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**FINANCIAL MANAGEMENT AND MONITORING OF THE LAND
MARKET DEVELOPMENT PROJECT**

for the

ASSOCIATION FOR THE PROTECTION OF LANDOWNERS' RIGHTS

by Marina Vashakidze

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Marina Vashakidze *

1. LEGAL BASIS OF THE LAND MARKET DEVELOPMENT PROJECT

This project is being implemented under the U.S. government humanitarian and technical economic assistance program. The program is governed by the bilateral agreement between the governments of the Republic of Georgia and the United States of America on facilitation of humanitarian and technical economic assistance, ratified by the Parliament of Georgia on 11 December 1996.

The project is funded by the U.S. Agency for International Development (USAID). The form of funding is a grant. The responsible body for the project implementation is Terra Institute, a United States-based non-government organization (NGO), which has sub-contracted the Association for the Protection of Landowners' Rights (APLR), a non-profit organization in the Republic of Georgia, to carry out the objectives and obligations of the grant.

As stated in the Agreement: "This award is made to Terra, on condition that the funds will be administered in accordance with the terms and conditions as set forth in 22 CFR 226, entitled Administration of Assistance Awards to U.S. Non-Government Organizations." By entering into sub-agreement with Terra Institute, the APLR agrees to undertake project implementation under the same obligations and objectives that are binding upon Terra Institute.

The legal basis of the Land Market Development Project, therefore, comprises:

- 1) the bilateral agreement between the governments of the Republic of Georgia and the USA;
- 2) the cooperative agreement between Terra Institute and USAID;
- 3) the agreement between Terra Institute and APLR; and

* Marina Vashakidze, on behalf of the Association for the Protection of Landowners' Rights, of Tbilisi, Georgia, submitted this report to Terra Institute, Ltd., Mt. Horeb, Wisconsin, on 14 March 2002.

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- 4) the agreement between Terra Institute and its other sub-contractors.

2. ASSISTANCE OF TERRA INSTITUTE TO DEVELOP AND STRENGTHEN FINANCIAL MANAGEMENT PROCEDURES IN APLR

The Terra Institute and the APLR are jointly implementing the Land Market Development Project (LMDP). Both parties are responsible for the performance of set objectives and goals, one of which is strengthening the administrative and financial management capacities of the APLR.

An important part of Terra Institute's sphere of responsibility is its special orientation to the development of a financial management structure of the APLR, so that the APLR is able to undertake full operational responsibility for this project and is self-sustaining at its completion.

The strengthening of the APLR financial management structure consists of two main activities:

- 1) providing accounting software and training to the APLR so that two or more staff members become proficient in working with international accounting standards and procedures and can prepare the financial reports necessary to meet the reporting requirements of USAID and to comply with standard auditing procedures; and
- 2) developing financial and office procedure manuals for the APLR. It is anticipated that by the end of this year, the APLR will have complete sets of procedural manuals to provide guidelines for its organizational structure and development.

3. PRE-AUDITS

In order to fulfill the requirements for project financial accounting and reporting, an auditing company was selected to conduct inspections of project finances before actual expenses are incurred; in other words, it conducts pre-audits. The auditor reviews the proposed expenses at least twice a week in the APLR office and audits invoices that have not yet been paid.

The concept of a pre-audit is a procedure for controlling project finances. During the pre-audit, the auditor verifies that expenditures correspond to the project budget. He determines whether the expenditure complies with the agreement between USAID, Terra Institute, and APLR. The auditor further determines whether all expense documents are in order and verifies that the expense initiator is authorized to render the request for such expense. He checks to see whether prior tender is required for undertaking the expense and whether such a tender has been properly conducted and the contract is in place. To avoid potential conflicts of interest, he tries to identify whether the project is buying goods/services from the company that won the tender. Payment from the office petty cash or the APLR bank account can be made only after approval of the pre-audit. These accounting checks and balances greatly reduce the possibilities of error or potential mismanagement of project funds.

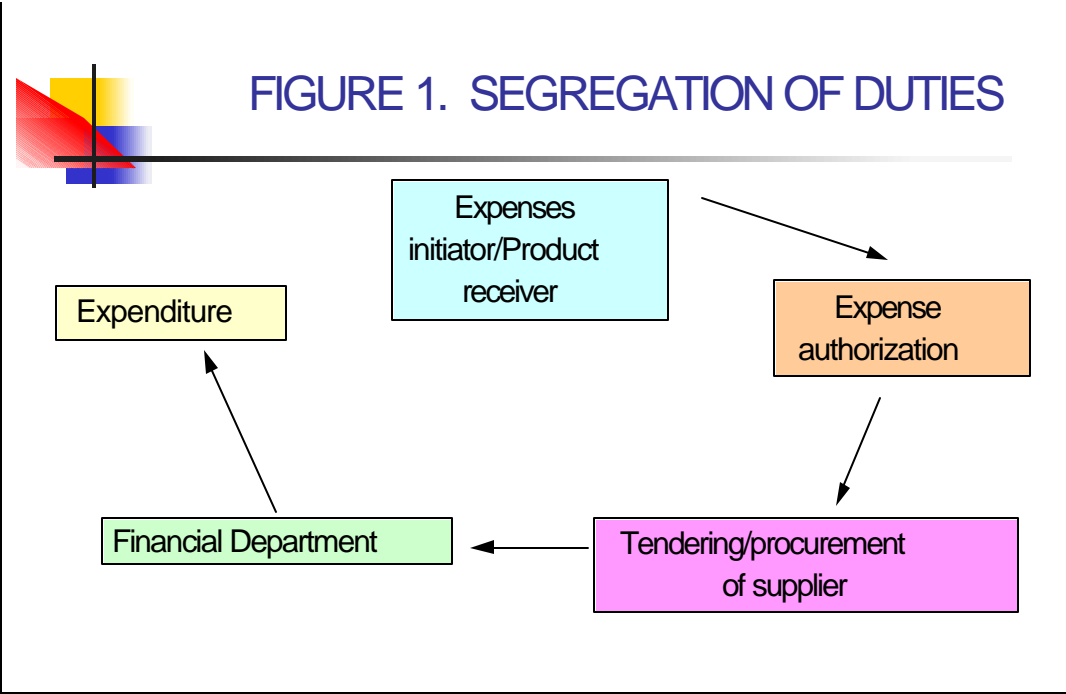
4. SEGREGATION OF DUTIES

The administrative and financial management of the organization acknowledges the principle of Segregation of Duties. The essence of this principle is to separate the duties and financial responsibilities among the employees of the organization in such a way that one person does not possess unilateral decision-making power, thus safeguarding against the abuse of power. By such distribution of authority, the organization can quell unauthorized use of funds, thus striving to eliminate the possibility of corruption and fraud.

In applying the principle of Segregation of Duties, one must consider the size of the total budget and the organization. If both are small, having many employees would create excessive expense with

limited funds, thereby making segregation of duties difficult to execute and not justifiable in practice. At present, the APLR continues to involve its Board of Directors in matters relating to the organization and the exercise of controls. As the APLR's responsibilities and administrative duties increase, additional personnel will be retained to carry out the tasks and obligations under strict guidelines and with the approval and involvement of the Board.

The Land Market Development Project retains employees to identify the need to purchase assorted goods and services. Depending on the type of expenditure, a justification for each request must be approved by the head of the respective project component or the financial manager. The tender and procurement specialist procures the supplier of such goods or services before the APLR's lawyer issues a contract. The issuance of funds must be approved by the financial manager and, in some cases, depending on the type and amount of expenditure, must include final approval by the director of APLR. Figure 1 illustrates the concept of segregation of duties.



5. PROJECT BUDGET

Apart from legal and technical terms, the agreement between the Terra Institute and the APLR also contains the overall project budget. The project budget is divided into two parts: direct expenses and indirect expenses.

Direct expenses encompass all expense categories predetermined to be necessary for implementation of the project, including but not limited to:

-
- ◆ Salaries and honoraria for the project staff,
 - ◆ Hotel accommodation costs and per-diem for local travels,
 - ◆ Local public transportation costs,
 - ◆ Drivers and fuel costs,
 - ◆ Office refurbishment,
 - ◆ Office supplies,
 - ◆ Conducting business meetings,
 - ◆ Office refreshments,
 - ◆ Generator operating expenses,
 - ◆ Office maintenance and utilities,
 - ◆ Communication costs,
 - ◆ Bank charges,
 - ◆ Office security,
 - ◆ Office furniture,
 - ◆ Financial accounting software purchase and development,
 - ◆ Computer upgrades,
 - ◆ Purchase of lower cost office equipment,
 - ◆ Equipment repairs and cartridges,
 - ◆ Organizing seminars and other workshops in Georgia,
 - ◆ Short training courses overseas,
 - ◆ Printing brochures and posters for the project,
 - ◆ Capital expenditures,
 - ◆ Initial registration support contractors,
 - ◆ Real estate brokers,
 - ◆ Public education contractors,
 - ◆ Refurbishment of regional registration offices,
 - ◆ Office supplies for initial registration subcontractors,
 - ◆ Registration certificates and applications,
 - ◆ Registration journals, map binders, and journal binders,
 - ◆ Insurance expenses,
 - ◆ Support of professional associations, and
 - ◆ Pre-audit costs.

Indirect expenses include other office and administrative expenses that are not specifically allowed in the direct expenses. The APLR calculates its indirect expenses at 4% of total direct expenses.

The largest budget category covers the initial registration support activities. The second largest category is salaries and honoraria, followed by direct operational costs.

When compiling the overall project budget, all possible expenses and their estimated costs were taken into account as precisely as possible. The project budget thus contains probable estimated costs. The financial manager is required to control budget expenses in such a manner that the unit price in the contract is not exceeded during the lifetime of the project.

As a rule, actual expenses are less than those estimated in the budget. In the event that the actual expenses exceed the budget, the Terra Institute may reallocate funds between the budget line items. Such reallocation is regulated by specific rules and regulations. It should be noted that the APLR cannot expect to receive more funding than is originally estimated in the project budget.

In the event that the APLR spends less than the budgeted amounts, surplus funds remain with the US Treasury; in other words, the APLR is reimbursed only for the actual approved expenses.

The APLR receives project funds in a bank account established especially for this project. According to APLR policy, separate bank accounts insulate the projects in order to keep their funds and expenses from commingling among one another. USAID funds, therefore, cannot be spent on other APLR activities.

The APLR creates short-term work programs with small budgets for the program activities. Work programs and respective budgets are compiled for three-month time periods. In the first month, the APLR receives one-third of the work program budget in advance. The remaining two-thirds may be requested as needed. By end of the project, after satisfying all financial obligations, any unspent money in the APLR account must be returned to USAID.

6. EXPENSES , TRANSACTIONS, AND VOUCHERS

The financial manager prints out pre-numbered expense requisition forms on the first day of every month. The pre-numbering of forms is considered necessary for internal control purposes.

Task managers complete a requisition form that is checked and verified by the corresponding project leaders, the financial manager, or the APLR director. The financial manager makes relevant notations on the form. After approval by the financial manager, an order is placed for the requested goods/services. The accountant fills out the expense voucher after the supplier has presented an invoice. The voucher is then reviewed by the financial manager. Depending on the amount of money and nature of the expense, certain vouchers may require the APLR director's approval. Funds may be transferred only after the auditor approves the voucher, invoice, requisition, and procedure.

Therefore, the voucher represents the complete financial requisition. Only after confirmation of this voucher can the accountant approve the financial transaction. If the expense voucher is not in proper order, the accountant may not make payment, even if the contract is already in place and the contractor has provided the goods and services.

The APLR uses five types of vouchers: expense voucher, deposit voucher, internal transfer of funds voucher, advance payment voucher, and non-paid voucher. Figure 2 summarizes the vouchering process.

FIGURE 2. EXPENSE INITIATION AND VOUCHERS



- ✓ Request for Expense
- ✓ Inventory Taking/Contract Control Sheet
 - ✓ Supplier's Invoice
 - ✓ Contract, Tender
 - ✓ Expense Voucher
- ✓ Financial Manager and Director Authorization

7. CONTRACTOR RECRUITMENT AND REMUNERATION PROCEDURES

The APLR has hired contracting firms for the purposes of project implementation. The project contracts are divided as follows:

- 1) labor agreements,
- 2) initial registration support subcontracts,
- 3) real estate brokers,
- 4) public education contractors,
- 5) suppliers of goods and services, and
- 6) other.

The project budget determines the precise staff schedules and salary rates for each staff unit. The salary rates must be equivalent to those of other international projects. The APLR cannot unilaterally set a higher salary rate for any staff unit. Remuneration must be established to follow common practice for similar positions in other projects implemented in Georgia. The APLR cannot increase budgeted salary rates without proper written justification and approval by the Project Director of Terra Institute.

Recruitment begins with a request by the APLR director for opening a vacancy. The vacancy must be announced publicly in such a way that all possible candidates have access to the vacancy notice. The announcement must contain a description of the service, the level of effort and scope of work, the location of the work and its title, and the selection criteria.

The office manager or the head of the relevant project component chooses several of the most acceptable resumes from among those submitted and invites selected candidates for interviews. After the interviews, an APLR commission reviews and selects one candidate. A rejection notice is sent only to those invited for an interview. The labor agreement is then processed and contracted with the selected candidate.

8. CONTRACT PROCUREMENT PROCEDURES

Contractors are selected based on competitive bidding or tender. The tendering procedure starts with the APLR director's request to announce the tender, the tender terms, cost parameters, and members of the tender committee. The tender committee consists of three permanent members: the financial manager, the tender specialist, and the head of the relevant project component. When necessary, the APLR director appoints two additional committee members; this generally occurs when the tender evaluation requires special technical knowledge.

There are three tender types: informal tender-inquiry, closed tender, and open tender.

Open tender is conducted in the form of a public announcement by mass media for large value contracts. Closed tender sends the tender terms to several known companies that are qualified to provide the requested goods and services. The parties interested in the open tender or the parties selected for participating in the closed tender must submit their cost proposals to the APLR within the time period indicated in the invitation letter. After the closing time, the tender committee opens and reviews the submitted proposals and makes the decision to select the contractor.

Informal tender-inquiry may be conducted if the estimated costs will not exceed \$500. In this case, the office manager or other qualified staff person conducts a telephone inquiry of prices and writes down the amounts quoted by known companies. The contractor is selected after such an inquiry.

These procedures correspond to USAID procedural principles. While it is theoretically possible to conduct open tender for all contracts, when bids are conducted for small amounts of money, the expense and time involved to put together an open tender is not cost effective.

9. CONTRACT MANAGEMENT PROCEDURES

After processing the agreement from the company that won the bid, a contract control sheet is filled out that contains the basic contract data: name of the contractor, terms of the contract, unit price, contract value, and amount of goods/services to be supplied. The contract control sheet is completed each time the supplier submits an invoice. This process ensures that the financial manager and directors always have updated information on the status of the contract:

- ◆ Is the contract being performed within the terms of the agreement?
- ◆ Is the project paying the amount set for the quantity of goods and/or services as determined by the contract?
- ◆ Does the amount of contracted goods or services correspond to the amount of tendered goods and services?

Any document, file, or information on the project financial status is retained in the financial department and is stored in the computer databank of the financial manager and the accounting firm of the auditor. Data may be made available to each project employee for just cause.

10. TAXES

From 1 May through 31 September 2001, the Land Market Development Project made the following payments to the state budget of Georgia:

- ◆ Income tax for employees – 50,394 GEL
- ◆ Employee pension fund – 2,560 GEL
- ◆ Health care payments for employees – 2,560 GEL
- ◆ Health care payments for the organizations - 7,681 GEL

*The budget presently owes the project - GEL 4,007.

During those 5 months, the project contributed a total to the state budget of GEL 67,202.

ANNEX 1 SAMPLE OF THE REQUISITION ORDER

PURCHASE REQUISITION FORM ?
(Sesyidvis moTxovna)

10/01-025

Requestor: _____
(momTxovni:)

Date: _____
(TariRi:)

Department: _____
(ganyofileba:)

Amount requested: _____
(moTxovnili Tanxa:)

Purpose of Purchase: _____
(Sesyidvis mizezi:)

Clarification (if required): _____
(ganmarteba (saWiroebis SemTxvevaSi):)

Purchase requisition approval:
(Sesyidvis moTxovnis damowmeba:)

Name, Title _____
(saxeli da gvani, Tanamdeboba)

Date _____
(TariRi)

For CFO use only:
(mxolod finansuri menejerisaTvis:)

Budget line item: _____
(biujetis kategoria:)

Approval: _____
(damowmeba:)

Date: _____
(TariRo:)

ANNEX 2: SAMPLES OF EXPENSE, INTERNAL TRANSFER, AND DEPOSIT VOUCHERS

THE ASSOCIATION FOR PROTECTION OF LANDOWNERS' RIGHTS
(miwis mesakuTreTa uflebebis dacvis asociacia)

ADVANCE PAYMENT VOUCHER
(winaswari gadaxdis vauCer)

?

Payment
(TariRi)

Date of
(gadaxdis

PROJECT/FUND (proeqti/fondi)

Month (Tve)	Date (TariRi)	Year (weli)

- Field CodeChanged
- Field CodeChanged
- Field CodeChanged
- Field CodeChanged

Type of Transaction	Transaction Number

Amount in GEL _____ **Source** _____
(Tanxa larebSi) (wyaro)

Exchange Rate _____
(gadacvlis kursi)

Exchange Date _____
(gadaclis TariRi)

Amount in US \$: _____
(Tanxa aSS \$)

Budget Item: _____ Field CodeChanged

biujetis kategoria:

Comments: _____ Field CodeChanged
(ganmarteba:)

Approved by: _____ **Date** _____
(damow mebulia) (TariRi)

Paid to: _____ Field CodeChanged
(gaica):

THE ASSOCIATION FOR PROTECTION OF LANDOWNERS' RIGHTS
(miwis mesakuTreTa uflebebis dacvis asociacia)

NON PAID VOUCHER
(vauCeri anazRaurebis gareSe)

?

Payment
TariRi)

Date of
(gadaxdis

PROJECT/FUND (proeqti/fondi)

Month (Tve)	Date (TariRi)	Year (weli)

- Field CodeChanged
- Field CodeChanged
- Field CodeChanged
- Field CodeChanged

Amount in GEL
(Tanxa larebSi)

Source
(wyaro)

Type of Transaction	Transaction Number

Exchange Rate
(gadacvlis kursi) _____

Exchange Date
(gadaclis TariRi) _____

Amount in US \$:
(Tanxa aSS \$:) _____

Budget Item: _____

Field CodeChanged

biujetis kategoria:

Comments: _____

Field CodeChanged

(ganmarteba:)

Approved by: _____ **Date**
(damow mebulia:) (TariRi)

Paid to: _____
(gaica:)

Field CodeChanged

THE ASSOCIATION FOR PROTECTION OF LANDOWNERS' RIGHTS
(miwis mesakuTreTa uflebebis dacvis asociacia)

EXPENSE VOUCHER
(gasavlis vauCeri)

?

Payment
TariRi)

Date of
(gadaxdis

PROJECT/FUND (proeqti/fondi)

Month (Tve)	Date (TariRi)	Year (weli)

Field CodeChanged

Field CodeChanged

Field CodeChanged

Field CodeChanged

Type of Transaction	Transaction Number

Amount in GEL
(Tanxa larebSi)

Source
(wyaro)

Exchange Rate
(gadacvlis kursi)

Exchange Date
(gadaclis TariRi)

Amount in US \$:
(Tanxa aSS \$:)

Budget Item:

Field CodeChanged

biujetis kategoria:

Comments:

Field CodeChanged

(ganmarteba:)

Approved by:
(damow mebulia:)

Date
(TariRi)

--

Paid to:
(gaica:)

Field CodeChanged

ASSOCIATION FOR THE PROTECTION OF LANDOWNERS' RIGHTS
(miwis mesakuTreTa uflebebis dacvis asociacia)

INTERNAL TRANSFER OF FUNDS
(Sida gadaricxvebis vauCeri)

?

Date of Transfer:
(gadaricxvis TariRi:)

Currency of Transfer:
(gdasaricxi valuta:)

Exchange Rate:
(gadacvlis kursi:)

DEBIT (debiti)		CREDIT (kredit)	
Project/Fund/Bank (proeqti/salari/banki)	Amount (Tanxa)	Project/Fund/Bank (proeqti/salari/banki)	Amount (Tanxa)

COMMENTS:
(SeniSvna:SeniSvna)

ASSOCIATION FOR THE PROTECTION OF LANDOWNERS' RIGHTS
(miwis mesakuTreTa uflebebis dacvis asociacia)

DEPOSIT VOUCHER

(Semosavlis vauCeri)

?

SOURCE OF FUNDS

(dafinansebis wyaro)

Project/Fund: _____
(proeqti/fondi:)

Amount in GEL _____
(TanxalarebSi)

Project Number: _____
(proeqtis nomeri:)

Exchange Rate _____
(gadacvlis kursi)

Reason for Deposit: _____
(Semosavlis mizezi:)

Amount in US\$ _____
(Tanxa aSS \$)

Date of Deposit: _____
(depozitis TariRi:)

Deposited in: _____
(Caricxulia:)

Initials _____
(inicialebi)

Date _____
(TariRi)

Account # : _____
(angariSis #:)

Prepared by: (damowmebulia:)		
--	--	--

Deposits made by: _____
(Semomtani:)

(name)
(saxeli)

COMMENTS:
(SeniSvna:)

