

# **Quarterly Performance Report**

## **BOSNIA and HERZEGOVINA**

### **Public Sector Accounting Reform and Automated Information Upgrade and Development**

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Contract No. PER-01-99-00003-00  
Task Order No. 1  
(as amended by Contract Modifications Nos. 1 through 4)**

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## Introduction

This is the eighth quarterly performance report of the Public Sector Accounting Reform and Automated Information Upgrade and Development Project (the "USAID Public Sector Accounting Project" or simply, the "Project") covering the period July 18, 2001 through October 17, 2001.

The end of the just-concluded three-month period marked the second anniversary of the initial mobilization of the Project in Sarajevo. During this quarter, two years of planning, design, procurement and local capacity building has begun to bear fruit. Training and development facilities have been established in the Ministries of Finance of the Federation of Bosnia and Herzegovina (Federation) and the Republic of Srpska (RS), involving the installation of twenty-seven computer workstations and related equipment at each location.

Furthermore, the central servers that are the core of the financial information management system (FIMS) have likewise been placed in both Treasuries. The accounting application software (most recent update of Oracle Financials, version 11.5.4) has been installed and tested, prototype demonstrations completed (and accepted by project steering committees in both entities), and data entry has commenced.

With submission of the next quarterly performance report in January, the expectation is that live activation of portions of the system in the Federation and the RS will have been accomplished (however, see "Implementation Issues Affecting Performance" on page nine of the current report).

The terrorist attacks in the United States led to the precautionary closing of the Sarajevo and Banja Luka offices on September 12th and 13th. Project staff continued to work during this period at other locations. Following the attacks, a number of written condolences were received from local vendors and government agencies, responses to which were prepared and transmitted by the Chief of Party on behalf of the project.

On September 21, 2001, Deloitte Touche Tohmatsu Emerging Markets (Deloitte) and USAID executed Contract Modification No. 4 to the existing task order, adding the State Institutions of Bosnia and Herzegovina (State) to the scope of work and extending the contract completion date to May 31, 2002.

These revisions to the task order, including the addition of approximately \$933,000 to the contract ceiling price, were based upon a detailed staffing and cost proposal submitted to USAID by Deloitte early in August. Extension of the FIMS to the State will enable fuller integration of public sector financial reporting within the cooperating country.

Discussions have begun with Oracle Software d.o.o. (Oracle) in anticipation of a change order to the existing subcontract for implementation of the revised task order.

Strong home office support from Deloitte continued throughout the quarter, especially important being the involvement in the Project of Maribeth Murphy, Program

## **Introduction (continued)**

Director; Matthias O. Obiaya, Contract Administrator; Alisa Pereira, Senior Consultant and Project Manager; and John Hanawa, Project Coordinator.

Whatever successes were achieved during this period would not have been possible without the steadfast guidance of the Cognizant Technical Officer, William H. Lawrence and Daniel Rathbun, Economic Reform Officer at the USAID Mission to Bosnia and Herzegovina (Mission). In addition, the Project is grateful to all of the employees of the Mission for their cooperation and assistance.

## **Personnel Issues**

- During the quarter, the RS Minister of Finance, Milenko Vracar, sought to reassign a critical member of the project development team, Ms. Gina Grubisic, Budget Execution Specialist, to another position not involved with the FIMS. Because this personnel decision would have had serious implications for timely completion of the task order, and because the Project had invested approximately six weeks of expensive, specialized training with the individual, the Minister was asked to reverse this action.

Following extensive efforts that included a letter to the Minister, numerous meetings and communications with the Treasurer, and the direct involvement of officials at the Mission, a letter was received from the Minister indicating his agreement to reconsider the transfer. Ms. Grubisic continues to fulfill her responsibilities to the Project as of this writing.

- Another important member of the project development team (this time in the Federation) Muhamed Arnautovic, Chief of Accounting Methodology, suffered protracted illness in this quarter. The Assistant Minister for Treasury in the Federation (Federation Treasurer) Krunoslav Jelic assigned an additional person to support and backstop Mr. Arnautovic as necessary in the future.
- The Federation Treasurer also formally approved the appointment to the Treasury of Envera Popara, who will serve as Database Administrator for the FIMS and, the Treasurer additionally named Kana Avdibegovic as Vendor Administrator. Gail Ostler, Accounting and Auditing Advisor, after meetings with Mr. Jelic, has reported satisfactory progress in the overall filling of Treasury positions, at least with respect to near term needs of the FIMS.<sup>1</sup>
- Likewise with respect to the RS, Harry H. Francis, Banja Luka Project Advisor, notes that the systemization of the Treasury was approved by the Minister of Finance, following a number of telephone and written communications from the Project. Forty-five of the sixty-one authorized Treasury positions are reported to have been filled as of the end of the quarter (74 percent). Twenty-one of the filled positions are in regional treasury offices and these personnel are not yet official employees of the Ministry of Finance.

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<sup>1</sup> In a recent newspaper article, Mr. Jelic was said to have reported that twenty-seven persons were currently employed in the Federation Treasury (or 61 percent of the forty-four authorized positions were filled).

## Progress Measured Against Tangible Results and Benchmarks

As recorded in monthly reports submitted during this period, substantial progress was made toward completion of project tasks in the eighth quarter.

### Automated Information Upgrade and Development and Implementing the Treasury Function

- Under the direction of Thomas Balderston, Information Technology (IT) Systems Advisor, and with the assistance of two IT specialists employed by the Project, local contractors completed the delivery, installation, networking and testing of the FIMS hardware in the central Treasury of each entity. In accordance with the project task order, title to this equipment is being transferred to the cooperating country at the time of hand-over. Documents effecting such title transfers were executed in both entities during this quarter (see monthly reports for August and September 2001).

As a result of these efforts, training and development rooms in both entities are now outfitted with personal computer workstations and networked servers that have been upgraded to accommodate the Oracle accounting application.

- During this reporting period, procurement was finalized for the purchase of network hardware necessary to complete the FIMS. The acquisition of this equipment will be in accordance with a Request for Quotation (RFQ) that was forwarded to the following three local companies at the end of the last quarter:
  - ✓ PING d.o.o., Sarajevo;
  - ✓ Lanaco Computers and Communications, Banja Luka; and,
  - ✓ Hermes Plus d.o.o., Sarajevo.

The RFQ was amended in September to reflect the substitution of frame-relay technology (overwhelmingly favored by both entities) in place of integrated services digital network (ISDN) lines.

Thomas Balderston, who prepared the schematic network design that was the basis for the RFQ, managed this activity. Vendors will be required to certify compliance with USAID "source and origin" criteria.

- An intranet site was established for the storage and control of project documentation and exchange of files by members of the development team with password access (<http://usaidpsap.intranets.com>).
- Management of the software development process, under the direction of Gail Ostler, continued throughout the quarter including daily interaction with Oracle staff, weekly meetings with the project manager assigned by Oracle, periodic status reports and weekly project team meetings.
- A prototype of the system application was developed, refined and loaded with data in this quarter. Training was conducted on the prototype and necessary

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

### **Automated Information Upgrade and Development and Implementing the Treasury Function (continued)**

changes were identified. Users from both entities and the State Ministry of Treasury participated in prototype training and testing to ensure that all issues and problems would be documented and resolved to the extent possible.

- Installation of the accounting software was completed by Oracle in the Federation and the RS, and was formally accepted in accordance with procedures set forth in the subcontract between Deloitte and Oracle.
- The transition to the FIMS for most budget institutions will occur at, near, or shortly after the end of the 2001 fiscal year. Accordingly, it was determined to be impractical to load the full twelve months of current revenue and expenditure information into a 2001 database. Instead, the existing accounting systems will be used to generate year-end reports. An analysis prepared by Gail Ostler describing this issue was included with the Project monthly report for August 2001.
- Demonstrations of the prototype of the FIMS were conducted during the second week of September in the Federation and the RS. A total of one hundred fifty representatives of various budget institutions attended these presentations in Sarajevo and Banja Luka. Local members of the Project team from each Treasury provided a detailed description of system functionality and discussed the principal drop-down screens for the various accounting software modules.

Representatives from the State and selected international agencies also attended the Sarajevo presentation.

- Training was an integral part of all software development and prototype activities during this quarter. In particular, two offerings of technical instruction, part of the draft training plan for the project, were completed by Oracle in September:
  - ✓ Backup and Recovery, and
  - ✓ Administration of the Application System.

Seven participants attended both training courses and all rated the experience "satisfactory" or better. Thomas Balderston coordinated the training.

- In order to upload data for the FIMS purchasing module, requests were submitted to the statistics agencies in each entity asking them to provide vendor identification numbers.
- In October, Gail Ostler led a high-level project briefing for senior officials within the Federation Ministry of Finance. The audience included some of the assistant ministers that had been recently appointed and therefore have had little or no exposure to the FIMS. The Minister of Finance was expected to participate, but he failed to attend.

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

### Automated Information Upgrade and Development and Implementing the Treasury Function (continued)

- In Sarajevo and Banja Luka, under the direction of Gail Ostler, Harry H. Francis, and Thomas Balderston, intensive work was advanced on data conversion and necessary interfaces for bank linkages to the system.

### Banja Luka Component

- A third general information meeting for budget institutions in the RS was successfully conducted on August 16th. The agenda included a status report on implementation of the FIMS; information on data input requirements and a discussion of the account coding fields.

Consistent with earlier meetings of this nature, approximately fifty representatives from twenty-six different budget institutions attended the event. These venues have provided the best opportunity for timely distribution of current information to the wide audience that makes up the client base for the Project.

- Travel to Banja Luka by Sarajevo-based project advisors increased markedly during this quarter. It was up by 110 percent compared to the corresponding period one-year ago and 45 percent above that of the immediately preceding three months. Thomas Balderston and Gail Ostler spent almost one-third of their workdays in the RS during this reporting period.

This level of travel was necessary for project advisors to manage, direct and/or participate in all of the aforementioned activities, including the general information meeting for budget institutions, software prototype training and demonstration, coordination of hardware installation, and meetings with the Treasury.

- By securing the direct intervention of Minister of Finance Milenko Vracar, the project team was able to reverse an earlier Treasury decision to provide disbursement bank interface to the Agency for Payment Transfer (Agencija za Platni Promet or "APP"), a spin-off of the closed RS payment bureau.

Had the strategy been unsuccessful, potentially adverse implications of the requested action would have been:

- ✓ Negative reaction from other international donors, particularly The World Bank and the International Monetary Fund (IMF).
- ✓ Questionable safety of public funds in the internal control environment within the APP.
- ✓ Lack of independent audits of the APP.
- ✓ Additional, unfunded costs under the Oracle subcontract if more than one interface was eventually required.

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

### Banja Luka Component (continued)

- With very little forewarning, the Project bank account at Kristal Banka AD Banja Luka faced potential losses during this quarter. Approximately 24,000 marks in project monies were on deposit when the Bank experienced a serious liquidity crisis. Starting in August, ability to withdraw funds was being unilaterally curtailed or denied by the Bank, and the situation appeared to worsen as time progressed.

After appropriate due-diligence, a new project account was opened at Raiffeisen Bank d.d. BH, Banja Luka. This is a branch bank of Raiffeisen Bank Bosnia and Herzegovina d.d., the main branch of which services the project office in Sarajevo. Raiffeisen Bank Bosnia and Herzegovina d.d. is part of the RZB Group (Raiffeisen Zentralbank Osterreich) founded in 1927, currently employing 7,000 staff and boasting assets of over 500 billion Austrian schillings.

With aggressive intervention and daily attention by Harry H. Francis and Sanela Granolic, Banja Luka Office Manager, all of the project funds were safely recovered from Kristal Banka over a two-week period in mid-August.

- Thomas Balderston worked with USAID to secure a transfer of surplus computer and network equipment from the completed privatization project in the RS. The equipment will be transferred directly to the RS Ministry of Finance, without passing through the Project, under a bilateral agreement committing its use for the Treasury activity.

Principally this equipment will be deployed to enhance the FIMS beyond the scope of the current project budget. For example, it will permit the establishment of a dedicated training site for the Treasury.

- At the request of the Mission, staff prepared a summary of project funds spent in the RS, actual and forecasted amounts, for the 2000-2001 fiscal year (see monthly report for August 2001).

### State of Bosnia and Herzegovina

- Significant personnel changes occurred among principal counterparts at the State in this reporting period. The new Minister of the State Treasury is Dr. Anto Domazet and he named Assistant Minister Ranko Sakota as point of contact for the Project. Mr. Sakota was one of three State officials that participated in the Budget Execution seminar presented last fall, including the Treasury study tours to Latvia and Lithuania.

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

### State of Bosnia and Herzegovina (continued)

- As USAID and Deloitte worked toward formally amending the scope of the Project to provide an FIMS for the State, contacts with State personnel increased significantly:
  - ✓ State officials have been asked to collect transaction volumes and other data that will eventually be needed to complete an analysis of system requirements.
  - ✓ The Sarajevo project team met with Milenko Lekic, Assistant Minister in the State Treasury, to discuss the formal task order extension and interim measures that were already in progress.
  - ✓ Thomas Balderston conducted several meetings with the acting chief of IT, Ms. Edina Tanovic, and two technical specialists at the State Treasury. These meetings included discussions on required specialized technical training for the IT staff.
  - ✓ The Chief of Party met with Ms. Sahija Mujkanovic to discuss a forthcoming seminar on internal control.
- Oracle has submitted a formal proposal to accomplish the added scope of work, which would be implemented through a change order to the existing subcontract. Negotiations between Deloitte and Oracle were underway as the quarter ended.
- In accordance with the amended task order, a proposed Memorandum of Understanding between the Project and the State Ministry of Treasury was redrafted, submitted to, modified and approved by USAID. The document should be executed early in the ninth quarter.

### Other Project Activities

- In October, project advisors briefed a visiting official from the Office of Management and Budget, Ms. Lea Bouziz. Gail Ostler provided a short presentation focusing on the FIMS functional overview, and a project background paper was furnished to Ms. Bouziz. Daniel Rathbun and William H. Lawrence participated in the meeting.
- During this reporting period, the Chief of Party distributed a number of Consular and other advisories, and administrative notices, to employees of the Project; and attended briefings on the security environment in Bosnia and Herzegovina, which were conducted by the Mission and the U.S. Embassy, Sarajevo. A list of Americans covered within the project warden district was forwarded to the new Embassy Consul, Alma R. Gurski.

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

### Other Project Activities (continued)

- During this quarter, staff prepared a number of background and briefing documents, copies of which are routinely included in monthly reports of the Project.
- In accordance with Article XVII of the project task order, the Annual Report of Government Property in Contractor's Custody was prepared and submitted to USAID in September.
- Because worldwide tensions significantly increased following the terrorist attack in America, the Chief of Party requested assistance from the Mission regarding coverage of project advisors and their spouses under the NATO/SFOR security and evacuation procedures.

As a result of this inquiry, resident spouses of long term institutional contractors are now eligible to receive USAID identification badges. These credentials are a prerequisite for spouses to be included in the SFOR evacuation plan.

### Contact and Coordination with Other Donors and Contractors

The USAID Public Sector Accounting Project continued to coordinate activities with those of other international donors and contractors. Some of the more significant contacts are noted below:

- A Treasury working group chaired by the Office of the High Representative (OHR) was formed to coordinate activities between the USAID Public Sector Accounting Project and the program of technical assistance on "government treasury systems" being jointly developed by The World Bank and the IMF.

Gail Ostler presented a high-level overview of the FIMS for Daniel Rathbun, USAID; Bruno de Schaetzen, IMF Resident Representative; and Joseph Ingram of The World Bank *et al* at the initial meeting of the working group in August.

The project team submitted comments to the chair of the working group on the terms of reference proposed by The World Bank for their new technical assistance initiative. A second meeting of the working group was called by OHR in October.

- For nearly two years, USAID advisors have been coordinating with Mr. Chai Ting, Senior Financial Management Specialist at The World Bank in a joint effort to examine the feasibility of recording expenditures of Project Implementation Units (PIUs) in the new FIMS.<sup>2</sup> During August, it was mutually agreed that the effort should be temporarily suspended for technical reasons, including special accounting and reporting requirements, and separate bank accounts, of the PIUs.

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<sup>2</sup> For background and reference see, *inter alia*, project monthly report for January 2001. In the case of The World Bank, the Project Implementation Unit is the financing vehicle through which donor grant funds, loans and government equity contributions for a specific project are channeled.

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

- An introductory meeting and discussion of common areas of focus was initiated with Darko Stancic, Deputy Governance Coordinator at the Organization for Security and Cooperation in Europe (OSCE). Mr. Stancic provided information on the 2001 fiscal year Budget for several cantons in the Federation.
- Project advisors met in September with Daniel A. Ganz, the recently appointed resident advisor placed in the RS by the U.S. Department of the Treasury (U.S. Treasury).
- Agreement in principle was reached on a jointly sponsored training seminar in internal control to be conducted during the next quarter for both entities and the State. The Project will collaborate with U.S. Treasury and the Swedish National Audit Office in the presentation of this international, multi-donor event. The RS Treasurer is especially enthusiastic about this training opportunity and has asked that it be conducted on a rotating basis in five separate cities.

World Learning, Inc., the USAID technical training program, will provide logistical support for this activity.

- During this quarter, activities were also discussed and coordinated with the Independent Judicial Commission (IJC) and the European Union Support to the Common Institutions of the State of Bosnia and Herzegovina.

### **Implementation Issues Affecting Performance**

As the quarter ended, Oracle belatedly notified project staff that a significant delay would occur in delivery of the translated version of the application software. Although Oracle has responsibility under its subcontract with Deloitte to provide notification of inability to meet contract timetables "at the earliest possible date", project technical advisors report that no such notice was given, despite weekly project team meetings and periodic progress reports.

The project field advisors, Oracle management and Deloitte were collectively examining alternative solutions and deciding how best to proceed with the completion of the task, as of this writing. However, it is apparent that at least a one- or two-month delay in activation of the FIMS may now be inevitable. Furthermore, this delay will invariably affect the start and completion dates for implementation of the FIMS at the State Treasury.

### **Proposed Remedial Actions**

Oracle has unilaterally engendered the present complication. Remedies they are apt to propose will undoubtedly result in a delay in the Project timetable, adversely affecting the ability of the field team to implement the State FIMS within the agreed-to parameters of time and cost, and may result in less than ideal conditions of training and FIMS implementation. The field advisors for the Project, and the Deloitte home office are pursuing appropriate solutions in Sarajevo and Washington DC.

## Lessons Learned

In anticipation of future USAID projects with objectives similar to this one, we offer the following suggestion as a consequence of "lessons learned" on this task, or simply to document measures that we believe have worked well or might improve results prospectively.

As indicated above, based on information generated in the RFQ process for networking equipment, and following a supplemental amendment to the RFQ, a decision was made to purchase frame-relay communication equipment rather than the conventional ISDN lines previously assumed.

This decision was based in part upon preferences expressed by users in each entity and importantly, upon the technical and economic recommendations of Thomas Balderston. First, with respect to the new technology, additional bandwidth (up to two megabytes per second) can be added to meet the growth needs of the system in the future. The ISDN technology is limited to single bandwidth of 64 or 128 kilobytes per second.

Furthermore, the frame relay mode offers significant savings in running costs as compared to the alternative, with a very nominal increase in up-front installation costs. Mr. Balderston estimates a payback period of less than two months to recover the slightly higher initial cost for frame relay lines.