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# LOCAL DEVELOPMENT II URBAN PROJECT

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Submitted to

**USAID / CAIRO**

Submitted by

**WILBUR SMITH ASSOCIATES**

in association with

PUBLIC ADMINISTRATION SERVICE  
DEVELOPMENT CONSULTING OFFICE

DELOITTE AND TOUCHE  
ENGINEERING AND GEOLOGICAL  
CONSULTING OFFICE

EXECUTIVE SUMMARY

FEASIBILITY STUDY:

BUDGET MONITORING SYSTEM

OCTOBER 1990

# LOCAL DEVELOPMENT II URBAN PROJECT

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October 23, 1990

Mr. John Gisiger, Chief  
Urban Development Branch  
Office of Local Administration  
and Development  
USAID  
Cairo, Egypt

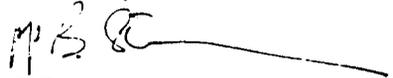
Dear Jack:

We are pleased to provide you with the executive summary of the report titled "Feasibility Study: Budget Monitoring System".

The Budget Monitoring System will represent a major step towards introducing modern financial management processes in the Governorates of Egypt. Without this type of infrastructure in place, the Governorates will find the implementation of the many of the policy initiatives being put forward by USAID difficult, if not impossible, to carry out. Introduction of the computer technology associated with the Budget Monitoring System will be essential for the Governorates to carry out many of the policy initiatives proposed in the report "Local Resource Management: Pilot Study".

We look forward to meeting with you regarding this report in the near future.

Sincerely



WILBUR SMITH ASSOCIATES

Richard E. Miller  
Chief of Party

16-1F.361

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## Executive Summary

The Governorate of Alexandria requested that the contractor analyze the potential for automating its existing manual accounting procedures. This project was included in the 1990 Local Development II - Urban (LD II) work-plan as the Budget Monitoring System Design and Implementation Plan within the Programming and Budget (Office of Management and Economic Development) Task. The purpose of this report is to outline the technical solutions for automation and, if accepted, a proposed implementation plan. This Technical Assistance Task is considered a pilot effort that applies to the six urban governorate participating in the LD II program, and to the Governorate of Alexandria specifically.

Institutionalization of the Office of Management and Economic Development (OMED) concept is being constrained by a lack of timely and detailed financial data related to the actual expenditure patterns of the Governorate. With the information capacity of such an automated accounting system, the Governorate of Alexandria will acquire a modern financial management capability. The information provided by the accounting function of a Governorate represents the implementation of the financial plans developed by the OMED within the Governorate. Automation of the accounting process will provide the capacity to:

- Determine progress towards accomplishing the goals and objectives set forth in developing the Governorate budget;
- Control expenditures to determine how much budget capacity remains in various line items;
- Enable the OMED to considerably expand its ability to perform professional financial and economic analysis; and
- Provide a rational framework to assist in mobilizing and managing local resources.

The accounting process by its nature is much more complex than the development of a budget plan for a Governorate. It requires the tracking of individual financial transactions that occurs in a Governorate from initiation to the final resolution. Within this process each transaction passes through numerous steps to ensure that appropriate internal controls over the funds to be expended occur and that all procedures are accomplished that lead to the actual disbursement of funds. As such, the accounting for the actual expenditure of funds is a substantially more complex procedural process than the analytic process necessary in developing a budget. Simply, the objective of the accounting process is to ensure that the funds that are expended meet all the procedural requirements associated with the controls that are

imposed on the use of public funds. In addition, much of the detailed information that would be available from such an accounting system will provide the data necessary to substantially enhance the analytic capabilities and improve on the already successful institutionalization of OMED.

The existing accounting system in the Governorate of Alexandria is completely manual. The primary purpose of this manual system is to report the expenditures of the Governorate of Alexandria to the Ministry of Finance. This allows the Ministry of Finance to monitor the Governorate's progress relative to the budget adopted by the People's Assembly. The expenditure data is reported to the Ministry of Finance on the basis of a relatively simple chart of accounts organized by major line item as follows:

- BAB I: Salaries and Wages
- BAB II: Recurring Costs
- BAB III: Non-recurring Costs
- BAB IV: Transfers

On the one hand, with this as its primary goal, the current accounting system as operated by the Governorate of Alexandria functions reasonably well within the constraint of being a manual system. On the other hand, the existing accounting system within the Governorate of Alexandria has as a secondary objective the provision of financial information to the internal management of the Governorate. But a manual accounting system with the required internal controls and the complexity necessary to support an organization as large as the Governorate of Alexandria will not be sufficiently detailed or timely to allow internal management to act in time to maximize the use of its budget capacity.

The key to an efficient financial management system is the ability to report expenditures with sufficient detail and timeliness to allow internal management to monitor its progress relative to its budget. It allows management to make the requisite adjustments in the budget to effectively manage its resources. This requires that the efficient financial management system should provide management with answers to the following six questions:

- What is or will be purchased or the existing BAB structure?
- During which fiscal period will the expenditure be made or the existing fiscal year for BAB's I and II?
- What are the financial obligations that have been incurred but have not yet actually become an

expense?

- Which organizational sub-unit within the Governorate is responsible for the expenditure?
- What goal will the expenditure assist in achieving?
- What source of revenue supports the expenditure?

The current accounting system in the Governorate of Alexandria can answer reasonably well the first question based upon the current chart of accounts for expenditure items mandated by the Ministry of Finance.

To some degree the current system is capable of answering the second and third questions. The second question can be answered for both BAB I and recurring costs (BAB II); that is, the current accounting system can show which time period the expenditure is being made. However, for capital projects (BAB III), it cannot easily track expenditures over the duration of the capital project or back to the revenue source supporting the capital project (e.g. LD II).

Regarding the third question, the current accounting system does have the capacity to determine the future obligations (encumbrances) of the Governorate on a transaction by transaction basis. But again due to the manual nature of the system, the processing of single transaction against an encumbrance is extremely complex and requires a great deal of time and effort by Governorate staff.

The current accounting system simply cannot answer the last three questions. Without the ability to answer these questions in a timely manner, the ability of the Governorate of Alexandria will be severely constrained in managing its resources.

By automating the existing accounting system, the Governorate of Alexandria will be able to expand its chart of accounts to answer all six questions in much more timely manner and in substantially more detail. The automation of the accounting system is determined to require the introduction of mini-computer technology due to the number of transactions and the increased amount of data required to expand the chart of accounts. The review of the issues and risks involved in automation are detailed in the body of this report. In summary, the issues and risks are as follows:

- o Is there an existing computerized governmental accounting system with the supporting hardware that with some modifications respond to the six questions listed above?
- o Can the current staff within the Governorate of Alexandria adapt to the requirements of a modern

computerized accounting system?

- o Can the Governorate of Alexandria sustain such an accounting system without the continued expatriate technical assistance?

The answer to each of these questions is yes based upon the review of existing software/hardware solutions and the continued support in preparing this report provided by the staff of the Department of Financial Affairs of the Governorate of Alexandria.

However, the scope of the task must not be understated. The Governorate of Alexandria was introduced to micro-computer technology through the Office of Management and Economic Development and the Management Information Systems Tasks of LD II - Urban in the last three years. Moving up the technological ladder from micro-computers to the mini-computer system that will be necessary to automate an accounting system the size and scope of the Governorate of Alexandria will be substantial. The success of accomplishing this will depend in large part on the time allowed for this process to occur, the initial level of technical assistance provided to the Governorate of Alexandria during this process, and what systems will actually be automated.

The Budget Monitoring System Design and Implementation task of the LD II - Urban project centered on the accounts payable, inventory, and stock control systems. The rationale for dealing with these areas is that they provided the maximum benefit to the Governorate in the shortest period of time. At some future point, it may become desirable to add a payroll/personnel, capital investment plan, and various revenue billing components to the then existing core system.

The improvements in processing capacity of the Governorate of Alexandria by automating accounting processes will also assist in developing the infrastructure necessary for the Governorate's to assume a more independent and autonomous role in providing government services. In order for a Governorate to successfully assume a broader role of managing its local resource, it must first have the infrastructure necessary to support this role. One major component of this infrastructure will be the necessary financial systems to provide Governorate management with the ability to manage its resources in an autonomous role. Without this capacity, it will be difficult to expect the Governorate to move beyond its current role into being independently responsible for the overall management of Government services within its jurisdiction and to its local constituency.