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DESIGN OF UPGRADED CENTRAL FINANCIAL ACCOUNTING AND REPORTING SYSTEM

FP/MCH PROJECT

USAID/Nepal

August 16 – September 26, 1986

Resources for Child Health Project

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ACRONYMS

CHIP	Community Health Integration Project
FP/MCH	Family Planning/Maternal and Child Health
HMG	His Majesty's Government
HPN	Health, Population, and Nutrition
INTRAH	Program for International Training in Health
JSI	John Snow, Incorporated
MOPH	Ministry of Public Health
MSH	Management Sciences for Health
RTSA	Regional Training Service Agency for Asia
UNFPA	United Nation's Fund for Population Activities
USAID	United States Agency for International Development

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I. EXECUTIVE SUMMARY

The Family Planning/Maternal Child Health (FP/MCH) Project, Ministry of Health, Government of Nepal, requested technical assistance from USAID/Kathmandu, to upgrade the Project's central financial accounting and reporting system. In approving this request USAID called upon the Agency for International Development (AID) centrally-funded Resources for Child Health (REACH) Project to provide a consultant. The FP/MCH Project had indicated a preference for this consultant because of his recent prior experience with the financial system of the FP/MCH Project. As the consultant had previously only been involved with the Project's financial system at the field level, he was completely ignorant of the financial management practices at the central project level. His initial task during this visit was to conduct an in-depth assessment of central Project Financial Management practices. This assessment disclosed that the project had yet to fully implement program level line item accounting because it lacked sufficient numbers of accountants to maintain central Project control ledgers for each of its 52 (now 61) accounting points. Consequently, monthly financial status reports needed by the Project Chief and his Program Managers to control for "over" and "under" expenditures were not being prepared, and trimesterly financial status reports required by donor agencies and the Ministry of Finance were simply summaries of field accounting point reports that were greatly delayed and inaccurate, i.e., could not be reconciled. Moreover, they reflected major "over" and "under" expenditures resulting in losses of donor agency funds to the Project. It was also discovered that USAID's request for activity-level line item accounting and reporting, which the Project had agreed to for the previous fiscal year and was still attempting to implement at the field level, would produce a workload so great for the Project's central office that it would require employing an estimated 20 additional accountants, unless the system was computerized. The performance of field accountants, who received training in activity-level accounting earlier in the year, was dismal, with over 50% demonstrating inability to perform, either because of inadequate skill levels, or excessive workload, or both.

Thus, these major constraints prevented the consultant from immediately proceeding to design and implement an upgraded central office activity-level accounting and reporting system. After a series of meetings involving the FP/MCH Project, USAID, JSI Project Office, and Ministry of Finance/Controller General, to review constraints and related issues, agreements were reached to postpone activity-level accounting. USAID agreed to fund eight additional accountants until a computerized system could be installed, to procure the necessary microcomputer hardware and software, and to provide the needed technical assistance. The consultant then designed and began the implementation of a new upgraded program-level accounting and reporting system, including a simplified accrual accounting system for central project operating accounts. The consultant recommended, and obtained approval for staff reorganization of the Project's central finance office. He also prepared various implementation documents for the Project and for USAID, to initiate implementation actions including an overall implementation plan and schedule covering computerization of the Project's central accounting and reporting function by the end of the current Nepali fiscal year. The implementation plan also covered later conversion to activity-level line item accounting and reporting within two years if by that time it is determined to be feasible, based on the ability of field accountants to perform adequately after another round of short-course training to be provided during the next year. The detailed implementation plan and time schedule provide a means for the Project, USAID and JSI Project staff to monitor implementation progress.

Both the FP/MCH Project officers and USAID officers are committed to improving the financial management of this Project. FP/MCH Project staff have, in the past, demonstrated difficulty and low performance in implementing development activities in the absence of strong and continuing technical assistance. The Ministry of Finance and the Controller General are not particularly interested nor supportive of improving the existing HMG financial accounting system to satisfy donor agency, or even program manager's needs.

Although implementation activities required over the next two years are clearly identified and relatively easy for those assigned responsibility, due to the above reasons it is recommended that the Family Planning Advisor of the JSI Project Office be assigned follow-up monitoring responsibility, including the preparation of a monthly progress report for USAID and the Project's Chief and Deputy Chief. It is also recommended that the eight accountants to be temporarily employed be allowed to compete with existing Project Accountants for the limited number of jobs available after computerization, and that in addition to the technical assistance identified in the implementation plan, technical assistance be provided to the Project to assist in designing a one-week competency-based refresher training course for field accountants. It is also recommended that the consultant be advised as early as possible about the date he is expected to return for purposes of converting the manual accounting system to computerization.

II. PURPOSE OF VISIT

Pursuant to a USAID/Kathmandu telegram to AID/Washington, copy of which was provided to the consultant by REACH/JSI/Washington, the scope of the consultant's work was as follows:

A) In collaboration with FP/MCH accounting division and appropriate other finance offices in His Majesty's Government (HMG), develop design for revised central accounting system which will provide increased accountability of GON and donor funds and allow for different donor-wise accounting requirements, and take into account FP/MCH computer capability in order to maximize efficiency of system and allow for more timely processing of donor-reimbursement claims.

B) Develop a plan of action for transition to the new system, including a training plan for staff accountants and computer operators.

In addition to the above, it was understood from a previous consulting visit to Nepal that during the consultants next visit, he would also assist the Fiscal Chief and Supply Chief of the FP/MCH Project to reach agreement about the interface between the finance system and supply system, on record maintenance and reporting of assets and asset values for non-expendable and expendable supplies throughout the national system. Also the design of report formats and reporting procedures to permit the establishment of central financial records on non-expendable and expendable stock inventory values, as requested by the HMG Controller General.

III. BACKGROUND

Nepal is a landlocked country of about 16 million population, surrounded by India in the south, east, and west, and by the Tibetan region of the Peoples' Republic of China in the north. Its shape is rectangular, with a length of 845 kilometers east to west and an average width of 200 kilometers north to south. Thirty-five percent of the land area is above 12,000 feet which covers the northern part of the country and includes the highest mountains on the globe where population is sparse and climate cold. The largest land area is referred to as the "Hill" region which runs through the central part of the country east to west, and has an altitude range of 1,000 to 12,000 feet above sea level. The population in this region is dense. The capital, Kathmandu, and other key centers like Pokhara, are located here. The "Terai" region is the lowland in the extreme southern part of the country, extending from east to west along the Indian border. The Terai occupies about seventeen percent of the total area of Nepal with altitude between 200 and 1,000 feet above sea level. Deposits of alluvial soil brought by the rivers originating in the Himalayas have made this region the main cultivation area of the country. Some industrial and trade centers, like Biratnagar in the east, Birganj in the middle, and Nepalganj in the west, are situated in this region.

Illiteracy is still a major constraint in Nepal. Only 19.5 percent of the people can read and write; moreover, the illiteracy rate among females is far below the national average. Female literacy is about six percent.

There are about 75 major ethnic groups with different cultures and languages. Some 50 languages are spoken in different parts of the country. However, Nepali is not only the official language but is also the mother tongue of more than 52 percent of the population. The second major language is Maithali, spoken by 11 percent, followed by Bhojpuri, which is reported as the mother tongue of seven percent of the people. Being a Hindu kingdom, a majority of the people (89 percent) of Nepal are Hindus; about seven percent are Buddhists, three percent Muslims, and the remaining one percent follow other religions.

From the administrative point of view, Nepal has been divided into five development regions, 14 zones, and 75 districts. Each district has been further divided into villages and town panchayats. Thus, there are about 4,021 village panchayats and 29 urban center town panchayats. Further, each town and village panchayat is divided into wards which are the smallest political units.

Nepal is predominantly an agricultural country. More than ninety-five percent of the people earn their livelihood from agriculture and the remaining five percent are engaged in administrative work, services, and other sectors. This pattern of employment is similar for men and women, except that very few women are outside the agriculture sector.

While Nepal never experienced the trauma and disadvantages of colonialism, being a country closed off from the outside world until the 1950's, it also never gained the benefits of colonialism; that is, a public sector administrative infrastructure that includes modern financial, personnel and supply management systems. The present government-wide financial accounting system utilizes archaic cash accounting procedures without provision of either program level accounting and reporting, or regular tracking and reporting of incurred but unpaid liabilities. Similarly, the government-wide budgeting system utilizes line item budgets without provision for program-level or activity-level budgeting. (See Appendix 8.2 for a newspaper article on the current status of financial management in Nepal.)

In recent years donor agencies have been demanding better accountability for their funds and donated commodities. About six years ago USAID requested USAID-funded Ministry of Health projects to follow program-level financial accounting, reporting and claim reimbursement procedures. Extensive technical assistance was provided in accounting systems redesign and related training via the AID centrally-funded RTSA contract (University of Hawaii, School of Public Health), and the USAID-funded in-country "Integrated Community Health and Family Planning Project", (initially MSH; now administered by JSI). This assistance was directed to the two principal USAID-funded Ministry of Health projects: Community Health and Integration Project (CHIP), servicing 23 districts of the country; and the Family Planning/Maternal Child Health (FP/MCH) Project, now serving 52 districts. Through this assistance the first financial accounting procedures manuals were written and published, a donor-oriented program-level financial accounting system was designed, training of financial accountants was carried out, and implementation of the new system was initiated.

After several years experience with program-level accounting and reporting and considerable frustration with poor quality financial reports and reimbursement claims including problems in reconciling financial reports with program activity progress reports, several donor agencies (including USAID and UNFPA) began requesting more detailed financial status and progress reports. About two years ago both UNFPA and USAID requested the FP/MCH Project to implement activity-level (sub-program-level) financial accounting and reporting procedures. The Project reluctantly agreed although without having assessed the workload and resource requirement implications of activity-level accounting, or realistically assessing skills and systems capabilities. However, they requested USAID supported technical assistance to help upgrade the skill levels of field financial accountants and field storekeepers to perform activity-level accounting and related storekeeping duties.

The consultant was requested via the AID centrally-funded INTRAH Project (University of North Carolina) to visit Nepal in August-September, 1985, for the purpose of training trainers who would, in turn, train field level financial accountants and storekeepers. Upon arrival in country, the consultant learned that the field financial accounting manual, previously designed for program-level accounting, required revision to incorporate activity-level accounting formats and procedures as well as other revisions after several years experience with program-level accounting. Consequently, training of trainers had to be preceeded by redesign of the formats and procedures contained in the reference manual. The storekeepers did not have a manual so one was developed to include record keeping and reporting procedures as well as other aspects of supply management. Three senior financial accountants and three senior supply managers were trained to be trainers, and two, two-week training curricula and two training implementation plans were designed.

The consultant was invited to return to Nepal in February-March 1986 via the INTRAH Project, to oversee the initial two-week training course to be carried out for field accountants and storekeepers. During this exercise it became evident that while the trainers had mastered program and activity-level accounting, the field staff were of such low skill level that most had great difficulty with activity-level accounting including required cross reconciliations with subsidiary accounts and bank cash balances. There arose a serious question as to whether field accountants could be trained well enough to perform activity-level accounting. The same question arose about the ability of storekeepers, after training, to keep records and prepare reports at the activity-level, even program level.

In the meantime, during the past year, USAID had requested that the FP/MCH Project keep its promise of providing activity-level financial reports and reimbursement claims. The Project Chief, sensing that there might be some problems in satisfying this request in his central financial management office, requested USAID to invite the consultant back to Nepal to assess the Project's central financial accounting and reporting capabilities, and to design activity-level record keeping and reporting formats and procedures for the central office.

IV. TRIP ACTIVITIES

The consultant arrived in Nepal on 16 August 1986 and began work on 17 August. The first two days were devoted to initial briefing meetings with staff of USAID, the FP/MCH Project and the JSI Project office. The purpose of these meetings was to obtain updated information on the status of financial accounting and reporting by the FP/MCH Project since the consultant's previous visit in February-March, and to reach mutual understanding and agreement on the consultant's scope of work.

During the next one and one-half weeks, 19 August to 1 September, the consultant performed an in-depth analysis of the FP/MCH Project's central financial accounting and reporting function and prepared a draft report of his findings, conclusions and recommendations (see Appendix 8.3). This report identified a number of serious obstacles to design and implementation of activity-level financial accounting and reporting. A series of meetings to discuss these obstacles followed between the consultant and Dr. T.B. Khatri, FP/MCH Project Chief, and with USAID staff, followed by meetings at higher organizational levels between the consultant, Dr. T.B. Khatri and the HMG Controller General, and between the consultant, Dr. D. Calder, Chief, USAID/HPN, Mr. Stacy Rhodes, Deputy Director, USAID, Mr. Ray Dropik, USAID Controller, and others.

During the period of the various policy level meetings, described above (1 to 9 September), and while the consultant waited for resolution of the issues raised in his initial report, he conducted an in-depth analysis of the FP/MCH Project's central storehouse which was discovered as necessary when attempting to resolve the record keeping and reporting interface between financial management and supply management. A draft report of findings, conclusions, and recommendations was prepared (see Appendix 8.4).

By 10 September, USAID and FP/MCH Project officers had reached mutual agreement on how to best proceed with development of the FP/MCH Project's financial accounting and reporting system, which allowed the consultant to proceed with systems design work and was completed by 15 September (see Appendices 8.8 and 8.9).

During the period 16 to 22 September, the consultant performed additional analyses of the central financial management office to define the full impact of the redesigned system on the existing resources, including desk audits of key accounting personnel, a proposal for reorganizing staff (see Appendix 8.10), preparation of new job descriptions and performance evaluation instruments for accountants and supervisory accountants (see Appendix 8.11 and 8.12), and a series of draft proposals for the FP/MCH Project and USAID to initiate major implementation actions (see Appendices 8.5, 8.6 and 8.7).

The period 23 to 26 September was devoted to preparing data input and output specifications for the computerization of financial accounting and reporting (see Appendix 8.13), preparing a detailed implementation plan and schedule (see Appendix 8.15), orienting senior FP/MCH accounting staff to the new system design, obtaining approvals for staff reorganization and the implementation plan and schedule, getting FP/MCH key officers to begin implementation, getting USAID to initiate procurement actions, and holding debriefing sessions with FP/MCH, USAID and JSI staff.

V. RESULTS AND CONCLUSIONS

A. Results

The consultant's initial assessment of the FP/MCH Project's central financial accounting and reporting function disclosed a number of major obstacles to proceeding with design and implementation of activity-level line item accounting and reporting requested by USAID. As a result of this assessment (see Appendix 8.3), and a series of meetings by key officials, it was decided that:

a. The FP/MCH Project could delay implementation of activity-level financial accounting for at least one year and possibly two years;

b. The FP/MCH project would proceed as rapidly as possible to implement good quality program-level accounting practices;

c. USAID would provide the following resources to the FP/MCH Project to facilitate full implementation of program-level line item accounting and reporting, including pilot-testing a simplified accrual accounting system for the central operating accounts of the Project.

c.1 The cost of eight additional financial accountants for the Project's central finance office, to perform manual accounting workload until the accounting system is computerized (see Appendix 8.5).

c.2 Microcomputer hardware and software needed to computerize the central financial record keeping and reporting system (see Appendix 8.6).

c.3 Technical assistance to: complete design and implementation of a full program-level line item accounting and reporting system; convert the existing manual accounting system to a computerized system when the microcomputer hardware and software is procured and received later this fiscal year; retrain accountants to be financial data entry and data processing technicians; provide additional refresher and upgraded training for field accountants; and in a future year to be decided, convert the central computerized program-level accounting and reporting system to a computerized activity-level (sub-program) accounting and reporting system.

With respect to requests of the HMG Controller General to not alter the existing financial accounting system, including introduction of accrual accounting practices, it was decided that:

a. Program-level and activity-level accounting and reporting would be supplementation to, rather then displacement of, the authorized existing HMG accounting and reporting system.

b. The accrual accounting system to be designed and pilot-tested during the current fiscal year would be significantly modified and simplified in the form of an "obligations register" and monthly report of "outstanding obligations" which would be supplemental to the existing HMG cash accounting system and not a revision in it.

Based on the above decisions, the consultant was permitted to proceed with design and implementation of an upgraded program-level line item accounting system including simplified accrual accounting. The consultant's activities in this design were as follows:

a. Formats and procedures were designed for daily postings of incurred liabilities and paid liabilities covering purchase orders, travel orders, contracts and other order (obligations and deobligations), and for computing and preparing monthly reports by program-level line item on "outstanding obligations" (see Appendix 8.8).

b. Formats and procedures were designed for maintaining central Project program-level control ledgers for each of the 61 current year accounting points of the Project, and for producing new monthly financial status reports to be used by the Project Chief and his Program Managers in exercising improved control for "over" and "under" expenditures (see Appendix 8.9).

c. Recommendations for restructuring the Project's central financial management staff were prepared by the consultant, recommendations were approved by the Project chief, and staff reassignment actions taken by the Project Chief and Deputy Chief (see Appendix 8.10).

d. New, more complete, job descriptions (specifications) were prepared by the consultant for financial accounting and supervisory accounting jobs located in the Project's central finance office and reflect the newly designed accounting ad reporting system (see Appendix 8.11). The new job descriptions are being translated into Nepali for use in orienting accountants and supervisory accountants, and for future reference and quality control purposes by the senior accountant in charge.

e. Job performance evaluation instruments for accountants and supervisory accountants were prepared by the consultant for use in assessing the on-going performance of accounting staff in the Project's central finance office, including performance of the eight temporary accountants to be employed (see Appendix 8.12). The performance evaluation instruments are being translated into Nepali. The senior accountants were oriented by the consultant on how to use these instruments including how to score them.

f. Specifications and cost estimates were prepared by the consultant for a USAID RFP to employ eight additional accountants during the current fiscal year since such accountants could not be employed through the HMG due to current year budget and personnel restrictions (see Appendix 8.5). Based on this document an RFP was prepared by USAID.

g. Specifications and cost estimates were prepared for microcomputer hardware and software requirements to computerize the Project's central financial accounting and reporting system (see Appendix 8.6). Based on this document USAID initiated procurement action with an anticipated lead-time of seven to eight months for receiving the commodities in Nepal.

h. At the request of the FP/MCH Project Chief, the consultant prepared a participant training proposal for four of the Project's senior accountants (see Appendix 8.7). USAID indicated unavailability of participant training funds, although other donor agencies may be approached by the FP/MCH Project Chief.

i. The consultant, in collaboration with FP/MCH and JSI staff, identified all of the key activities and resources required over the next two years to fully implement program-level, and then activity-level financial accounting. He also prepared detailed implementation plans, schedules and time charts. (See Appendices 8.14 and 8.15.) The implementation plan was reviewed with key FP/MCH, JSI and USAID staff to clarify what was to be done, by whom and when.

j. As a final output product in preparation for a future consultant visit to convert the manual accounting system to computerization, the consultant prepared microcomputer data input and output specifications for program-level line item central project accounting (see Appendix 8.13). The specifications will be used by the JSI Data Analyst and by the consultant in designing data input and output formats and procedures, and for modifying existing software packages and preparing supplemental programming.

B. Conclusions

1. Most key staff of the FP/MCH Project are sincerely dedicated to improving the Project's financial accounting and reporting system, but there continues to be a serious gap between their expectations and their actual performance achievements, particularly when it involves implementation work without strong and continuing technical assistance backup.

2. The Ministry of Finance and the Controller General are not motivated to assist HMG projects in better meeting the financial accounting and reporting needs of donor agencies. Consequently, the active support of these key central HMG offices for improved financial management practices by the FP/MCH Project will not be forthcoming, and, in fact, its absence could serve to undercut Project and USAID intentions if not carefully monitored.

3. Staff of USAID/HPN are committed to assisting the FP/MCH Project in achieving improved financial management and will expect and demand results from the investments in this effort. However, there remains some considerable doubt as to whether the skill levels of field accountants, their workload, or both, will permit implementation of activity-level line item accounting and reporting in the foreseeable future.

4. Staff of the JSI Project Office in Kathmandu have evidenced a keen interest in this financial management improvement effort, and are available and qualified to provide back-up monitoring and technical assistance to the FP/MCH Project as it proceeds to execute the implementation plan.

VI. RECOMMENDATIONS

Based on the above activities and conclusions the following recommendations have been developed:

1. The Family Planning Advisor, JSI Project Office, should be designated responsibility for on-going monitoring of implementation efforts of the FP/MCH Project by utilizing the Implementation Plan and Time Chart provided herein to prepare a monthly progress report for USAID and the FP/MCH Project Chief and Deputy Chief.

2. The eight temporary accountants being employed until a computerized system is installed and operating, should be allowed to compete with existing FP/MCH accounting staff for the limited number of longer-term jobs that will be available in operating the computerized system when it is installed.

3. Technical assistance should be provided to the senior accountants to revise the existing two-week training curriculum for field level accountants into a one-week intensive refresher training course for use next year in upgrading skill levels of field accountants. The technical advisor should be expert in competency-based skills oriented training methods.

4. The consultant should be advised as early as possible on the date he is to return to Nepal to convert the manual accounting and reporting system to computerization in order to insure his availability at the time desired. (Timing will depend upon receipt and testing of microcomputer hardware and software that the JSI Data Analyst is assigned to do.)

VII. FOLLOW-UP ACTIONS REQUIRED

Follow-up actions would be to implement the recommendations outlined above and the Implementation Plans and time charts attached as Appendices 8.14 and 8.15.