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Date: July 31, 2000  
To: Sharon Hester, CTO  
From: Richard Wolfe *RW*  
Subject: Quarterly Performance Reports - Fiscal Reform and Development in the ENI  
Region IQC No. PER-I-00-99-00003-00

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Paragraph F.3 on page 12 of Contract No. PER-I-00-99-00003-00 stipulates that Quarterly Performance Reports be submitted to the Cognizant Technical Officer. Attached please find the Quarterly Performance Reports for the period April 1, 2000 through June 30, 2000 for the following activities under the subject Contract:

- (1) USAID Bosnia Public Sector Accounting Reform and Automated Information Upgrade and Development Project (Task Order No. 1) and
- (2) USAID Russian Federation Public Finance Program (Delivery Order No. 800).

We wish to extend our sincere thanks for the continuing guidance and assistance provided by the respective USAID missions in support of these activities.

CC: The Directorate for Policy, Center for Development Information

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**QUARTERLY REPORT**

**Bosnia Public Sector Accounting Reform and Automated  
Information Upgrade and Development Project**

**Prepared by: Rudy F. Runko, Chief of Party**

**IQC: Fiscal Reform and Development in the ENI Region**

**Contract No. PER-1-00-99-00003-00**

**Task Order No. 1**

**Contractor Name: Deloitte Touche Tohmatsu Emerging Markets, Ltd.**

**USAID Project Office: USAID/Bosnia**

**Contracting Officer's Technical Representative: William H. Lawrence**

**Quarterly Report Issuance Date: July 19, 2000**

# **USAID Public Sector Accounting Project**

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**Rudy F. Runko  
Chief of Party**

## **MEMORANDUM**

**To: Mike E. Sarhan, Dan Rathbun and William H. Lawrence  
From: Rudy F. Runko  
Date: July 19, 2000  
Re: Third Quarterly Performance Report**

Attached is the third quarterly performance report for the USAID Public Sector Accounting Reform and Automated Information Upgrade and Development Project in Bosnia, covering the period from April 19, 2000 through July 18, 2000.

I am also forwarding the document (minus attachments) to Mike Sarhan and Dan Rathbun via e-mail in case that format is more useful.

We once again thank the USAID/Bosnia Mission as well as the Washington office for the continued patience and support extended to us since the inception of the Project.

**cc: Richard M. Wolfe  
Annmarie Walsh, IPA**

## Introduction

This is the third quarterly performance report of the Public Sector Accounting Reform and Automated Information Upgrade and Development Project (the "Project") covering the period April 19, 2000 through July 18, 2000.

The just-concluded three-month period was highlighted by continued maturation of the Project, as the team of advisors moved intensively into the crucial hardware and software procurement phase. We also accomplished additional personnel improvements, further ratcheted up our extensive travel between the entities, and made important strides on several task-specific activities.

Early in the third quarter, a comprehensive project update was provided to USAID in Sarajevo and Washington (May 9th and May 11th, respectively). Copies of the detailed schematics and other materials used at these briefings were filed as part of the monthly project report for May 2000. Following the presentation in Washington, project advisors prepared extensive comments addressing questions raised by USAID. Attached is a copy of some of the detailed responses (this one authored by Gail Ostler, Accounting and Auditing Advisor).

In addition to assistance during this reporting period, both in Washington and Sarajevo, from our regular cadre of home-office management staff (especially Program Director Maribeth Murphy, ENI Fiscal Reform Project Manager Richard M. Wolfe and Project Administrator Alisa Pereira) resident advisors received extensive backup support from the new Manager of Contracts at Deloitte Touche Tohmatsu Emerging Markets (DTT), Marty Obiaya. Mr. Obiaya is providing important technical and policy advice relating to the hardware and software procurement phases of the Project.

Further help was made available from DTT (Washington) through retention of a short-term procurement specialist, Ms. Charis Nastoff who guided our project advisors through the complex contracting and purchasing requirements of the task order, *vis a vis* the aforesaid acquisition of hardware and software.

During the third quarter, Maribeth Murphy traveled to Bosnia and Herzegovina from June 25th through July 6th. Richard M. Wolfe visited the Project between June 30th and July 7th and, among other tasks, provided invaluable assistance and support to our technical advisors in the field regarding the hardware and software procurement process.

In July, the Chief of Party executed a lease (through the end of the Project) for a new, permanent office in the Republic of Srpska to house the Banja Luka team, which had been temporarily sharing space with the USAID Public Education and Information Project. Effective August 1st, our location in Banja Luka will be:

19a Brace Mazar Street  
Fourth Floor  
Banja Luka 78000  
Bosnia and Herzegovina

## Personnel Issues

In May, two advisors returned home for brief visits to conclude personal matters that had been left unfinished because of their rapid deployment to Bosnia and Herzegovina. Thomas Balderston was in the United States from May 15th – 29th, returning to Sarajevo with his spouse. Mr. Balderston had little advance notice and preparation at the time of his initial posting in March.

Harry H. Francis traveled home between May 15th – June 7th, also returning with his spouse. Mr. Francis had reported to the project directly from his previous employment in the Republic of Liberia, without an opportunity to make adequate arrangements for his long-term assignment in Banja Luka.

In June, SFOR identification cards were secured for the three new advisors, Messrs. Balderston and Francis, and Gail Ostler. This document is vitally important to facilitate the frequent travel between and within the entities, which is being incurred by our team. In addition to regular trips to Banja Luka, our advisors traveled in this quarter to attend meetings in Bijeljina, Brcko, Pale, Mostar and Doboje.

During the current reporting period, we hired Silvio Danilovic as Staff IT Assistant. Mr. Danilovic, who had previously been employed by the USAID Business Finance Project, works out of our Banja Luka office providing technical support and backup primarily to Thomas Balderston. He has fifteen years of computer experience and offers some additional relevant background in accounting and bookkeeping.

Also, at the beginning of the third quarter, Safet Hadzic was promoted to Project Assistant on the basis of his outstanding performance to date and recommendations from Thomas Balderston. Mr. Hadzic has provided technical help on the survey of available accounting software applications and hardware vendors, and generally assists project advisors with data collection and analysis. He is also responsible for the small local area network we established as a test site in the Federation of Bosnia and Herzegovina (Federation) Treasury and a modest second-hand computer installation at the State of Bosnia and Herzegovina (SoB&H).

## Progress Measured Against Tangible Results and Benchmarks

During this reporting period, continued progress was made toward completion of project tasks.

### *Automated Information Upgrade and Development*

The project steering committees organized in each entity by IT Systems Advisor Thomas Balderston have become an important forum for discussion and interaction on issues related to public sector accounting reform with our counterparts in the Federation and the Republic of Srpska (RS). The steering committees met, on average, three times per month during this reporting period.

Significant items of discussion at these meetings included the preliminary architecture of the systems, hardware choices and the procurement process, unresolved space and

## Progress Measured Against Tangible Results and Benchmarks (continued)

### Automated Information Upgrade and Development (continued)

communication questions, current and proposed process issues, and information technology training. These ongoing discussions will improve the prospects for successful implementation of the automated accounting systems that are to be designed and installed under this project.

Following input from the steering committees, our team of advisors developed overall project goals and requirements, a hardware and software plan, the preliminary conceptual functional overview and application schematics for the proposed systems. In addition, Accounting and Auditing Advisor Gail Ostler and Banja Luka Project Advisor Harry H. Francis finalized their review of current budgeting and reporting systems and designed new process workflows.

During the third quarter, the project team was heavily engaged in structuring the acquisition of hardware and accounting application software. Initially, a review of hardware and software procurement options was conducted in order to determine how to best satisfy the programmatic and scheduling needs of the project.

Working with the other advisors, Gail Ostler prepared a detailed task plan (describing specific activities, responsibilities and timetables) to guide the software selection process. Additionally, Ms. Ostler developed a suggested procedure for software vendor selection, and in cooperation with Thomas Balderston, primary functional and technical vendor requirements were defined.

With assistance from procurement specialists in the Washington DC home-office, significant progress was made in developing necessary documentation for submission to USAID. In June, we received a draft "concurrence letter" from the Office of Information Resources Management (IRM) after their review of our proposed financial information management systems. The letter required responses to a number of technical and project management issues, which were subsequently addressed by project staff and submitted back to IRM on July 10, 2000.

The Invitation for Bids for the accounting application software systems is expected to be released early in the fourth quarter. The hardware (servers, workstations and network equipment) will be purchased, to the extent possible, using the General Services Administration procurement list.

In the current reporting period, we met with the Minister of Finance and Deputy Prime Minister of the Federation of Bosnia and Herzegovina, Mr. Dragan Covic. The purpose of the meeting was to provide the Minister with a project status update, and to discuss priority issues dealing with personnel and office space for the new treasury function.

The meeting resulted in agreement that the Federation Treasury would avail us full-time access to one "point person" who will assist on a daily basis in resolving questions and moving roadblocks. It was also agreed that we would work jointly on developing the needed space for the Treasury within the current location of the

## Progress Measured Against Tangible Results and Benchmarks (continued)

### Automated Information Upgrade and Development (continued)

Ministry of Finance (the building is now owned by the payment bureau, *Zavod za Platni Promet* or "ZPP").<sup>1</sup>

Finally, Mr. Covic concurred with our request to establish a regular monthly meeting at which concerns over project development could be discussed.

### Implementing the Treasury Function

Government approved the Regulations on the Operation of the [Federation] Treasury on May 18, 2000.<sup>2</sup> We had worked on these Regulations with the U.S. Treasury Budget Advisor since inception of the project. The Regulations, which are required pursuant to Article 59 of the "Law of the Budgets in the Federation of Bosnia and Herzegovina", were benchmarked in the Memorandum of Understanding (MoU) between USAID and the Federation, to be adopted on March 31st.

As reported at the time, the Regulations were significantly and unilaterally revised from the proposal on which we had worked. Accordingly, project staff and U. S. Treasury advisors are engaged cooperatively to determine whether any amendments are required in the above-mentioned Budget Law.

In May, the Chief of Party participated in two press conferences hosted by the International Advisory Group for Payment Bureaus [Elimination] and Payment System Transformation (IAG) in Sarajevo and Banja Luka that resulted in good media coverage dealing with Treasury aspects of the payment bureau elimination. A copy of the talking points we used at the Federation event is attached.

Following these presentations, the press and citizens of both entities hopefully gained a better understanding of the USAID Public Sector Accounting Project and the benefits of moving governmental budget execution and accounting from the payment bureaus and centralizing them in the new treasuries within the respective Ministries of Finance.

We also provided comments and suggestions during the quarter on other aspects of the IAG public outreach effort, especially with respect to drafts of informational guest columns (or op-ed papers) on the benefits of the proposed treasuries. Our recommendations were generally adopted in the final variant of the text used in the Federation.

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<sup>1</sup> Space for the administrative activities and computerization functions of the new treasuries continues to be discussed with the Project Steering Committees in both entities. With respect to the Federation, the Department of Mutual Services has recommended that the necessary offices be freed up by relocating some of the payment bureau activities out of the building they own that now is partially used to house the Ministry of Finance. We are coordinating our activity on this issue with the Secretariat to the International Advisory Group for Payment Bureaus [Elimination] and Payment System Transformation (IAG).

<sup>2</sup> Official Gazette No. 23/00.

## Progress Measured Against Tangible Results and Benchmarks (continued)

### Implementing the Treasury Function (continued)

Our close cooperation with the IAG is consistent with project objectives as defined in the existing Task Order. At the request of the IAG Secretariat, we undertook a detailed proofreading of the *Final Report – Financial Verification of Payment Bureaus Bosnia and Herzegovina as of December 31, 1999*. Our review resulted in about two-dozen corrections and amendments prior to publication of the final report, including a number of substantive revisions involving clearing account balances, verification of cash on hand and the situation in the Brcko District.

Financial verification of the assets of payment bureaus is an important prerequisite to the transfer of their accounting and cash activities to the Federation and RS Ministries of Finance as referenced in Task No. 1b.3. of the work requirements in the Task Order. During the reporting period, we continued to attend most of the IAG meetings on dismantling of the payment bureaus.

In this quarter, we received approval from USAID/Bosnia for financial support from the USAID Technical Training Program (World Learning) to conduct a training module entitled *Budget Execution*, which was jointly promoted by U.S. Treasury and ourselves.

The seminar will be comprised of two parts; a one-week, in-country classroom lecture presentation for approximately 25 participants, followed by two, three-day study tours to Lithuania and Latvia for a smaller contingent from the original group of in-country attendees. We prepared two Training Program Requests (TPR) at the direction of World Learning, which describe this proposal in detail (copies attached).

This activity will fulfill the training aspects of Task No. 3b. under the work requirements of our existing Task Order. It is also consistent with the USAID obligation to provide training as part of the MoU entered into with each entity. The seminars will take place in September and October.

### State of Bosnia and Herzegovina (SoB&H)

In order to ensure that decisions made in the Federation and RS are coordinated with activities at the State-level and that any future extension of public sector accounting reform to SoB&H can be accomplished as efficiently as possible, we have maintained a close working relationship and liaison with Mr. Anton Rill, until recently, Assistant Minister for Budget and Finance in the Ministry of Civil Affairs and Communications.

During the third quarter, we agreed to furnish Mr. Rill, through a temporary loan, three surplus, second-hand computers that will enable him to produce periodic financial reports on public revenues and expenditures. This cast-off equipment has markedly improved the reporting capability of the agency and represents a modest interim measure pending implementation of a sophisticated Treasury system at the State-level.

## Progress Measured Against Tangible Results and Benchmarks (continued)

### State of Bosnia and Herzegovina (SoB&H) - continued

On June 23rd, the House of Representatives of the Parliamentary Assembly named the new Minister of the Treasury of the Institutions of BiH, Mr. Spasoje Tusevljak. He was also appointed Chair of the Council of Ministers. Together with a U.S. Treasury Resident Advisor, the Chief of Party met with the new Prime Minister on June 30, 2000. Our principal counterpart, Anton Rill and Fatima Leho, both of whom have been designated as Treasury Deputies by Mr. Tusevliak, were also present at the meeting.

The Prime Minister introduced a brief agenda (copy attached) that highlighted his priority issues. During the discussion, he emphasized budgetary problems in the current fiscal year (item No. 4 in the attached agenda). Mr. Tusevliak appears to be motivated to move quickly on reform issues (e.g. he stated he wanted to establish a treasury single account within one month).

### Banja Luka Component

Considerable progress was achieved in the RS during this quarter. The permanent posting in Banja Luka of a new project advisor has resulted in extensive interaction with government counterparts, providing us information needed for the requirements analysis and project development.

In addition to regular contacts within the Ministry of Finance, our advisors met with accounting and finance staff from the RS Ministries of Industry and Technology, Economic Affairs, Education, Agriculture, Transportation and Communications, Interior, and Justice during this reporting period.

Ms. Gordana Cenic Jotanovic, Deputy Minister of Finance, agreed to formation of an accountant-level working group comprised from these and other line agencies. This group, representing the primary users of the new application, will be the core personnel who would receive training and offer input relative to the design of the system.

We have also involved the principal extra-budgetary institutions of the RS (e.g. the Public Fund for Social and Health Protection) in our project design.

Further, the project team has met with officials of the RS payment bureau (Sluzba za Platni Promet, or "SPP"). The meetings explored their government revenue and expenditure activities, computer system and databases, and resulted in a comprehensive understanding of the hardware and software resources available at the SPP. Our detailed technical findings were filed with the monthly project report for May 2000.

During the third quarter, the Chief of Party, the IT Systems Advisor and the Accounting and Auditing Advisor made a total of twelve trips to Banja Luka. Overall, our visitations to the RS were up by approximately seventy-five percent over the comparable period in the previous quarter (which itself was more than double

## Progress Measured Against Tangible Results and Benchmarks (continued)

### Banja Luka Component (continued)

those conducted in the first quarter of the Project). The purpose of these trips was to provide support and technical backup to Harry H. Francis, attend Project Steering Committee and other meetings, and resolve various administrative matters.

Although not a primary responsibility of the Project, it is important to report that the "Treasury Law" whose progress we monitored closely because of its implications for our work, was enacted by the RS National Assembly during the legislative session held from May 3rd - 5th.

Pursuant to the MoU between USAID and the RS, the target date for adoption of the Law was March 31, 2000.

In accordance with our project work plan for the RS, Harry H. Francis completed a detailed analysis of the Treasury Law. A copy of Mr. Francis' review is attached. It highlights the significant reforms embodied in the new statute and offers a view that some future amendments would be desirable; particularly with respect to more clearly defining the universe of covered agencies and specification of penalties for non-compliance with provisions of the Law.

We submitted a letter in May to the Chair of the RS Project Steering Committee, Mr. Racic Nenad, in order to encourage timely action (now that the Treasury Law has been adopted) on the appointment of a Treasurer and identification of physical space needed to house the function.

### Contact and Coordination with Other Donors and Contractors

In addition to our interactions with the IAG and U.S. Treasury resident advisors, as described above, we have met and cooperated with numerous officials and representatives of other donors, contractors and international agencies during the reporting period.

In conjunction with teams organized by the IAG (and at their request) we dispatched the Accounting and Auditing Advisor to the District of Brcko twice during the third quarter. The initial trip was part of a technical assistance group trying to resolve payment bureau issues at that location, and a second visit was made to brief the new Administrator of the District.

All of our project advisors have had meetings in the last three months with a number of short-term missions to Bosnia and Herzegovina from the Swedish National Audit Office. We agreed to share information with the Swedish team that would be useful in their development work on the Supreme Audit Institution (SAI), and they provided us with copies of their project proposal and other relevant documents.

As described in more detail in our monthly project reports for this period, meetings were held with separate missions from U.S. Treasury and The World Bank, and a contractor working for Military and Professional Resources, Inc. (MPRI) who is

## Contact and Coordination with Other Donors and Contractors (continued)

developing budget, accounting and financial management systems for the Federation Ministry of Defense. The U.S. Department of State funds this project.

Generally these meetings involved briefings on the objectives and status of the Project, and the development of the public Treasury in each entity and the treasury single accounts. The World Bank Public Finance Structural Adjustment Credit (PFSAC II) is conditioned on the completion of these reforms.

## Implementation Issues Affecting Performance

As indicated above, we have taken steps during the third quarter to ensure that each entity develops appropriate physical space to house their respective treasury functions on a timely basis. Resolution of this issue is vital because the facilities must be available to receive delivery of the core systems (servers, workstations, etc.) that will be ordered upon approval by USAID of the procurement documents. The specific locations for this equipment have not yet been identified in either entity.

## Proposed Remedial Actions

We will continue efforts with our government counterparts to provide space for their respective treasuries, using the Project Steering Committees and other venues, such as our meetings with Federation Finance Minister Dragan Covic and RS Deputy Finance Minister Gordana Cenic.

However, our most promising prospect in the Federation appears to rest upon the release of payment bureau (ZPP) space in their building used by the Ministry of Finance. This alternative was advanced by the Department of Mutual Services, supported by Minister Covic and makes the most programmatic sense for the Federation Treasury.

We are working closely with the Secretariat of the IAG to secure this option, in a manner consistent with the overall plans and schedule of the IAG (see attached memorandum dated July 17, 2000 to David Whitehead).

## Index of Attachments (English-language versions unless otherwise indicated):

1. Responses to USAID Questions Resulting From the Meeting of May [11], 2000; prepared by Gail Ostler, Accounting and Auditing Advisor; May 22, 2000.
2. Memorandum dated May 10, 2000 from Rudy F. Runko to Hazim Sabanovic re: Federation Press Conference.
3. Training Program Request; *Budget Execution*; In-Country (Neum).
4. Training Program Request; *Budget Execution*; Lithuania and Latvia Study Tours.
5. Council of Ministers - State Treasury - Cabinet of Minister of Treasury, Sarajevo; *List of Priority Issues*; June 30, 2000.

**Index of Attachments (English-language versions unless otherwise indicated) - continued:**

6. Text of Memorandum Submitted June 2000 by Harry H. Francis (analysis of RS Treasury Law).
7. Memorandum dated July 17, 2000 from Rudy F. Runko to David Whitehead re: Office Space for the Federation Treasury.

## Required workspace for the office

### OFFICE SPACE

Space needed for the work including the supporting utilities, tools and the space for their usage:

- Secretary w/computer and reception space..... 10,0 m2
- Individual clerk w/computer in one room..... 6-9 m2
- Individual clerk w/computer in one room and two  
  visitors places .....9,0 m2
- More clerks with computers in one room .....3,8 – 4,8 m2
- Manager of the department with computer and  
  reception room..... 18,0 – 25,0 m2

In the open space environment (separations) you would use the calculation of 3,85 m2 per person – no matter how the space is organized.

*The above-mentioned averages are extracted from the official normative book for architectural planning of the offices.*

### IT CENTER SPACE

The computer room with rack of the few servers, patch panel, communication equipment and air-conditioning would need 15 - 20 m2 for the equipment and utilities. The height of the room must be 3,5 – 4 m, as the room will need to have “floating” floor for the cabling purposes (30 – 50cm).

The working temperature has to be 21 C and room should be protected against the flood and fire. Also the external backup power resource is required – generator in case of the longer power shortages.

An additional space for the IT staff (3,8 – 4,8 m2) is required to be separated from the computer room. The ideal example is computer room located next to the IT room and separated with glass wall but the allocation of the IT room to another space would serve the purpose too. The same calculation of the office space for the help-desk people would be used (3,8 – 4,8 m2).

*The above-mentioned averages are based on the passed experience and consultation with other IT people. Detailed material and specs will follow.*

# USAID Public Sector Accounting Project

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**Rudy F. Runko**  
Chief of Party

## MEMORANDUM

To: David Whitehead  
From: Rudy F. Runko  
Date: July 17, 2000  
Re: Office Space for the Federation Treasury

This is a follow-up to my memorandum of June 27th and our subsequent telephone conversation on the same subject.

As you are probably aware, some of the space used by the ZPP in the building at Mehmeda Spahe No. 5 (where the Federation Ministry of Finance is located) is occupied by computers; including both computers for ZPP's own applications, and computers installed by the USAID Privatization Project. Our IT Systems Advisor, Thomas Balderston, visited this computer area on July 7th, with Roger Staples of the Privatization Project. He found the following:

- The ZPP and Privatization Project computers cannot be moved from the building as long as their functions continue, because of the difficulties and expense of relocating the communications lines on which they depend. In short, they cannot be removed to make room for the Treasury offices and the Financial Information Management System computers that the Public Sector Accounting Project will install.
- There is extra space in the room where the Privatization Project's servers are installed. It is possible to install our servers there without disturbing the Privatization Project servers; and we may be able to benefit from the communication lines they already have installed in the room.
- There is conference space just outside the server room that might be made available for the training facilities needed in the early stages of our Project implementation.
- There are several offices housing ZPP technicians. It is possible that some space might be found among these for the computer technicians associated with our Project.
- Mr. Balderston was told there is some additional ZPP office space in the building that he did not visit, which is not occupied by computers. It may be possible to move the ZPP personnel in these offices to another location in order to free up the space for the new Treasury personnel.

We look forward to working with the IAG to further define the space that may be made available at Mehmeda Spahe No. 5 for our the new Treasury and for our Project computers.

As a further assist to planning, attached are preliminary specifications we have furnished to the entity governments on the space and environment requirements for our system.

cc: Mike E. Sarhan  
Dan Rathbun

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The purpose of this memo is to analyze and comment on the recently adopted Treasury Law (the Law) and how it compliments the primary goal and objective of the USAID Public Sector Accounting Reform and Automated Information Upgrade and Development Project (PSARP) of improving the accountability and transparency of the Republika Srpska's financial operations.

### ANALYSIS

The Law itself was enacted by the National Assembly of the Republika Srpska (RS) at its session held on May 3-5, 2000 and contains no significant changes from the originally proposed legislation. It establishes the Treasury of the RS as a sector within the Ministry of Finance (MOF) and stipulates that it be headed by an Assistant Minister for the Treasury, a RS Government appointed position, and be staffed by personnel selected and appointed by the Minister of Finance. To briefly summarize the major requirements of the Law, it mandates that the Treasury unify and manage all government financial resources, develop and implement meaningful financial plans to control the execution of the adopted budget, make both annual and periodic reports to the Government and National Assembly, and conduct all of its activities in accordance with the principles of accountability and transparency.

To aid the Treasury in carrying out its mandated responsibility of unifying and managing all of the government's financial resources, the Law authorizes it to establish a Treasury Single Account (TSA), to maintain a Treasury General Ledger (TGL) system, and to design and implement any associated financial controls and accounting procedures. The TSA will serve as the depository for all RS receipts and from it all RS disbursements will be made. The Law defines RS receipts as taxes, contributions, fines, budget beneficiary source revenues, grants, fund resources and loan proceeds. The Treasury is responsible for any disbursements/withdrawals made from the TSA on behalf of budget beneficiaries and must ensure that all such disbursements/withdrawals conform to all applicable budgetary and/or other legal regulations and restrictions. The Law also gives the Treasury "exclusive authority" to manage the TSA, and states that no budget beneficiary may open any other bank or SPP account without prior, written Treasury authorization and that failure to deposit RS receipts into the TSA is a criminal offense.

The TGL system will represent the official financial and accounting records of the RS Government. It will be maintained by the Treasury and will include all expenditure and revenue journals of the budget beneficiaries. That is the Treasury will open and close the TGL accounts at the beginning and end of each fiscal year and will ensure that it, the TGL, properly captures and records all the budget allocations and financial transactions of each budget beneficiary. To this end the Treasury may design and implement the necessary financial accounting controls, policies and procedures. Additionally the TGL system must be capable of maintaining accurate and separate financial records for each RS fund in a way that complies with all pertinent RS regulations and international public sector accounting standards.

To meet its responsibility of developing meaningful financial plans to control the execution of the adopted budget, the Law gives the Treasury authority to collect cash flow data from non-MOF agencies and departments, to forecast cash revenue collections, to review and approve cash payment requests, to schedule and make debt service payments, and to establish policies and procedures required for preventing the overcommitment of available financial resources. Conversely, the Law prohibits the budget beneficiaries from entering into unauthorized financial agreements that obligate or commit the RS government, from making credit arrangements without MOF approval, from diverting public revenues earmarked for expenditures of any kind, and from giving cash transaction orders directly to the TSA. Additionally it, the Law, requires them, the budget beneficiaries, to provide the Treasury information regarding the use and disposition of their source revenues.

To further aid the Treasury in the above mentioned area the Law also authorizes it to create an internal audit function. This function will oversee the financial operations of the budget beneficiaries to ensure that all such operations are conducted in accordance with applicable RS laws and Treasury adopted regulations. Further this function will make suggestions and recommendations for improving the beneficiaries' financial management practices and procedures.

Regarding the requirement to make both annual and periodic reports to the Government and National Assembly, the Law specifically requires that the Treasury develop and prepare financial and budget execution reports at the end of every fiscal year. These reports will be considered the official financial reports of the Republika Srpska and will be submitted to both the RS Government and the RS National Assembly. The Law also requires the Treasury to prepare monthly and quarterly budget execution reports, and to warn the Minister of Finance if budgetary revenue estimates or cash flow forecasts will not be achieved. In addition to the specific reports mentioned above the Treasury is also required to provide to the Government or the National Assembly any other reports that may be requested from time-to-time. It will be the responsibility of the Treasurer to ensure that all required or requested reports are correctly prepared and are submitted in a timely manner.

Finally the Law requires the newly created Treasury to conduct all of its activities in accordance with the principles of accountability and transparency. To meet this requirement the Treasury must have the capability not only of collecting and storing governmental financial data but also have the capability to retrieve and sort that data for further communication to users both inside and outside the RS government. That is, in addition to collecting accounting data, the Treasury must be able to retrieve it in various formats so both internal and external financial reports can be created in a timely and efficient manner. Internal financial reports are those reports required by the RS government management and external financial reports are those reports needed by those special users of RS government financial information who are external to the government itself (e.g., grantors, donors, taxpayers, etc.). To this end the RS Government is cooperating with the United States Agency for International Development in a mutual effort to implement an integrated public sector financial information system which will be, per the Law, under the operation and control of the RS Treasury.

## COMMENTS

As written the Law goes a long way towards centralizing control of all government assets and to applying the principles of accountability and transparency to government financial operations. It has created a mechanism where the government's cash revenues will flow into a centralized single account, where its expenditures can be monitored and controlled, and where its financial transactions can be captured and recorded in a single centralized general ledger system. This will allow the central government to know for the first time the full extent of the financial activities of its budget beneficiaries: the extent of their own source revenues; the extent of their off-budget expenditures; and the extent of their unrecorded financial liabilities and obligations. It will also give the central government the capability to better monitor and control the disposition and use of their cash assets and therefore, to better control their cash flows.

Additionally this Law gives the government the mechanism to create meaningful budgets, to develop effective financial plans, and to provide accurate reports on budget compliance and execution. For the first time the central government will have the capability to control, capture and record financial transactions as they occur. This will give it the information needed not only to create timely and accurate financial budgets, plans, and reports, but also the data needed to establish and maintain complete and readily accessible fiscal files and databases. This capability will not only allow the government to make timely and realistic revenue projections, expenditure estimates and budget execution reports, but will also allow it to better comply with the principles of financial accountability and transparency.

And while the Law goes a long ways towards applying the principles of accountability and transparency to government financial operations, the Law as written, is unclear on just which governmental entities are included within its scope. While some of the articles of the Law are written in a way that imply inclusion of all governmental entities, other articles are written in a way that imply inclusion of budget beneficiaries only. And as the Budget Law specifically includes the assemblies and executive bodies of towns and municipalities in its list of budget beneficiaries, it could be assumed that the provisions of this Law apply to the towns and municipalities of the RS as well as to the RS government itself. Nowhere in the Law is it clearly defined which governmental entities and budget beneficiaries fall within its scope and which ones do not. This definition may need to be made at sometime in the future.

The last comment I have about the Law is that it lacks specifying any penalties for noncompliance. As written the Law will fundamentally change the way all ministries conduct their financial operations, therefore an assumption could be made that it may be meet with at least some opposition by at least some of the affected RS ministries and departments. In fact a comment was made at the last Steering Committee meeting that this type of financial centralization was tried before in the RS government only to fail because ministries took advantage of loopholes or just ignored the attempt. This issue of lack of penalties for noncompliance is also a concern of MOF Director for Budget Execution and Planning. I feel that if the Law is to be completely successful in centralizing control of its fiscal operations and to applying the principles of accountability and transparency to all of its financial transactions, then some sort of penalty for noncompliance with its provisions will have to be introduced.

COUNCIL OF MINISTERS  
-STATE TREASURY-  
Cabinet of Minister of Treasury  
Sarajevo

June 30, 2000

LIST OF PRIORITY ISSUES

1. Establishing of a Single Treasury Account
2. Opening of the account with the corresponding banks
3. Budgetary funds for strategic projects
4. Financial construction for year 2000
5. Donor arrangements
6. Alternative arrangements
7. Transitional period

## Training Program Request

**Program Title:** Budget Execution

**Location/Program Dates:** Oct 15 – Oct 21, 2000: Lithuania  
Oct 21 – Oct 28, 2000: Latvia

**Background:** The management of public finances (especially the budget) in the State of Bosnia Herzegovina and its two entities, the Federation of Bosnia and Herzegovina and the Republic of Srpska (RS), is currently decentralized, inefficient, ineffective and not consistent with the needs of a competitive market economy. In the Federation, responsibilities for public sector financial management are split between the Ministry of Finance, the spending agencies, the Department of Mutual Services and the two payment bureaus. In the RS, and at the State-level, government financial management is likewise divided.

Of significant importance is that the payment bureaus will be eliminated as institutions effective December 31, 2000, in accordance with the work now underway by the IAG (International Advisory Group). The existing responsibilities of the payment bureaus for budget execution must be transferred to the new Treasury departments being established in the State, Federation and RS.

The personnel that will staff these Treasury departments must be prepared for the new responsibilities they will be assuming. The nature of budget execution itself will radically change with the inception of this reform and participants in this training event will be exposed to several new concepts, many (if not all) for the first time.

The individual governments have made significant progress in preparing for the implementation of Treasuries into which they will centralize their financial management:

*At the State of Bosnia and Herzegovina....*

The Parliamentary Assembly has recently approved the creation of a "Ministry of Treasury".

*At the Federation....*

A "Law Regarding the Budgets in the Federation of Bosnia and Herzegovina", which authorized the establishment of the Treasury within the Ministry of Finance, was adopted in 1998. In that same year, the Government approved accounting regulations.

In 1999, the Ministry of Finance issued rulebooks on accounting and financial reporting, approved a reorganization providing for the Treasury sector and appointed an Assistant Minister of Finance for Treasury. In May 2000, the Federation Government adopted a regulation that further delineated the powers and duties of the Treasury.

Technical advisors from international donor agencies, particularly the U.S Treasury, assisted all of the foregoing. At this time, U.S. Treasury advisors and a team of specialists from the United States Agency for International Development are cooperating on a USAID-financed project to computerize and upgrade the information systems in the Federation Treasury to

ensure that the new responsibilities assumed by the Ministry of Finance are conducted as efficiently as possible. The new computerized accounting system hardware and software should be operational by December 31, 2000.

The Prime Minister and the Minister of Finance have executed a Memorandum of Understanding with USAID, committing the Federation to the steps necessary to implement this new system. The Memorandum obliges USAID to generally provide assistance to the Federation to develop and conduct workshops, seminars and training programs in the furtherance of this objective. The instant course would be the first of several designed to fulfill this commitment.

#### *At the Republic of Srpska....*

The Republic of Srpska adopted a Budget Law this year establishing a Treasury. The National Assembly has also approved a Treasury Law, which defines the powers and duties of the Treasury sector within the Ministry of Finance.

Recently, the Ministry of Finance concluded work on and approved the public sector chart of accounts.

As with the Federation, technical advisors from international donor agencies, particularly the U.S Treasury, assisted with the foregoing. At this time, U.S. Treasury advisors and a team of specialists from the United States Agency for International Development are cooperating on a USAID-financed project to computerize and upgrade the information systems in the Ministry of Finance to ensure that the responsibilities imposed on the Ministry by the newly adopted Treasury Law are conducted as efficiently as possible. The new computerized accounting system hardware and software should be operational by December 31, 2000.

USAID also entered into a Memorandum of Understanding with the Republic of Srpska consistent with the one described above for the Federation. Accordingly, the instant course is similarly related to USAID training obligations for the RS as generally set forth in that Memorandum.

**Other Resources:** For more information about USAID BiH, programs see web page: [www.usaid.ba](http://www.usaid.ba). For other useful information about BiH, look at [www.ohr.int](http://www.ohr.int); [www.oscebih.org](http://www.oscebih.org); [www.usis.com.ba](http://www.usis.com.ba).

#### **Number of Participants: 13**

**Participant Profile:** All of the participants will have completed a one-week "preparatory" classroom seminar in Bosnia and Herzegovina that will include the same training components as proposed for this TCT study tour. They will experience lectures and receive materials detailing how cash management, budget execution, and accounting and reporting are integrated into a centralized treasury system. Following this, in the field component, they will have the opportunity to observe the actual implementation of these theories and activities, with all of the attendant operational problems, in countries facing a similar transition to market economy.

**Program Objectives:** Participants in this training seminar will be core employees of the new Treasuries at the State, Federation and RS. With the technical assistance and tools being provided by the international community, and with the support of this important training component, the participants will be better able to:

1. Manage the cash assets of their respective entities, ensuring maximum investment income from temporarily surplus moneys and minimizing use of the damaging practice of incurring payment arrearages.
2. Ensure that budgeted funds are used in accordance with the legal intent and are not over committed or overspent.
3. Understand the public sector financial reports, reporting requirements and accounting systems.

Specifically, among other topics, the participants will gain knowledge and skills in the application of:

1. Financial plan forecasting, implementation and monitoring (cash flow analysis).
2. A single treasury account; including its advantages and implementation.
3. Encumbrance (or obligation) systems and planning.
4. Accounting principles.
5. Financial reporting.

**Training Components:** Training should focus on Budget Execution activities within a Treasury. This should include not only an overview of the following components, but also how they interrelate.

**Cash Management (one-third)**

Treasury Single Account  
Banking Relationships  
Controlling Receipts and Payments through the Treasury Single Account  
Financial Planning and Monitoring

**Budget Execution (one-third)**

Funds Allocation and Review  
Monitoring Budget Execution

**Accounting and Reporting (one-third)**

Accounting Methodology  
Financial Reporting  
Treasury General Ledger

The program will include hands-on practical training as well as site visits to the Treasury departments and related organizational units within the Ministries of Finance in each country.

**Action Planning:** <to be developed by WL>

**Recruitment:** World Learning/BiH will contact the appropriate candidates and conduct interviews based on US Treasury and USAID Public Accounting Project.

**Specific requests:** None

**Suggested providers:** Deloitte Touche Tohmatsu, Washington DC  
Institute of Public Administration, New York City  
Institute of Public Finance Limited  
7th Floor, NLA Tower  
12 – 16 Addiscombe Road  
Croydon, CR0 0XT  
44 20 8667 1144

**In-Country Activities:** This training program will be tied to an In-Country training program that will be implemented in September 2000.

**Timeline:**

<WL fill out this part>

## Training Program Request

**Program Title:** Budget Execution

**Location/Program Dates:** ICT (Neum): Sep 11 – Sep 15, 2000

**Background:** The management of public finances (especially the budget) in the State of Bosnia Herzegovina and its two entities, the Federation of Bosnia and Herzegovina and the Republic of Srpska (RS), is currently decentralized, inefficient, ineffective and not consistent with the needs of a competitive market economy. In the Federation, responsibilities for public sector financial management are split between the Ministry of Finance, the spending agencies, the Department of Mutual Services and the two payment bureaus. In the RS, and at the State-level, government financial management is likewise divided.

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The personnel that will staff these Treasury departments must be prepared for the new responsibilities they will be assuming. The nature of budget execution itself will radically change with the inception of this reform and participants in this training event will be exposed to several new concepts, many (if not all) for the first time.

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Technical advisors from international donor agencies, particularly the U.S Treasury, assisted all of the foregoing. At this time, U.S. Treasury advisors and a team of specialists from the United States Agency for International Development are cooperating on a USAID-financed project to computerize and upgrade the information systems in the Federation Treasury to ensure that the new responsibilities assumed by the Ministry of Finance are conducted as

efficiently as possible. The new computerized accounting system hardware and software should be operational by December 31, 2000.

The Prime Minister and the Minister of Finance have executed a Memorandum of Understanding with USAID, committing the Federation to the steps necessary to implement this new system. The Memorandum obliges USAID to generally provide assistance to the Federation to develop and conduct workshops, seminars and training programs in the furtherance of this objective. The instant course would be the first of several designed to fulfill this commitment.

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As with the Federation, technical advisors from international donor agencies, particularly the U.S Treasury, assisted with the foregoing. At this time, U.S. Treasury advisors and a team of specialists from the United States Agency for International Development are cooperating on a USAID-financed project to computerize and upgrade the information systems in the Ministry of Finance to ensure that the responsibilities imposed on the Ministry by the newly adopted Treasury Law are conducted as efficiently as possible. The new computerized accounting system hardware and software should be operational by December 31, 2000.

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**Number of Participants: 25**

**Participant Profile:** The participants would be approximately equally drawn from the State, Federation and the Republic of Srpska. Assuming that appointments have been made by the time the nominations have been processed, the enrollment should be structured as follows:

<b>State</b>	<b>Federation</b>	<b>Republic of Srpska</b>
Treasurer	Treasurer	Treasurer
Deputy Treasurer		
Deputy Treasurer		
	Cash Management	Cash Management
	Accounting and Reporting	Accounting and Reporting
Budget Execution	Budget Execution	Budget Execution

IT Systems  
Three Specialists

IT Systems  
Three Specialists

IT Systems  
Three Specialists

**Program Objectives:** Participants in this training seminar will be core employees of the new Treasuries at the State, Federation and RS. With the technical assistance and tools being provided by the international community, and with the support of this important training component, the participants will be better able to:

1. Manage the cash assets of their respective entities, ensuring maximum investment income from temporarily surplus moneys and minimizing use of the damaging practice of incurring payment arrearages.
2. Ensure that budgeted funds are used in accordance with the legal intent and are not over committed or overspent.
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Specifically, among other topics, the participants will gain knowledge and skills in the application of:

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**Training Components:** Training should focus on Budget Execution activities within a Treasury. This should include not only an overview of the following components, but also how they interrelate.

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Treasury Single Account  
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Controlling Receipts and Payments through the Treasury Single Account  
Financial Planning and Monitoring

**Budget Execution (one-third)**

Funds Allocation and Review  
Monitoring Budget Execution

**Accounting and Reporting (one-third)**

Accounting Methodology  
Financial Reporting  
Treasury General Ledger

**Action Planning:** <to be developed by WL>

**Recruitment:** World Learning/BiH will contact the appropriate candidates based on US Treasury and USAID Public Accounting Project.

**Specific Requests:** The training provider should have extensive experience or knowledge of the reform of financial management and budget systems in CEE. He or she should be chosen on their ability to design and present a program matching the skill-set and needs of the participant audience. The seminar should not become a theoretical excursion into sophisticated accounting and budgeting concepts or processes used in fully developed western economies.

Since an integral part of this training will be third-country study trips to Lithuania and Latvia (at least for a number of the participants), some attention to those systems would be desirable in this module. Therefore, while not a prerequisite, trainer knowledge of financial management reforms in these two countries could be considered a plus.

**Suggested Providers:** Deloitte Touche Tohmatsu, Washington DC  
Institute of Public Administration, New York City  
Institute of Public Finance Limited  
7th Floor, NLA Tower  
12 – 16 Addiscombe Road  
Croydon, CR0 0XT  
44 20 8667 1144

**In-Country Activities:** This training program will be tied to a TCT-Country training program that will be implemented in October 2000.

**Timeline:**

<WL fill out this part>

**Presentation at IAG Press Conference in Sarajevo  
May 11, 2000; 12:00 Noon  
Holiday Inn  
Talking Points by Rudy F. Runko**

**GOOD AFTERNOON.**

**IT IS A DISTINCT PLEASURE AND HIGH HONOR TO EXPLAIN TO ALL OF YOU ASSEMBLED HERE TODAY THE IMPORTANCE OF THE WORK OF THE IAG AS IT RELATES TO THE ESTABLISHMENT OF A TREASURY FUNCTION WITHIN THE MINISTRY OF FINANCE.**

**WHEN I HAVE COMPLETED MY SHORT STATEMENT, I WILL BE HAPPY TO ADDRESS ANY QUESTIONS YOU MAY HAVE.**

**ALTHOUGH IT MAY HAVE AT ONE TIME SERVED ITS PURPOSE WELL, TODAY IN THE FEDERATION OF BOSNIA AND HERZEGOVINA, YOU HAVE A PUBLIC SECTOR FINANCIAL SYSTEM THAT IS NOT WELL SUITED TO THE NEEDS OF A MARKET ECONOMY.**

**THE DISMANTLING OF THE PAYMENT BUREAUS PROVIDES AN OUTSTANDING OPPORTUNITY TO MOVE FORWARD WITH PUBLIC SECTOR FINANCIAL REFORMS THAT EVENTUALLY CAN IMPROVE THE ECONOMIC COMPETITIVENESS OF THE NATION.**

**I WANT TO SPEAK BRIEFLY ABOUT THE BENEFITS THAT WE BELIEVE WILL BE ACHIEVED UNDER A SPECIFIC PROGRAM USAID IS DEVELOPING --- PUBLIC SECTOR ACCOUNTING --- AND THEN I'LL EXPLAIN IN MORE DETAIL HOW THESE BENEFITS ARISE.**

**THE PRIMARY ISSUE HERE, HOWEVER, IS THE CREATION OF A CENTRALIZED PUBLIC SECTOR FINANCIAL MANAGEMENT**

SYSTEM WITHIN THE MINISTRY OF FINANCE. NO LONGER WILL SOME RESPONSIBILITIES BE SHARED IN THE MINISTRY OF FINANCE, OR INDIVIDUAL SPENDING UNITS, OR THE PAYMENT BUREAUS, OR THE DEPARTMENT OF MUTUAL SERVICES AS IS NOW THE CASE.

THIS COLLECTIVE RESPONSIBILITY FOR PUBLIC SECTOR FINANCIAL MANAGEMENT THAT NOW EXISTS IN THE FEDERATION IS NOT EFFICIENT, IT DILUTES THE AUTHORITY TO CONTROL FINANCES AND CAN LEAD TO MISALLOCATION OF SCARCE RESOURCES.

THE BENEFITS OF CENTRALIZATION OF PUBLIC SECTOR FINANCIAL MANAGEMENT INCLUDE:

- BETTER UNDERSTANDING OF THE PUBLIC BUDGET (SOMETIMES CALLED MORE "TRANSPARENCY"). THE BUDGET IS USUALLY THE MOST IMPORTANT ACTION EACH YEAR BY THE HEAD OF A COUNTRY AND ITS LEGISLATURE.
- CONFIDENCE IN THE MANAGEMENT OF PUBLIC FUNDS; I.E. THAT PUBLIC MONIES ARE SPENT EFFICIENTLY AND EFFECTIVELY AND NOT WASTED.
- IMPROVED CHANCES FOR ENHANCED ECONOMIC DEVELOPMENT BECAUSE FOREIGN AND DOMESTIC INVESTORS WILL BETTER UNDERSTAND THE FINANCIAL CONDITION OF THE PUBLIC SECTOR.

HOW CAN THE TREASURY DELIVER THESE BENEFITS?

FIRST, THE TREASURY WILL HAVE COMPLETE CONTROL OVER THE IMPLEMENTATION OF THE BUDGET. IT WILL BE RESPONSIBLE TO PLAN SPENDING IN A MANNER CONSISTENT WITH THE AVAILABILITY OF REVENUES SO THAT PAYMENT ARREARS CAN BE MINIMIZED OR ELIMINATED. THE TREASURY WILL ALSO ENSURE THAT PUBLIC MONEY IS SPENT IN ACCORDANCE WITH THE INTENT OF EXECUTIVE AND LEGISLATIVE MANDATES AND NOT IN EXCESS OF THE ANNUAL BUDGET LAW.

SECOND, PUBLIC MONEY WILL BE CONTROLLED THROUGH A SINGLE ACCOUNT OF THE TREASURY AND, POSSIBLY, THROUGH A SMALL NUMBER OF SUBSIDIARY ACCOUNTS. INDIVIDUAL SPENDING UNIT BANK ACCOUNTS WILL BE ELIMINATED OR CONSOLIDATED INTO THE SINGLE TREASURY ACCOUNT. AMONG OTHER THINGS, THIS WILL ENABLE THE INVESTMENT OF TEMPORARY CASH SURPLUSES OF THE PUBLIC SECTOR UNDER CIRCUMSTANCES (I.E. INTEREST RATES) MOST ADVANTAGEOUS TO THE FEDERATION.

THIRD, THE TREASURY SHOULD ALSO BE RESPONSIBLE FOR MANAGEMENT AND REPORTING OF GOVERNMENT DEBT AND DEBT GUARANTEES. DEBT AND DEBT GUARANTEES CREATE LIABILITIES THAT FUTURE TAXPAYERS MUST REPAY. WHILE DEBT CAN PLAY AN IMPORTANT PART OF ANY REBUILDING OR ECONOMIC STIMULATION PROGRAMS, IT MUST BE MANAGED WISELY, AND THE CONTROLS ON ITS ISSUANCE AND USE MUST BE CENTRALIZED.

FINALLY, THE TREASURY WILL CENTRALIZE ACCOUNTING FOR PUBLIC MONEY USING APPLICABLE POLICIES, PROCEDURES, FORMATS AND SYSTEMS THAT REFLECT THE BEST PRACTICES AS RECOGNIZED BY INTERNATIONAL DONOR AGENCIES.

**THE FEDERATION HAS MADE ENORMOUS PROGRESS TO DATE TOWARD ACHIEVING THESE OBJECTIVES AND BENEFITS, INCLUDING:**

- **ADOPTION OF THE LAW REGARDING BUDGETS IN THE FEDERATION OF BOSNIA AND HERZEGOVINA” IN 1998 AND APPROVAL OF ACCOUNTING REGULATIONS THAT SAME YEAR.**
- **REORGANIZATION TO PROVIDE A TREASURY SECTOR IN THE MINISTRY OF FINANCE AND APPOINTMENT OF AN ASSISTANT MINISTER FOR TREASURY IN 1999.**
- **ALSO IN 1999 RULEBOOKS ON ACCOUNTING AND FINANCIAL REPORTING WERE ISSUED.**
- **THE FEDERATION HAS AGREED IN A MEMORANDUM OF UNDERSTANDING WITH USAID TO THE STEPS NECESSARY TO COMPUTERIZE AND UPGRADE THE INFORMATION SYSTEMS IN THE TREASURY UNDER THE TERMS OF THE PUBLIC SECTOR ACCOUNTING PROJECT SPONSORED BY USAID.**

**THE CLOSING OF THE PAYMENT BUREAUS AND THE TRANSFER OF THEIR GOVERNMENTAL BUDGET AND ACCOUNTING RESPONSIBILITIES TO THE TREASURY WILL COMPLETE THIS IMPORTANT ECONOMIC AND FINANCIAL REFORM FOR THE FEDERATION.**

**THANK YOU FOR YOUR ATTENTION. ARE THERE ANY QUESTIONS?**

# **USAID Public Sector Accounting Project**

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Tel.: ++387 71 205 590  
Fax: ++387 71 200 236  
[rrunko@bih.net.ba](mailto:rrunko@bih.net.ba)**

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**Rudy F. Runko  
Chief of Party**

## **MEMORANDUM**

**To: Hazim Sabanovic  
From: Rudy F. Runko  
Date: May 10, 2000  
Re: Federation Press Conference**

For your information, and should you want to provide it to the simultaneous translation team, I have attached the talking points I plan to use at tomorrow's press conference.

This material tracks very closely the Press Kit submission I prepared and sent you earlier, except it has been written for the spoken word.

Please let me know if I can do anything further.

Also, my new e-mail address is shown in the letterhead.

**cc: Mike E. Sarhan**

**RESPONSES TO USAID QUESTIONS  
RESULTING FROM THE MEETING OF MAY 16, 2000**

**BASED ON QUESTIONS PROVIDED BY ALISA PEREIRA**

Prepared By Gail Ostler, Accounting & Auditing Advisor  
May 22, 2000

**1. Why are we not including the payroll systems when payroll functions are typical in all packages?**

We have discussed internally at length whether or not payroll should be included within the scope of this project as the task order does not specifically define the functions that are to be included within the financial information management system. While we wholeheartedly agree that automating some human resource functionality and payroll are important processes that need attention and focus, we recommend that the automation of human resources and payroll functionality be conducted within a subsequent phase of the project:

- ***Implementation of general ledger, accounts payable, accounts receivable and purchasing modules will be a significant departure from how both the Republic and Federation do business now.*** Conceptually, moving from a manual, cash-based system, where the focus is on money within the bank, to a double entry, full accrual, automated accounting system requires a large paradigm shift. While the focus this fall will be the development of standard policies and procedures and implementing the new system, it is anticipated that a significant amount of effort will be needed within the last quarter of this year and the first quarter of 2001 to educate all managers on how to read financial statements and how to most effectively manage their budgets. We believe that the two entities will need time to change their focus and get comfortable with the new system before trying to automate additional functions.
- ***Automating human resources / payroll functions is a significant and visible undertaking.*** Human resources and payroll are the most complicated financial processes within any government organization and the most visible if anything goes awry. Pay and deduction structures must be carefully analyzed; requirements vigilantly defined; payroll systems carefully configured; system testing must be rigorous. This process should not be rushed to avoid costly and visible mistakes upon implementation.

We have spent several weeks reviewing the current processes for general ledger, purchasing, accounts payable and accounts receivable. We have not begun to review payroll processes in any detail; however, we do know there are many differences between a standard US system and the systems that are currently operating within the Federation and Republic. For example, employee identification numbers are not now being used and it appears as though gross pay is built from net pay and adding back deductions.

How significant these differences are and how they may impact the implementation of a standard human resources / payroll system, we do not yet know. Also, we are not certain at this point whether or not the compensation and deduction structures within the Republic and the Federation are compatible. For example, is the system of job classification the same; are the pay periods and pay dates the same; is the pay structure the same? These differences can create problems if the ultimate goal is to have the Republic and the Federation operate under one system.

If we are to meet the 12/31/00 date for the financial information management system as well as the proposed budget, it will not be possible to incorporate human resources / payroll functions.

- ***Even though the payroll processes will not be automated, we have planned to provide more centralized oversight and better internal controls.*** As part of the implementation process, we will review in more detail the payroll process to determine how best to capture that information within the general ledger and how to elevate the level of oversight. We believe that this can be accomplished without automating the process, immediately, even though this might be considered a temporary solution.
- ***The best software solution for the general ledger, payroll, purchasing and accounts receivable functions is not always the best solution for human resources / payroll.*** Human resources and payroll functionality vary considerably from software vendor to software vendor. Some of the top governmental software vendors have chosen not to focus on human resources / payroll software and, as a result, human / resources software is either not available from some governmental software vendors or very limited in functionality. While the most advantageous solution is full integration with the general ledger, this is not mandatory. It is very common to bring over and record summarized payroll information to the general ledger via an interface from the payroll system.

The following options exist with respect to payroll:

**Option 1 – Implement Tighter Controls Over Current System Now**

The following steps can be taken to pave the way for future implementation of a payroll system and provide tighter controls over the current payroll process:

- a. Within the software evaluation criteria, provide added weight to those vendors that have both human resources and payroll modules available.
- b. During implementation of the general ledger, analyze in more detail human resources and payroll requirements of both the Republic and the Federation to develop a better understanding of and documentation on the current human resources / payroll system and to develop tighter controls and oversight over the existing manual system.

This option allows the focus of the financial information management system to be on budget management and control. It provides the opportunity for the Federation and the Republic to become comfortable with the new concepts inherent in the new system as well as the new ways of doing business before being thrust into additional automation. This option may also provide the opportunity for fully integrated human resources and payroll modules in the future. However, this option will certainly provide the ability to interface with other software vendor human resources / payroll packages in the future.

**Option 2 – Implement The Integrated Human Resources / Payroll Modules In The Future**

This option provides for the implementation of the human resources / payroll modules that are sold by the software vendor selected for the general ledger system. Before this option is selected, a more thorough analysis should be conducted to determine whether or not this package can meet the majority of the needs of the Federation and the Republic. If it is determined that it can, these packages should be implemented.

**Option 3 – Select, Implement and Interface Human Resources / Payroll Modules In The Future**

If it is determined that the human resources / payroll products provided by the general ledger software provider cannot meet the majority of the needs of the Federation and the Republic, it may be beneficial to perform an additional software selection process. If more compatible software is purchased, an interface can be designed and developed so that summary information can easily be recorded on the general ledger.

- 2. If Oracle is the software vendor of choice, we should guarantee that there is sufficient local support when the project is completed.**

Standard evaluation criteria will be applied to all software vendors. As part of the RFP, we will ask each vendor to provide a plan for using local companies for pre and post-implementation support. As part of that plan, we expect to see training of the local partner's staff. Each vendor will be evaluated based on these plans. Additionally, we are talking to both the Republic and the Federation to encourage them to identify internal staff to participate in the training and implementation so these individuals can also support the system when the project is over. As an added precaution, we plan to specifically ask references to provide their experience on the vendor's success in training local support. We believe that these steps will help to ensure that the selected vendor will perform as promised.

- 3. Does Ocean software have Oracle training? What type of arrangement do they have with Oracle?**

While some of Ocean's employees are certified Oracle professionals and others have solid experience working with Oracle products, it is our understanding that Ocean software has no formal arrangement with Oracle.

**4. What is Laura Trimbel's opinion on our system schematic?**

Laura Trimbel, US Treasury, has reviewed the system schematic and was supportive of our approach. We had a one-on-one meeting with Laura to talk about system issues and she also participated in the Federation Steering Committee meeting where the approach was presented to the Committee. We specifically talked to Laura about our approach with the small organizations. She was in agreement that the small budget users have so few transactions that it would not be cost effective to provide these organizations with computers.

However, it is our intention that all transactions for all budget users will be captured within the financial information management system whether or not those users are networked and whether or not they have a computer. For small budget users without computers, we are anticipating that copies of documents will be submitted to the Treasury Department for input into the financial information management system.

Additionally, we are looking at ways to maximize the number of computers for all users. As part of our inventory of current hardware, we are identifying larger users who already have a full complement of PC's. We are looking at shifting computers to the smaller budget users if this continues to be the case. We are also looking at the possibility of trading down so if a networked user needs a new PC, we will take their old PC and provide that to a non-networked user. How much of this shifting of resources we will be able to do is still undetermined.

However, our concept is to network only the administrative headquarters within a ministry. A big challenge will be to work with individual ministries to help determine how transaction information will flow and who will input information directly into the system within large ministries that now have highly decentralized accounting records. For example, the Ministry of Education within the Republic appears to have over 300 decentralized units who all have purchasing and invoice payment authority. None of these units are currently networked and the cost of networking these units is prohibitive within the current proposed budget.

**5. The software license needs to be for the combined entity and some items, such as future upgrades, should be pre-paid.**

Discussion with some software vendors indicated that they would be amenable to providing pricing for the combined entities. However, the possibility of obtaining a Countrywide license as well as the pre-payment of upgrades and maintenance fees will increase the cost of the software. Vendor negotiations will determine whether or not we will be able to absorb some of these additional charges within the budget limitations.

**6. When does the fiscal year end?**

The fiscal year for both the Republic and the Federation ends on 12/31. This is one of the reasons we are striving diligently to meet the 12/31 target.

The systems here are primarily manual and cash basis. Conversion of data, except for the loading of the chart of accounts which we are hoping can be accomplished through a spreadsheet import file, is not going to be a big issue. Currently there is no comparable revenue and expenditure historical data to convert. We are still developing our approach to how we will proceed for balance sheet accounts. As neither the Federation or the Republic have full balance sheet information, we are unclear at this point whether or not we will try to develop beginning balances for the balance sheet accounts other than cash.

The systems that both the Federation and the Republic are using are primarily manual. The real automation is provided by the ZPP, SPP and ZAP, which will no longer be in existence as of 12/31. However, the reporting of this information by the ZPP, SPP and ZAP is strictly on a cash basis and is not summarized except for total cash received and total cash paid out. The information received is similar to the information received on a banking statement. While in the Federation, there are a couple of ministries that are running a general ledger with some other modules and the Ministry of Finance is inputting information into a general ledger, again the information within the general ledger is strictly cash basis. While we have not yet started any serious discussion of parallel testing, it is not clear to us yet whether or not there is anything to run parallel testing against.

**7. Both the screens and output should be in both languages.**

The language assumptions we are using is that screens and output within the Republic should be in Cyrillic and screens and output within the Federation should be in Latinic. These requirements will be included within the detail functional requirements. We have also had some discussion about whether or not, within the Federation, we will need to provide screens and output in Croatian as well as in Bosnian.

**8. Look into American Fundware software.**

American Fundware has been included on our list of vendors and, based on discussions with American Fundware, they appear to be interested in providing a proposal for this project.

**QUARTERLY REPORT**

**Russian Federation Public Finance Program**

**Prepared by: Georges Korsun, Project Manager**

**IQC: Fiscal Reform and Development in the ENI Region**

**Contract No. PER-1-00-99-00003-00**

**Delivery Order 800**

**Contractor Name: Deloitte Touche Tohmatsu Emerging Markets, Ltd.**

**USAID Project Office: USAID/Russia**

**Contracting Officer's Technical Representative: Robert Posner**

**Quarterly Report Issuance Date: July 28, 2000**



Date: July 31, 2000  
To: Robert Posner  
From: Georges Korsun  
Subject: Quarterly Performance Report – Russian Federation Public Finance Program  
Contract No. OUT-PER-I-800-99-00003-00 Delivery Order 800

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Attached please find the subject Quarterly Performance Report for the period May 22, 2000 through June 30, 2000.

We wish to extend our sincere thanks for the continuing guidance and assistance provided by the USAID mission in support of these activities.

Cc: Sharon Hester; Maribeth Murphy

**Contractor: Deloitte Touche Tohmatsu Emerging Markets, Ltd.**

**Contract No. OUT-PER-I-800-99-00003-00**

**Delivery Order 800**

**Reporting Period: Quarter ending June 30, 2000**

**Country: Russian Federation**

**Short Title of Task Order: Russian Federation Public Finance Program**

**Strategic Objectives: S.O. 1.4; S.O. 1.3; S.O. 3.2**

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## **QUARTERLY REPORT**

### **PROGRESS TO DATE**

Since the effective start date of May 22, 2000, project activities have focused on facilitating the administrative transition for the Center for Fiscal Policy (CFP), the Russian institutional partner for this activity. Additionally, the foundation has been laid for assisting the CFP to become an independent and self-supporting entity able to fully manage the substantive technical and financial responsibilities associated with the provision of fiscal reform advice to government policy-makers.

As part of the preparation for the CFP to take on an increasing amount of financial responsibility, a Chief Financial Officer (CFO) position description for the CFP was developed (Attachment A). The objective is to assist the CFP to make the shift from basic accounting methods and practices to more sophisticated financial management. More specifically, the CFO would be directly responsible for all financial, contractual, and legal matters from both a daily management and strategic management perspective. It is envisioned that this addition to the CFP leadership team would allow the CFP's Director more freedom to concentrate on overall strategic, technical, and corporate governance issues as the CFP takes on more challenging and varied consulting assignments among Russian policy-makers. The CFO description is being used as the basis for recruiting efforts to find suitable candidates to join the CFP professional staff.

The CFO position is one of several initiatives proposed in a Business Plan (Attachment B) developed at the request of USAID/Moscow to serve as the guiding document for the CFP's transition from a representative office of Georgia State University to an autonomous entity that can be treated as a full subcontractor. This Business Plan directly addresses Task 2 of the subject contract – Institution Building. In short, the Business Plan lays out the CFP's Objectives, Constraints, Building Blocks, Administrative and Governance Issues, Fiscal Issues, and Workplan Development. While the Workplan shall specify more precise dates for achieving the objective of the CFP being approved as a qualified subcontractor, both the Prime Contractor and the CFP are presently anticipating that this aspect of the Workplan should have a duration of a 3-4 months. The Business Plan has been approved by the CTO in draft form, pending completion of a budget detailing the cost implications of the Plan's components. The final Business Plan should be completed early in the forthcoming quarter.

### **OBSTACLES TO IMPLEMENTATION**

The activities during this past quarter have primarily involved organizational matters among the Prime Contractor, the CFP and the Subcontractor. While efforts to resolve banking and other financial matters have been bureaucratically challenging, all relevant parties are now confident that these matters will be brought to closure shortly. This should be achieved during an upcoming short-term consulting assignment by the Chief Financial Officer of the Prime Contractor to Moscow (please see *Upcoming Activities* below).

### **ADVANCE NOTICE OF ANY LIKELY SCHEDULE CHANGES**

No Schedule Changes are anticipated at this time.

### **NECESSARY MODIFICATIONS TO WORK PLAN**

At the request of USAID/Moscow, development of the Business Plan was to take precedence over completion of the Workplan. Since the Business Plan has been approved in draft form and will be completed shortly, we expect to begin Workplan development early in the next quarter and present it for approval by the end of the quarter.

### **BUDGET STATUS**

An invoice corresponding to the past quarter's activities is forthcoming in the early part of the next quarter. It is estimated that the portion of the first invoice relating to the May 22 – June 30 period will amount to approximately \$75,000.

### **UPCOMING ACTIVITIES**

We intend in the next quarter to carry out two individual short-term consultancies targeted at establishing the necessary financial management and reporting systems at the CFP consistent with its future role as a subcontractor. The first intended short-term consultancy will be undertaken by the CFO of the Prime Contractor, who will conduct a detailed assessment of the CFP's present financial management capabilities and future needs, including actionable implementation recommendations. This documented assessment will then serve as the basis for a second consultancy during which the recommendations for a financial management system will be implemented. This implementation will likely involve the installation of a financial management software package, formulation of appropriate indirect cost rates, and other steps toward establishing the necessary attributes of a self-sustaining subcontractor entity. Both activities have been verbally approved by the CTO.

The Prime, CFP, and the subcontractor will collaborate to prepare a Workplan for the first year of the project, including monitoring benchmarks.