001		12,000	4,188,000												12,000	19,030,000
Dec.28	Quality Equipment Co.	1001	JV 2					(80,000)	8,480,000								(80,000)	19,110,000

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9. Establishing open payable files

Purpose:

To provide a centralized record of all goods and services that have been encumbered but not yet completely paid for.

Supporting documentation:

The open payable file contains the following documents:

- (a) Purchase orders;
- (b) Vendor estimates for goods or services;
- (c) Contracts;
- (d) Travel authorizations;
- (e) Journal vouchers for adjustments to original purchase order amount;
- (f) Amended purchase orders for changes and corrections in original terms. An amended purchase order for change in price would obviate the need for a journal voucher to authorize the price adjustment;
- (g) Receiving reports;
- (h) Summary sheet for partial payments.

Procedures:

(a) All documents supporting entries in the encumbrance journal are filed chronologically (or optionally, alphabetically by vendor's name) in order to be easily referenced when supporting documentation is required;

(b) All documentation supporting unpaid bills or invoices should be attached to the corresponding purchase order and filed in the open payable file. The supporting documentation may include purchase orders, bills of lading, receiving reports, bills or invoices and evidence of partial payment. The documents remain in the open payable file until the documentation packet is complete and payment has been approved. They are then removed and transferred to the accounting section where payment will be made and recorded. (The documentation packet will eventually be filed in a closed payable file (see section 12 (c) below).)

10. Receiving report of goods and services

Purpose:

To document acceptance of delivery of goods or performance of services, and to record quantities and condition of items received.

Procedure:

(a) Prepare a receiving report upon receipt of goods, indicating date, vendor, quantity, description, and condition of items;

(b) For services, prepare a Memorandum of Performance of Services to indicate satisfactory acceptance of purchased services;

(c) The transaction documents are forwarded to the accountant maintaining the open payable file (located in either the finance ministry or the accounting office). They are then attached to the corresponding copy of the purchase order in the open payable file until the invoice is received and processed for payment.

11. Processing payments

Purpose:

To provide internal control over the authorization, approval and disbursements in payment of all claims and invoices, assuring that only properly authorized and correct payments are processed.

Procedure:

(a) Verification of documents:

Verify that goods and services invoiced match those actually received according to receiving reports and that those received correspond to those ordered. If the payment is for an amount different than the amount encumbered, an adjustment for the difference should be posted to the amount column of the encumbrance journal. If the actual payment is less than the amount originally encumbered, the adjustment should be reflected on a journal voucher and recorded in the encumbrance journal.

Since no prior approval is required for downward adjustments in encumbrances, a summary journal voucher for all such adjustments for the month is appropriate. However, if the adjustment is upward in the encumbrance, then the same approvals required for the initial encumbrance document are needed for the adjusting journal voucher.

(b) Preparation of payment vouchers

Prior to any disbursement of funds, a voucher is prepared indicating the payee of the check, describing the services performed or goods received, the amount involved by budget category charged, and the approval of the Project Manager.

Illustration 10

Republic of Serbia

Project No. _____

Section _____

Budget Category _____

PAYMENT VOUCHER

No.	Description	Amount	Supporting Documents	Method of Payment

Dakjul, (date) _____

The Coordinator

- (i) Vouchers are numbered consecutively, beginning each month with the number "one". The number of the month precedes the voucher number, i.e., the fifth voucher in February is shown as 2-5;
- (ii) Affix to the voucher the purchase order, receiving copy, and invoice or any other substantiating document;
- (iii) No voucher is to be prepared without an indication by someone in authority that the item purchased was previously encumbered and was in fact received or that the services were in fact performed;

This is done by having the person responsible for accepting the goods complete a receiving report, or by having the individual responsible for receiving services prepare a Memorandum of Performance of Service, upon receipt of the specified goods or services. The approval may also be indicated by having the authorized person sign the invoice as approval for payment.

(c) Preparation of checks

A check should be prepared and issued only when there is proper supporting documentation. The supporting documentation includes the payment voucher, corresponding encumbrance document, original copy of the approved invoice stamped "paid" and the receiving report. These documents, which until now have been kept in the open payable file, are attached to the payment voucher and transferred to the accounting section where the check for payment will be prepared and recorded, subject to the approval of the project director. Ideally, all payments should be made by check; while cash payments are permissible, bank transfers are not allowed unless permitted in a Project Implementation Letter.

The Implementing Agency should devise a method (using either photocopies of each check, carbons, snap-out vouchers or check stubs) for attaching the information on checks issued to their packets of supporting documentation.

- (i) The original copy of the check is signed by the authorized officials of the Implementing Agency and serves as payment to the creditor.
- (ii) One copy of the information on the check should be stapled to the supporting documentation consisting of the purchase order, payment voucher, original copy of the invoice, journal voucher (if used), and receiving report. These document packets should be maintained in a closed payable file by check number sequence (or optionally, alphabetically by vendor's name). Such a system provides the essential supporting information for the auditing of cash disbursements.
- (iii) A second copy of the information on the check may be filed alphabetically by vendor (or optionally, in check number sequence) in the vendor payment file.

12. Recording payments

Purpose:

- (a) To systematically summarize financial data for monthly reports;
- (b) To provide an audit trail of all expenditures;
- (c) To have an accurate record of cash balances.

Procedure:

(a) Post the transaction to the cash receipts and disbursements control ledger referencing the check number and the number of the encumbrance document being liquidated.

(b) Record liquidation of encumbrance in the encumbrance journal by posting the check number of the liquidating disbursement. See table 10 (the encumbrance journal) for an illustration of this procedure. Any adjustments for increases in original encumbrances posted to the encumbrance journal should reference the supporting journal voucher and also cross-reference the check number when payment is made.

(c) Maintain a closed payable file. For every payment there is a "payment package" consisting of a copy of the check with all the supporting documentation attached to it. It is essential that this "payment file" be maintained in check number sequence (or alphabetically by vendor's name) so that the records of the project may easily be audited at any time. The "payment package" and supporting documents provide the audit trail for all amounts recorded on the monthly financial report for the project.

Example

Record the following payments:

1. December 17, 1981, paid LC 120,000 to Quality Equipment Company for three units of equipment. See table 11.
2. December 20, 1981, paid LC 150,000 to Bell Company for materials. See table 12 for an illustration of the recorded payment in the cash receipts and disbursements control ledger.
3. December 22, paid LC 20,000 to C. Baker for replenishment of petty cash fund. See table 13 and section 13 below.
4. December 25, paid C.M. Training Company for training services provided. See table 14.
5. December 30, paid Anderson 25,000 for travel expenses. See table 15.

Table 11

CASH RECEIPTS AND DISBURSMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Donor Advance	Total Balance	
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance			
1981																					
Dec. 9	USAID advance check	8759	010		5,200		2,000		795.5		1,500		649.5		160		95			5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120				120	1,380										5,080

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Table 12

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Amount	Balance	Donor Advance	Total Balance
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance				
<u>1981</u>																						
Dec. 9	USAID advance check	8759	010		2,200			2,000		795.5		1,500		649.5		160		95			5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,380										5,080
Dec. 20	Bell Co.	102	PO	1002		150			150	645.5												4,930

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Table 13

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Petty Cash amount	Cash g/ Balance	Donor Advance	Total balance	
							Amount	Balance	Amount	Balance	Amount	Balance	amount	Balance	Amount	Balance	Amount	Balance					
1981																							
Dec. 9	USAID advance check	8759	010		5,200			2,000		795.5		1,500		649.5		160		95				5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,380											5,080
Dec. 20	Bell Co.	102	PO	1002		150			150	645.5													4,930
Dec. 22	C. Baker	103	JV3			20														20			4,910

a/ The petty cash account is not a budgetary category. It is a temporary account for recording the small fund and the expenditures drawn on it. At the time the fund is set up, the budget categories of the eventual expenditures are not known. When the fund is replenished however, the past expenditures can be sorted by budget category, encumbered and expensed. See sections 13-15 below.

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Table 14

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Receipts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Petty Cash		Donor Advance	Total Balance
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance		
<u>1981</u>																						
Dec. 9	USAID advance check	8759	010		5,200		2,000		795.5		1,500		649.5		160		95				5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120				120	1,380											5,080
Dec. 20	Bell Co.	102	PO	1002		150			150		645.5											4,930
Dec. 22	C. Baker	103	JV3			20														20		4,910
Dec. 25	C.M. Training, Inc.	104	TC	2001		38								38	122							4,872

JP

Table 15

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Petty Cash		Donor Advance	Total Balance
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance		
<u>1981</u>																						
Dec. 9	USAID advance check	8759	010		5,200		2,000		795.5		1,500		649.5		160		95				5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120				120	1,380											5,080
Dec. 20	Hall Co.	102	PO	1002		150			150		645.5											4,930
Dec. 22	C. Baker	103	JV3			20														20		4,910
Dec. 25	C.M. Training, Inc.	104	TC	2001		38								38	122							4,872
Dec. 30	Anderson	105	TA	4001		25										25	70					4,847

13. Establishing a petty cash fund

Purpose:

To have a cash fund available for making payments in local currency whenever payment by check is not practical or possible.

Procedure:

(a) The Project Director of the Implementing Agency must approve the establishment of a petty cash fund. The approval must be in writing and must name the custodian of the fund and the persons delegated the authority to approve petty cash vouchers. Such a fund must be maintained on an imprest basis (i.e., the total of all receipts plus cash must always equal the fixed pre-established level of the fund).

(b) Each Implementing Agency establishes an internal policy for the maximum amount which can be paid from petty cash. The policy will depend on the types and amounts of payments to be made in currency where it is not practical to prepare the documentation usually required for purchases.

(c) Issue check to the custodian of the fund for the total amount of the fund. The payment to establish the petty cash fund is entered in the cash receipts and disbursements control ledger; although this entry requires the creation of a new column heading, "Petty Cash," it does not constitute a new budget category. Petty cash is considered a temporary account and its expenditures will be eventually allocated to the existing budget categories.

Uses of petty cash fund:

(a) Any item covered by a purchase order is not purchased with petty cash funds unless the item is needed on an emergency basis or is not available through established purchasing channels.

(b) When a cash payment is made from the petty cash fund, an interim receipt or other supporting documentation, is placed in the petty cash box. Therefore, the total of cash remaining in the box, plus the total amount of interim receipts or invoices therein, should equal the amount authorized in the fund at all times.

(c) Normally, there should not be any purchases in excess of the authorized maximum amount. Approval for any expenditure over this amount must be obtained from the project director.

(d) Each receipt must be supported by an invoice which shows the date of purchase, item purchased, and the cost. The reverse side of the receipt may be used to describe several items if such is the case. Attach each receipt to its proper invoice.

(e) Where the receipt indicates "Object of Expenditure" enter what was purchased including quantity. "Approved By" should be signed by the staff person responsible for the petty cash. "Received By" is signed by the person who will actually spend the money or make the purchase;

(f) Each interim receipt must be reconciled in amount, date, and item purchased with variances between cash advanced and item cost.

Example

IRRIGATION PROJECT

No. 478-0012

MEMORANDUM

TO: The Files

Date: Dec. 20, 1980

FROM: Abdou Diallo - Project Director

SUBJECT: Opening a Petty Cash Account

It has been decided to open a petty cash fund on an imprest basis to be fixed at twenty thousand locurrs (LC 20,000). In order that the fund be maintained at this fixed level, the account should be replenished periodically by an amount equal to validated expenditures.

For all petty cash expenditures, prenumbered receipts will be filled out, and signed by both the person in charge of petty cash and the recipient of the funds. All justifying documentation, such as bills, receipts, authorizations for advances, etc. will be stapled to the corresponding petty cash receipt.

Charles Baker has been named the person in charge of the petty cash fund until further notice.

Illustration 11

INTERIM RECEIPT	
AMOUNT LC _____	NO. _____
RECEIVED OF PETTY CASH	
Date _____	
OBJECT OF EXPENDITURE _____	
_____ QUANTITY _____	
APPROVED BY _____	RECEIVED BY _____

Example (Opening petty cash)

- (a) On December 22, check no. 103 is written to C. Baker, the custodian of the Petty Cash Fund. The check is recorded in the cash receipts and Disbursements control ledger in the "Disbursements" column and entered as the opening "Balance" under Petty cash. The total project funds in the bank are reduced to LC 4,910,000.
- (b) The LC 20,000 is entered under the "In" column in the petty cash journal, (but not yet posted to the encumbrance journal because the budget categories for the future petty cash expenditures can not yet be known).
- (c) See table 16 for an example of the petty cash journal and the subsequent expenditures.

Example (Operating petty cash)

- (a) On December 22, the custodian of the petty cash fund advances LC 5,000 cash to the mechanic to purchase parts for a pump. Both the mechanic and the custodian of the fund sign an interim receipt for LC 5,000. No entry is made in any journal or ledger.
- (b) The mechanic returns with the parts for the pump, a receipt for LC 2,000 and LC 3,000 change. The custodian of the fund voids the interim receipt for LC 5,000 in the presence of the mechanic and enters LC 2,000 under the "Out" column in the petty cash journal. The "Balance" is reduced to LC 18,000, and the LC 3,000 change is returned to the cash box.
- (c) The other cash purchases in the petty cash journal are handled in the same fashion.*

* Note: In cases where the vendor can not provide a receipt for small cash purchases (e.g., in the market), the custodian should create a substitute receipt which identifies the value and object of the expenditure. Such a receipt should clearly indicate that it was created by a project employee, due to the lack of a vendor receipt.

14. Closing the books

Purpose

- (a) To identify arithmetic or transcription errors and assure the accuracy of the project records;
- (b) To provide current information on the status of the project's finances.

Procedure

- (a) Draw a line under the last entries in both the encumbrance journal and the cash receipts and disbursement control ledger. Add all the entries in the "Amount" columns and bring down the last entry in the "Balance" columns. The total of the "Amount" column plus the closing "Balance" should equal the opening balance for each budget category. Also, the sum of the totals across all the "Amount" columns plus the total closing project "Balance" should equal the opening total project balance;
- (b) In the cash receipts and disbursement control ledger, add all the entries in the "Receipts" column and all the entries in the "Disbursements" column. The sum of the receipts less the sum of the disbursements should equal the amount remaining in the project "Total Balance" column;
- (c) This summing and cross checking is called "footing" the books. It is done first to close the books. Then, done again after the periodic adjustments to the books are made;
- (d) Adjustments to the books can include replenishing the petty cash fund (see table 21), posting bank charges (see Pages 67 & 68), and/or a variety of documented corrections or additions.

Example

- (a) In the encumbrance journal (table 17) using the "Travel" budget category, the sum of the entries for the month (LC 70,000 less the deobligated LC 45,000) equals LC 25,000. The remaining balance in Travel is LC 375,000. (LC 25,000 plus 375,000 equals the opening balance of 400,000.)
- (b) The sum of the totals of the "Amount" columns across budget categories equals total encumbrances. ("Personnel" LC 12,000 + "Materials" LC 150,000 + "Equipment" LC 120,000 + "Loan" LC 0 + "Training" LC 38,000 + "Travel" LC 25,000 = LC 345,000.) Total encumbrances LC 345,000 + the remaining balance LC 19,155,000 equals the opening balance of LC 19,500,000.
- (c) The same sort of procedure is used to foot the cash receipts and disbursement control ledger, with the additional verification that the total receipts LC 5,200,000 less the total disbursements LC 353,000 should equal LC 4,847,000 the closing balance for the total project local currency component.

Table 17

Project No: 478-0012

ENCUMBRANCE JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	
1981																		
Jan. 1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000						19,500,000
Dec. 8	Budget change	PIL2	JV1								(400,000)	1,100,000		400,000				19,500,000
Dec. 9	Purchase order	1001	ck101					200,000	8,400,000								200,000	19,300,000
Dec. 16	Purchase order	1002	ck102			150,000	2,050,000										150,000	19,150,000
Dec. 17	Travel authorization	4001	ck105											70,000	330,000		70,000	19,080,000
Dec. 18	Training contract	2001	ck104								38,000	1,062,000					38,000	19,042,000
Dec. 28	Service contract	3001		12,000	4,188,000												12,000	19,030,000
Dec. 28	Quality Equipment Co.	1001	JV 2					(80,000)	8,480,000								(80,000)	19,110,000
Dec. 28	Travel expenses	TA 4001	JV4											(45,000)	375,000		(45,000)	19,155,000
				12,000	4,188,000	150,000	2,050,000	120,000	8,480,000			38,000	1,062,000	25,000	375,000	345,000		19,155,000

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Table 18

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Year	Transaction	Check #	Ref.	Ref.	Receipts	Disbur.	Personnel Amount	Personnel Balance	Materials Amount	Materials Balance	Equipment Amount	Equipment Balance	Loan Fund Amount	Loan Fund Balance	Training Amount	Training Balance	Travel Amount	Travel Balance	Petty Cash Amount	Petty Cash Balance	Donor Advance	Total Balance	
<u>1981</u>																							
Dec. 9	USAID advance check	8759	O10		5,200			2,000		795.5		1,500		649.5		160		95				5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,380											5,080
Dec. 20	Bell Co.	102	PO	1002		150			150	645.5													4,930
Dec. 22	C. Baker	103	JV3			20														20			4,910
Dec. 25	C.M. Training, Inc.	104	TC	2001		38									38	122							4,872
Dec. 30	Anderson	105	JV4			25											25	70					4,847
Dec.31	Totals				5,200	353	0	2,000	150	645.5	120	1,380	0	649.5	38	122	25	70		20	5,200	4,847	

Note: The amount of total disbursements is overestimated by the amount of the petty cash fund.

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15. Replenishing the petty cash fund

Purpose:

To maintain an adequate balance in the petty cash fund to meet current needs.

Procedure:

(a) Replenish the fund on an imprest basis as needed. As close to the end of the month as possible, prepare a payment voucher to summarize by budget category all the expenditures which have been made from the petty cash fund during the month;

(b) The voucher is then attached to a request for replenishment of the petty cash fund equal to the month's expenditures, in order to return the account to its fixed amount. The voucher is then processed through the budget section to encumber funds. The amounts posted to the encumbrance journal by each budget category are based on actual expenditures made from petty cash;

(c) The request for petty cash replenishment is processed through the accounting section. A check, payable to the custodian of the fund, is drawn for the amount of the payment voucher. Cash from this check is put in the petty cash box to replenish the fund to its authorized fixed amount. The reimbursement check is entered in the cash receipts and disbursements control ledger and is charged to the budget categories indicated in the journal vouchers;

(d) The petty cash fund should be replenished as close to the end of accounting period as possible in order to include the valid expenditures in the period in which they occur.

Example

(a) On December 31, the custodian closes the petty cash journal by totalling all the interim and purchase receipts and counting the remaining cash. The sum of receipts and cash should equal the fixed pre-established level of the petty cash fund. (Receipts LC 13,500 plus cash LC 6,500 equals LC 20,000, the funds fixed level.)

(b) The custodian, C. Baker, prepares check no. 106 for LC 13,500 the exact amount of justified petty cash expenditures to replenish the fund, and return the cash box to its original level of LC 20,000.

(c) Check no. 106 is recorded in the cash receipts and disbursements control ledger. LC 13,500 is posted in the "Disbursements" column. The amounts of the petty cash expenditures are sorted according to budget category by either the custodian of the fund, or the project accountant.

They are sorted as follows: "Equipment" LC 2,000 (parts and pump), "Materials" LC 6,000 (pipe joints), "Training" LC 2,500 (teaching supplies), "Personnel" LC 3,000 (part-time secretary). These amounts are recorded (with the check no. 106) under the "Amount" column for each budget category, reducing the balances under each category. The "Balance" for the total project becomes LC 4,833,500.

(d) The petty cash fund retains a balance of LC 20,000.

Note: The total project disbursements are overstated by the amount of the petty cash fund (LC 353,000 less LC 20,000 equals LC 333,000 actual disbursements). And the total project balance is understated by the amount of the petty cash fund (LC 4,847,000 plus LC 20,000 equals LC 4,867,000 actually available for the project local currency component).

Table 19

ENCUMBRANCE JOURNAL

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL		
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	
Nov 1																		
Dec. 1	PIL	1			4,200,000		2,200,000		8,600,000		3,000,000		1,500,000					19,500,000
Dec. 8	Budget change	PIL2	JV1									(400,000)	1,100,000		400,000			19,500,000
Dec. 9	Purchase order	1001	ck101					200,000	8,400,000								200,000	19,300,000
Dec. 16	Purchase order	1002	ck102			150,000	2,050,000										150,000	19,150,000
Dec. 17	Travel authorization	4001	ck105											70,000	330,000		70,000	19,080,000
Dec. 18	Training contract	2001	ck104									38,000	1,062,000				38,000	19,042,000
Dec. 28	Service contract	3001		12,000	4,188,000												12,000	19,030,000
Dec. 28	Quality Equipment Co.	1001	JV 2					(80,000)	8,480,000								(80,000)	19,110,000
Dec. 28	Travel expenses	TA 4001	JV4											(45,000)	375,000		(45,000)	19,155,000
	Totals			12,000	4,188,000	150,000	2,050,000	120,000	8,480,000		3,000,000	38,000	1,062,000	25,000	375,000		345,000	19,155,000
Dec. 31	Petty cash reimbursement	JV3	ck106	3,000	4,185,000	6,000	2,044,000	2,000	8,478,000			2,500	1,059,500				13,500	19,141,500

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Table 20

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel		Materials		Equipment		Loan Fund		Training		Travel		Petty Cash		Donor Advance	Total Balance	
							Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance			
<u>1981</u>																							
Dec. 9	USAID advance check	8759	O10		5,200			2,000		795.5		1,500		649.5		160		95				5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,380											5,080
Dec. 20	Bell Co.	102	PO	1002		150			150	645.5													4,930
Dec. 22	C. Baker	103	JV3			20														20			4,910
Dec. 25	C.M. Training, Inc.	104	TC	2001		38									38	122							4,872
Dec. 30	Anderson	105	JV4			25											25	70					4,847
Dec.31	Totals				5,200	353	0	2,000	150	645.5	120	1,380	0	649.5	38	122	25	70		20	5,200		4,847
Dec.31	Petty cash reimbursement	106	JV3			13.5	3	1,997	6	639.5	2	1,378			2.5	119.5							4,833.5

(3)

16. Preparing bank reconciliation statement

Purpose:

- (a) To maintain internal control and assure accuracy of financial reports and accounting journals and ledgers;
- (b) To provide a record for tracking lost checks.

Procedure:

The bank reconciliation statement should be prepared monthly by someone who has not been involved in maintaining the cash receipts and disbursements control ledger nor in processing vouchers for payment.

Having determined that the balance in the cash receipts and disbursements control ledger is mathematically correct, the project books can then be reconciled with the bank's. The following materials will be needed: the preceding month's reconciliation, copies of check vouchers (same information as cash receipts and disbursements control ledger) or checkbook stubs, and the bank statement received from the bank. (If the project's separate account is a ministry account and therefore no periodic bank statements are available, then a similar reconciliation can be prepared using the books of the ministry and those of the project.) Then take these steps:

- (a) There will probably be some checks from the previous month that will have since cleared the bank. Check these off on the list of outstanding checks shown on the preceding month's reconciliation, and in the first section of the current reconciliation indicate those that are still outstanding;
- (b) Check off against the cash receipts and disbursements control ledger all cancelled checks drawn during the month being reconciled. Add the checks recorded but that have not yet cleared the bank to the list of outstanding checks on the reconciliation. (Disregard any checks that you may have written after the end of the month.);
- (c) Compare deposits listed on the bank statement with deposits entered on your cash receipts and disbursements control ledger. List in the first section of the reconciliation any deposits recorded in your checkbooks or cash receipts and disbursements control ledger during the month but not appearing on the bank statement. (This should only be for deposits made on the last day(s) of the month.);
- (d) If any errors in amounts are discovered in the preceding steps, list them in the second section of the reconciliation statement as adjustments to be added or deducted;
- (e) Examine the bank statement for service charges or other adjustments to your account and enter them in the section labeled "Bank Charges";

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(f) Carry out the additions and subtractions shown on the bank reconciliation. The adjusted balance per bank statement should equal the adjusted balance per your cash receipts and disbursements control ledger.

Errors made by the Bank

Occasionally, you may find that the bank has made a mistake in your account. The following types of errors can occur:

- * Deposit or check of another person posted to your account.
- * Your deposit or check posted to another account.
- * Deposit or check posted in the wrong amount.
- * Preceding month's balance incorrectly brought forward on your bank statement.
- * Addition or subtraction incorrectly carried out on the bank statement.

All errors should be reported to the bank at once. They must also be shown as adjustment items in the first section of your bank reconciliation. When the next month's bank statement is received, make sure that any bank errors from the previous month have been corrected.

Illustration 13

National Bank of Sembia				
BANK STATEMENT FOR THE MONTH ENDING 31 DECEMBER 1981				
		Name: Irrigation Project 478-0012		
		Bank Account No.: 32-163A		
Date	Transaction	Withdrawals	Deposits	Balance
10/12/81	Deposit		5,200,000	5,200,000
19/12/81	Check No. 101	120,000		5,080,000
21/12/81	Check No. 102	150,000		4,930,000
22/12/81	Check No. 103	20,000		4,910,000
28/12/81	Check No. 104	38,000		4,872,000
31/12/81	Bank Charges	5,000		4,867,000

Table 22

Project No: 478-0012

ENCUMBRANCE JOURNAL

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL	
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance		
1981																	
Dec.1	PIL	1			4,200,000		2,200,000		8,600,000		3,000,000		1,500,000				19,500,000
Dec.8	Budget change	PIL2	JV1									(400,000)	1,100,000		400,000		19,500,000
Dec.9	Purchase order	1001	ck:91					200,000	8,400,000							200,000	19,300,000
Dec.16	Purchase order	1002	ck102			150,000	2,050,000									150,000	19,150,000
Dec.17	Travel authorization	4001	ck105											70,000	330,000	70,000	19,080,000
Dec.18	Training contract	2001	ck104									38,000	1,062,000			38,000	19,042,000
Dec.28	Service contract	3601		12,000	4,188,000											12,000	19,030,000
Dec.28	Quality Equipment Co.	1001	JV 2					(60,000)	6,480,000							(80,000)	19,110,000
Dec.28	Travel expenses	TA 4001	JV4											(45,000)	375,000	(45,000)	19,155,000
	Totals			12,000	4,188,000	150,000	2,050,000	120,000	8,480,000		3,000,000	38,000	1,062,000	25,000	375,000	345,000	19,155,000
Dec.31	Petty cash reimbursement	JV3	ck106	3,000	4,185,000	6,000	2,044,000	2,000	8,478,000			2,500	1,059,500			13,500	19,141,500
Dec.31	Bank charges			5,000	4,180,000											5,000	19,136,500

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Table 23

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel Amount	Personnel Balance	Materials Amount	Materials Balance	Equipment Amount	Equipment Balance	Loan Fund Amount	Loan Fund Balance	Training Amount	Training Balance	Travel Amount	Travel Balance	Petty Cash Amount	Petty Cash Balance	Donor Advance	Total Balance	
1981																							
Dec. 9	USAID advance check	8759	010		5,200			2,000		795.5		1,500		649.5		160		95			5,200	5,200	
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,360										5,080	
Dec. 20	Beli Co.	102	PO 1002			150			150	645.5												4,930	
Dec. 22	C. Baker	103	JV3			20														20		4,910	
Dec. 23	C.M. Training, Inc.	104	TC 2001			38									38	122						4,872	
Dec. 30	Anderson	105	JV4			25											25	70				4,847	
Dec.31	Totals				5,200	353	0	2,000	150	645.5	120	1,380	0	649.5	38	122	25	70		20	5,200	4,847	
Dec.31	Petty cash reimbursement	106	JV3			13.5	3	1,997	6	639.5	2	1,378			2.5	119.5						4,833.5	
Dec.31	Bank charges					5	5	1,992														4,828.5	

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Table 24

ENCUMBRANCE JOURNAL

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Ref.	Ref.	Personnel & Office		Materials		Equipment		Loan Fund		Training		Travel		TOTAL	
				Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance		
1981																	
Dec.1	PIL	1		4,200,000		2,200,000		8,600,000		3,000,000		1,500,000					19,500,000
Dec.8	Budget change	PIL2	JV1								(400,000)	1,100,000		400,000			19,500,000
Dec.9	Purchase order	1001	ck101					200,000	8,400,000							200,000	19,300,000
Dec.16	Purchase order	1002	ck102			150,000	2,050,000									150,000	19,150,000
Dec.17	Travel authorization	4001	ck105										70,000	330,000	70,000		19,080,000
Dec.18	Training contract	2001	ck104								38,000	1,062,000				38,000	19,042,000
Dec.28	Service contract	3001		12,000	4,188,000											12,000	19,030,000
Dec.28	Quality Equipment Co.	1001	JV 2					(80,000)	8,480,000							(80,000)	19,110,000
Dec.28	Travel expenses	TA 4001	JV4										(45,000)	375,000	(45,000)		19,155,000
	Totals			12,000	4,188,000	150,000	2,050,000	120,000	8,480,000		3,000,000	38,000	1,062,000	25,000	375,000	345,000	19,155,000
Dec.31	Petty cash reimbursement	JV3	ck106	3,000	4,185,000	6,000	2,044,000	2,000	8,478,000			2,500	1,059,500			13,500	19,141,500
Dec.31	Bank charges			5,000	4,180,000											5,000	19,136,500
	Final closings			20,000	4,180,000	156,000	2,044,000	122,000	8,478,000	0	3,000,000	40,500	1,059,500	25,000	375,000	363,500	19,136,500

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Table 25

CASH RECEIPTS AND DISBURSEMENTS CONTROL LEDGER
(in thousands)

Project No: 478-0012

Project Title: Irrigation

Date	Transaction	Check #	Ref.	Ref.	Recpts.	Disbur.	Personnel Amount	Personnel Balance	Materials Amount	Materials Balance	Equipment Amount	Equipment Balance	Loan Fund Amount	Loan Fund Balance	Training Amount	Training Balance	Travel Amount	Travel Balance	Petty Cash Amount	Petty Cash Balance	Donor Advance	Total Balance
<u>1981</u>																						
Dec. 9	USAID advance check	8759	010		5,200			2,000		795.5		1,500		649.5		160		95			5,200	5,200
Dec. 17	Quality Equipment Co	101	JV2			120					120	1,380										5,080
Dec. 20	Bell Co.	102	PO	1002		150			150	645.5												4,930
Dec. 22	C. Baker	103	JV3			20														20		4,910
Dec. 25	C.H. Training, Inc.	104	TC	2001		38									38	122						4,872
Dec. 30	Anderson	105	JV4			25											25	70				4,847
Dec.31	Totals				5,200	353	0	2,000	150	645.5	120	1,380	0	649.5	38	122	25	70		20	5,200	4,847
Dec.31	Petty cash reimbursement	106	JV3			13.5	3	1,997	6	639.5	2	1,378			2.5	119.5						4,833.5
Dec.31	Bank charges					5	5	1,992														4,828.5
Dec.31	Monthly closings				5,200	371.5	8	1,992	156	639.5	122	1,378	0	649.5	40.5	119.5	25	70		20	5,200	4,828.5

NP

Table 26

BANK RECONCILIATION			
as of			
December 31, 1981			
BALANCE PER BANK (or Ministry)			<u>4,867,000</u>
Less: Outstanding Checks			
1. No. 105 30/12		25,000	
2. No. 106 31/12		13,500	
3.			
4.			
5.			
		<u>38,500</u>	
Add Deposits in Transit			
1.			
2.		+	<u> </u>
Reconciled Balance Per Bank or Ministry			<u>4,828,500</u>
BALANCE PER BOOKS			<u>4,833,000</u>
Less: Bank Charges		5,000	
Reconciled Balance Per BOOKS			<u>4,828,500</u>

17. Preparing monthly financial reports

Purpose:

Good financial procedures require that management be furnished with periodic detailed reports containing current information to accurately reflect the project's financial condition and program performance. The reports should be accurate and complete and, when necessary, should be accompanied by a narrative statement.

Project management reviews the reports to ensure that operations have been properly reflected. They also determine whether there is a proper balance between the costs incurred to date and the amount of work accomplished, as well as, whether the balance of funds and other resources remaining are commensurate with the amount of work yet to be accomplished.

Reports are the means by which the results of financial operations are summarized for the project management of the Implementing Agency and USAID. The following standards apply in the preparation of these reports:

- (a) Internal reports are developed to meet the needs of project management. This might include, though not be limited to, a report showing project budget vs. encumbrances or expenditures, and a reconciliation of accounts;
- (b) Reports should be accurate and timely;
- (c) Financial data in each report should be taken directly from accounting records and should be easily traceable from the report, through the system, to the source documents.

Sample Types of Reports Prepared:

Status of Encumbrances. (Page 74)

Status of Disbursements. (Page 76)

Project Status Report. (Page 78)

Reconciliation of Accounts. (Page 80)

Procedure:

- (a) Add totals of the footed columns in journals and ledgers;
- (b) Post summary totals from project journals and ledgers to monthly financial reports;
- (c) The person who prepares the report certifies that amounts reported are true and correct;
- (d) The Project Director of the Implementing Agency also certifies that the monthly financial report is true and correct to the best of his knowledge.

(a) Status of encumbrances

The data for the Status of encumbrances report is obtained from the following sources:

<u>Data element</u>	<u>Source</u>
Budget Category	Project Agreement, Project Implementation Letter, or Amended Project Agreement.
Annual Budget	Project Implementation Letter
Previously Accumulated Encumbrances	Encumbrance Journal or previous Status of encumbrances
Current Period Encumbrances	Encumbrance Journal
Cumulative Encumbrances	Total of columns entitled "Previously Accumulated Encumbrances" and "Current Period Encumbrances"
Unencumbered Balance	"Budget" less "Cumulative Encumbrances"

Project Number: 478-0012

Table 27

Project Title: Irrigation

STATUS OF ENCUMBRANCES
(as of 31 December 1981)

Budget category	(a) LC annual budget	(b) Previously accumulated encumbrances	(c) Current period encumbrances	(d) LC cumulative encumbrances (b + c)	(e) LC unencumbered balance (a - d)
Personnel and office expenses	4,200,000		20,000	20,000	4,180,000
Materials	2,200,000		156,000	156,000	2,044,000
Equipment	8,600,000		122,000	122,000	8,478,000
Loan Fund	3,000,000		-0-	-0-	3,000,000
Travel	400,000		25,000	25,000	375,000
Training	1,100,000		40,500	40,500	1,059,500
TOTAL	19,500,000		363,500	363,500	19,136,500

Prepared by: _____

Approved by: _____

(b) Status of disbursements report

The data for the Status of disbursements report is obtained from the following sources:

<u>Data Element</u>	<u>Source</u>
Budget Category	Project Agreement, Project Implementation Letter, or Amended Project Agreement.
Annual Budget	Project Implementation Letter
Cumulative Encumbrances	Status of Encumbrance's Report
Previously Accumulated Disbursements	Prior periods' cumulative disbursements derived from the Cash Receipts and Disbursements Control Ledger
This period Disbursements	The totals of the "Amount" columns for each budget category in the Cash Receipts and Disbursements Control Ledger
Cumulative Disbursements	Total of "Previously Accumulated Disbursements" and "This Period Disbursements"
Unliquidated Encumbrances	"Cumulative Encumbrances" less "Cumulative Disbursements"

Table 28

Project Number: 478-0012

Project Title: Irrigation

STATUS OF DISBURSEMENTS*
(as of 31 December 1981)

Budget category	(a) LC annual budget	(b) Cumulative encumbrances	(c) Previously accumulated disbursements	(d) This period disbursements	(e) Cumulative disbursements (c + d)	(f) Unliquidated encumbrances (b - e)
Personnel & office	4,200,000	20,000		8,000	8,000	12,000
Materials	2,200,000	156,000		156,000	156,000	-0-
Equipment	8,600,000	122,000		122,000	122,000	-0-
Loan Fund	3,000,000	-0-		-0-	-0-	-0-
Travel	400,000	25,000		25,000	25,000	-0-
Training	1,100,000	40,500		40,500	40,500	-0-
TOTAL	19,500,000	363,500		351,500	351,500	12,000

Prepared by: _____

Approved by: _____

*/ Disbursements are off from the cash receipts and disbursements control ledger by the sum of the petty cash.

(c) Project status report

The data for the Project Status Report is obtained from the following sources:

<u>Date Elements</u>	<u>Source</u>
Budget Category	Project Agreement, Project Implementation Letter, or Amended Project Agreement.
Annual Budget	Project Implementation Letter
Cumulative Encumbrances	Status of Encumbrance's Report
Cumulative Disbursements	Status of Disbursements Reports
Accruals	See Appendix III, p. 57
Cumulative Value of Goods and Services Received	Add "Cumulative Disbursements" and "Accruals"
Percent Budget Encumbered	"Cumulative Encumbrances" divided by "Annual Budget," multiplied by 100
Percent Budget for which Goods and Services Have Been Received	"Cumulative Accrued Expenditures" divided by "Annual Budget," multiplied by 100

Table 29

Project Number: 478-0012

Project Title: Irrigation

PROJECT STATUS REPORT
(as of 31 December 1981)

Budget category	(a) LC annual budget	(b) Cumulative encumbrances	(c) Cumulative disbursements*	(d) Accruals**	(e) Cumulative value of goods & services rec'd (c + d)	(f) Per cent budget encum- bered (b : a)	(g) Per cent budget for goods rec'd (e : a)
Personnel & office	4,200,000	20,000	8,000	1,000	9,000	.48	.21
Materials	2,200,000	156,700	156,000		156,000	7.1	7.1
Equipment	8,600,000	122,000	122,000		122,000	1.4	1.4
Loan Fund	3,000,000	-0-	-0-			-0-	-0-
Travel	400,000	25,000	25,000		25,000	6.3	6.3
Training	1,100,000	40,500	40,500		40,500	3.7	3.7
TOTAL	19,500,000	363,500	351,500	1,000	352,500	1.86	1.81
Prepared by: _____				Approved by: _____			

* / Disbursements are off from the cash receipts and disbursements control ledger by the sum of the petty cash.

** / For an explanation of accruals, see appendix II.

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The data for the Reconciliation of Accounts report is obtained from the following sources:

<u>Data Elements</u>	<u>Source</u>
Donor Receivable	Balance in Donor Receivable
Cash in the Bank	Final balance from the Cash Receipts and Disbursements Control Ledger after monthly closing and bank reconciliation
Disbursements	Total of the "Amounts" columns for each category in the Cash Receipts and Disbursements Control Ledger less the petty cash fund
Grant Amount	Total amount of "Local Project Cost" in the Project Agreement
Petty Cash	Balance in the "Petty Cash" column in the Cash Receipts and Disbursement Control Ledger

(d) Reconciliation of Accounts

A Reconciliation of Account Statement for each project is prepared on a monthly basis and submitted to the USAID Mission Controller. This report presents information as to the status of the project funds originally made available, as well as data as to the amounts which have actually been received, the amounts expended, and the cash balance in the project bank account.

Example

In the illustrated monthly report in Table 30 the Project Agreement is for a grant of \$750,000 which is converted to local currency (LC 75,000,000). The total of cash advances received from USAID in local currency equivalent is LC 5,200,000, which should be the difference between the original amount of the grant, LC 75,000,000, and the current stated balance in donor receivable of LC 69,800,000. The disbursements to date as recorded in the cash receipts and disbursements control ledger amount to LC 351,500 actual expenditures plus LC 20,000 advance to petty cash fund = LC 371,500. The balance of cash on deposit in the project bank account is LC 4,828,500.

You will note that the cash on hand plus petty cash LC 20,000, plus the donor receivable, plus the disbursements (excluding the petty cash fund) always equals the amount of the original approved grant.

Table 30

Project No. 47812

RECONCILIATION OF ACCOUNTS

Donor Receivable	69,800,000		Grant Amount	75,000,000
Disbursements	351,500			
Cash on Hand	4,828,500			
Petty Cash	20,000			
TOTAL	75,000,000		TOTAL	75,000,000

Prepared By: _____

Approved By: _____

Appendix I

INTERNAL CONTROL

The project management of each Implementing Agency is responsible for developing and implementing a system of internal control which will: (a) safeguard the assets of the project; (b) check the accuracy and reliability of accounting data; (c) promote operational efficiency; and (d) encourage adherence to prescribed managerial policies.

It is important for each Agency to observe the following fundamental requirements in establishing an effective system of internal control:

- * A clear-cut organizational plan which provides for definite placement of responsibility and for specific lines of authority
- * Division of duties between authorization, record-keeping and custody of assets so that the activities of one employee act as a check on those of another;
- * Use of forms, documents, and procedures which facilitate control and provide for proper approvals;
- * Provision for testing for compliance with policies and procedures, particularly those relating to transactions reflected in the books and the reports;
- * Written statement of project policies and procedures.

The extent to which the above requirements may be expected to exist is related to the size of the project. The complete separation of functions is not feasible in an organization with a small number of employees. Even in small organizations, however, a high degree of effective internal control may be obtained by the proper plan of organization and division of duties. For example, no individual should be completely responsible for initiating an order, receiving the goods and services, approving the payment, and also signing the check for the same transaction. If one person does have authority to approve an order and to approve the invoice, then another authorized official should sign the check.

Appendix II

APPLICATION OF ACCRUAL ACCOUNTING

The objective of accrual accounting is to recognize all financial activity in the period in which it occurs. For example, goods or services received or performed in one accounting period (e.g. a month) and not paid until a future period would be considered an expense "accruing" to the project in that earlier period whether or not an invoice had been received. The total of accruals plus cumulative disbursements would present a status of project implementation that is more accurate than only cumulative disbursements because payments generally come after the receipt of goods and performance of services.

One way of checking for accruals is by analyzing the open payables file. Any encumbrance document with a corresponding receiving report would be considered an accrual. In addition, one should analyze the closed payables file and/or cash disbursements for that part of the subsequent month prior to the date of preparing the monthly reports, for any payments made for goods received or services performed during the previous month.

If the project incurs an accrued expense but the exact amount is not known as of the close of the reporting period then the amount should be estimated, if it is considered to be significant.

Example of an accrual

The project status report (table 29) indicates an accrued cost of LC 1,000 in the category "Personnel & office". This amount was determined by reviewing the open payables file. In the file supporting the December 28, 1981 service contract for translating there is an invoice for partial services rendered prior to December 31, 1981 along with a copy of the translated document. This is the only accrual reported for the month of December 1981.

If it is discovered that an accrued expense has been incurred without previously being encumbered, then an encumbrance document should be prepared and a corresponding entry made in the encumbrance journal before the accrual is recorded on the monthly reports. This is because the total of accruals plus cumulative disbursements should not exceed the encumbered portion of the budget.

Appendix III

PROPERTY RECORDS

Implementing Agencies are responsible for maintaining adequate control over property purchased. A property card record should be established for each item of equipment. The property record should contain the following information:

- * Description
- * Date acquired
- * Purchased or contributed
- * Cost
- * Property number
- * Location
- * Person responsible
- * Date of last inventory.

A physical inventory should be taken once a year to verify equipment balances.

Appendix IV

ACCOUNTING FOR LOAN FUNDS OR REVOLVING CREDIT FUNDS

Loan funds or revolving credit funds are popular project design techniques to provide small amounts of credit to farmers or other Sahelian target groups. The establishment of such a fund will be considered a disbursement on the major or primary accounting system and the credit or loan fund will have its own system to be employed by the entity tracking the fund's utilization. Similar to any other request, the project budget office would review a request for the establishment of the revolving credit fund for validity and availability of funds under the appropriate budget category. After encumbering the funds, the requesting document, with the required availability of funds approval, would be forwarded to the accounting section for review, check issuance and recording in the Cash Receipts and Disbursement Control Ledger. The fund is now ready for opening and establishing its accounting records. The check is transmitted to the appropriate custodians of the fund or deposited directly into the fund's bank account. Upon deposit, the deposit slip would be the document from which the fund's accountant can open a cash account and a loan equity account. Assuming a \$500 fund, the entry would look as follows:

CASH			
Date	Increases	Decreases	Balance
1981 13/3	500		500

LOAN EQUITY (Amount of Funds)			
Date	Decreases	Increases	Balance
1981 13/3		500	500

The cash account should have a simple check register or other book that functions similar to the Cash Receipts and Disbursements Control Ledger.

As monies are released to parties requesting credit, cash is decreased and a loan receivable account is established. The loan receivable account should have subsidiary records for each individual who has received funds. Assuming two loans of 100 dollars and 50 dollars to Mr. X and Mr. Y respectively the accounts and subsidiary records would look as follows:

CASH			
Date	Increases	Decreases	Balance
1981			
13/3	500		500
15/3		100	400
17/3		50	350

LOAN EQUITY			
Date	Decreases	Increases	Balance
1981			
13/3		500	500

LOAN RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
13/3	100		100
17/3	50		150

MR. X			
Date	Loan or Interest	Repayments	Balance
1981			
13/3	100		100

MR. Y			
Date	Loan or Interest	Repayments	Balance
1981			
17/3	50		50

As time lapses interest will accrue. Some countries include the interest at the time of loan. In the case shown below, interest is recognized as being owed by the debtor to the loan fund at specific intervals and an interest receivable entry on the records is made and the loan equity is increased accordingly. The subsidiary loan records are adjusted to reflect the interest that has accrued.

CASH			
Date	Increases	Decreases	Balance
1981			
13/3	500		500
15/3		100	400
17/3		50	350

LOAN EQUITY			
Date	Decreases	Increases	Balance
1981			
13/3/		500	500
21/12		10	510
23/12		5	515

LOAN RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
15/3	100		100
17/3	50		150

INTEREST RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
21/12	10		10
17/3	5		15

MR. X			
Date	Loan or Interest	Repayments	Balance
1981			
15/3	100		100
21/12	10		110

MR. Y			
Date	Loan or Interest	Repayments	Balance
1981			
17/3	50		50
23/12	5		55

When the recipient of the loan makes payment, the action results in an increase in cash and a decrease in the loan and/or interest receivable and subsidiary debtor receivable. The subsidiary loan record for the individual who made payment is adjusted accordingly. Assume that Mr. X pays his loan plus interest in full.

CASH			
Date	Increases	Decreases	Balance
1981			
13/3	500		500
15/3		100	400
17/3		50	350
25/12	110		460

LOAN EQUITY			
Date	Decreases	Increases	Balance
1981			
13/3		500	500
21/12		10	510
23/12		5	515

LOAN RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
15/3	100		100
17/3	50		150
25/12		100	50

INTEREST RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
21/12	10		10
17/3	5		15
25/12		10	5

MR. X			
Date	Loan or Interest	Repayments	Balance
1981			
15/3	100		100
21/12	10		110
25/12		110	-0-

If an outstanding loan is deemed uncollectable and it is determined to write it off as a bad loan or debt the loan and interest receivable is decreased and the loan equity is correspondingly decreased. The subsidiary loan record should be placed in a delinquent or uncollectable folder and a running list of bad accounts should be maintained permanently. Assuming Mr. Y's loan is deemed uncollectable, the following transaction results.

CASH			
Date	Increases	Decreases	Balance
1981			
13/3	500		500
15/3		100	400
17/3		50	350
	110		460

LOAN EQUITY			
Date	Decreases	Increases	Balance
1981			
13/3/		500	500
21/12		10	510
23/12		5	515
27/12	55		460

LOAN RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
15/3	100		100
17/3	50		150
25/12		100	50
27/12		50	-0-

INTEREST RECEIVABLE			
Date	Increases	Decreases	Balance
1981			
21/12	10		10
23/12	5		15
25/12		10	5
27/12		5	-0-

MR. Y			
Date	Loan or Interest	Repayments	Balance
1981			
17/3	50		50
23/12	5		55
27/12		uncol- lectable	-0-

→ **Move to Uncollectable File**

It should be observed that the total of the balances of the cash, loan receivable and interest receivable always equals the loan equity balance. Additionally, the sum of the non-delinquent subsidiary loan records should equal or tie into the master loan and interest receivable accounts.

Appendix V

BRANCH ACCOUNTING FOR MULTIPLE STATIONS

Many projects can not operate with one central disbursement authority handling all the receipts and expenditures of funds. It is necessary, in those cases, to provide some working capital to a variety of substations or branches such as medical clinics or pilot farms.

These operating funds, sufficient to cover expenses that would be most efficiently made on site, may be advanced to the substation by the central project office and may be replenished periodically upon presentation of allowable receipts or other supporting documentation to the central project office. Unlike a petty cash account, however, the central office may advance funds to be encumbered and disbursed within specified budget categories, the substation being responsible for the accounting. The subsidiary accounting station would keep the same kinds of books as the central office: an Encumbrance Journal and a Cash Receipts and Disbursements Control Ledger.

When an advance of funds is made to the substation the transaction appears in the central office's books as an encumbrance under a subsidiary category and a disbursement in the Cash Receipts and Disbursements Control Ledger under the same category. When the branch office presents its encumbrance and expenditure summary documents detailing its activities, the sum of encumbrances and disbursements, by budget category can be consolidated into one report, if required. The subsidiary category on the central station's books may be eliminated for its own consolidated reporting purposes.

The substation records the advance as a cash receipt. It records its encumbrances in its own Encumbrance Journal and disbursements in its Cash Receipts and Disbursement Control Ledger just as the central office does, liquidating encumbrances when they are paid. Documentation should be kept on file to justify every encumbrance and expenditure. Reporting should follow guidelines provided by the parent or central organization to enhance the consolidated reporting if required. A release of LC 50,000 to the subsidiary project site would look as follows:

Central Office

ENCUMBRANCE JOURNAL					
Date	Transaction	Reference	#	Branch	Total
10/2	Branch Adv.	Bola-47		50,000	50,000

CASH RECEIPTS & DISBURSEMENT LEDGER							
Date	Transaction	Check #	Receipts	Disburs.	#	Advance	TOTAL
10/1	Bola Branch Advance	112		50,000		50,000	50,000

Branches

ENCUMBRANCE JOURNAL						
Date	Transaction	Reference	Supplies	Equipment	Salaries	TOTAL
10/1	Advance	Bola-47	20,000	10,000	20,000	50,000

CASH RECEIPTS & DISBURSEMENTS LEDGER						
Date	Transaction	Check #	Receipts	Disbursements	#	TOTAL
10/1	Bola Branch	112	50,000			50,000

*/ For the purpose of brevity in this illustration, the columns for references and the specific budget categories have been deleted. They would normally appear here as they do in tables 2 and 3, 5-15 and 17-25.

Appendix VI

SAMPLE FORMS

and

BASIC ACCOUNTING SYSTEM DATA FLOW

TRAVEL EXPENSE VOUCHER

Name _____ Date _____

Agency _____

Address _____

Travel Authorization Number _____ dated _____

Duration of actual travel:

Departure date _____ time _____

Return date _____ time _____

Total number of days in travel status _____

Travel Advance received: Amount _____ date _____

Travel expenses:

Transportation (attach receipts) _____

Per Diem: _____ days @ _____ per day _____

Total _____

Signature

FOR OFFICE USE ONLY:

Total travel expenses _____

Advance _____

Additional amount due traveller _____

Amount to be refunded by traveller _____

Approved _____
Signature

-35-
TRAVEL AUTHORIZATION

Number: _____

Date Requested: _____

Name of Employee: _____

Department of Division: _____ Ministry: _____

Purpose of Intended Travel: _____

Travel Dates		Places to be Visited	Method of Transportation
From:	To:		
			Airplane _____ Official automobile _____ Bus _____ Private automobile _____ Other (explain) _____ _____
Estimate of Travel Expenses:			
1. _____ days @ _____		per day:	_____
2. Transportation cost:			_____
		TOTAL	_____

Signature of Traveler

Project Director or Other
Authorized Official

Date Approved _____

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PURCHASE ORDER

Date: _____

P.O. No. _____

Supplier: _____

Description of Order

Good/Service	Quantity	Unit	Unit Price	Amount	Quantity Accepted

TOTAL

Purchase requested by:

Purchase approved by:

(Signature)

(Signature)

NAME OF ORGANIZATION
ADDRESS
PURCHASE REQUISITION / ORDER

TO
ADDRESS
CITY

DATE MONTH / DAY / YEAR
ORDER No. _____

SHIP TO
ADDRESS
CITY

QUANTITY		DESCRIPTION	UNIT PRICE	AMOUNT
ORDERED	RECEIVED			

SIGNATURE _____
REQUESTED BY

SIGNATURE _____
APPROVED

RECEIVING REPORT COPY

SIGNATURE _____
FINANCIAL OFFICER

DESCRIPTION OF SERVICES REPORT

Project Title: _____

Project No. _____

Date

Contract No.

Description

Services/Goods	Quantity	Unit Price	Amount
TOTAL			

Project Director:

Contractor:

INVOICE

Merchant or Supplier:

No. _____

Date: _____

Quantity	Description	Unit Price	Amount
TOTAL			

BASIC ACCOUNTING SYSTEM - DATA FLOW

