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DOMINICAN REPUBLIC

ACCOUNTABILITY ASSESSMENT:

A SUMMARY REPORT

(Summarized and translated from original
Spanish language report)

Agency for International Development
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July 14, 1987

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ACRONYMS AND ABBREVIATIONS USED IN THE REPORT

AID	Agency for International Development
BC	Central Bank
BR	Reserve Bank
CC	Chamber of Accounts
CGR	Office of the Comptroller General
DGCP	General Directorate of Public Credit
DGCV	General Directorate of Rural Roads
ICC	Caribbean Basin Initiative
INDRHI	National Institute of Hydraulic Resources
NAGA	Generally Accepted Accounting Principles
ONAPRES	National Budget Office
PCGA	Generally Accepted Accounting Principles
PL480	Public Law No. 480 of the U.S. Congress
SEF	Secretary of State for Finance
SEOPC	Secretary of State for Public Works and Communications
SESPAS	Secretary of State for Health and Welfare
STP	Technical Secretariat of the Presidency
TN	National Treasury
UCR	Resource Coordinating Unit
UCOFE	External Financing Coordination Unit
UE	Implementing Agency

DOMINICAN REPUBLIC ACCOUNTABILITY
ASSESSMENT: A SUMMARY REPORT

EXECUTIVE SUMMARY

(Translated from original Spanish language report)

Between May 18 and July 14, 1987 Price Waterhouse consultants assessed the capability of the Dominican Republic Government's present financial management and control systems to provide accountability over resources provided by AID. The depth of the work performed was limited principally due to the number of agencies involved and certain difficulties in obtaining information from them.

Legal provisions governing financial management and control in the Government of the Dominican Republic are very antiquated and prescribe complicated, unnecessarily time consuming processes which do not support control over resources. The lack of organizational plans, accounting systems, stable, well-paid, qualified staff, and professional internal audit affects the quality of internal control both in the implementing agencies and in the central financial control institutions visited.

Accounting in the central government and that maintained centrally by the Office of the Comptroller General is exclusively limited to budgetary execution (revenues and expenditures).

Audits performed by the Chamber of Accounts and the Comptroller General's Office need basic improvements in order to fully observe generally accepted auditing standards.

Neither the agencies which handle resources, nor the central financial control institutions, have standards, procedures or guidelines to orient them in carrying out their functions and, at the same time, provide criteria for their evaluation.

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Because of its awareness of the internal control situation within implementing agencies and other government units, AID has taken a series of measures directed toward the reducing relative risk involved in handling resources provided by loans or grants.

The principal recommendations considered as realistically applicable are:

- o Provide continuing, progressively advanced, training to public servants in areas related to financial management and control.
- o Establish basic standards governing financial management, internal control, accounting, auditing, etc.
- o Strengthen financial management and internal control in the implementing agencies by (1) setting out clear basic guidelines in letters of implementation issued by AID; (2) providing guides or handbooks which communicate to implementing agencies what is expected of them; and (3) when appropriate, offering them technical assistance.
- o Promote the development of a professional government audit capability.
- o Complete the organization of the financial analysis unit within the AID Mission and perform periodic reviews of financial, managerial and physical controls in coordination with project officers.

Updating of legal provisions remains a need which for the moment is difficult to fulfill. This should be considered by the appropriate organs, including AID for future priority action so that the Dominican Republic may be able to rely upon the degree of financial management and control adequate for its real needs.

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DOMINICAN REPUBLIC ACCOUNTABILITY ASSESSMENT:

A SUMMARY REPORT

SECTION A - GENERAL

(Summarized and translated from original
Spanish language report)

I. INTRODUCTION

Payment Verification Policy Implementation Guidance of the United States Agency for International Development (AID) requires AID Missions to report on assessments of beneficiary government financial management. This includes assessments of project monitoring and voucher examination procedures, general vulnerability and the adequacy of audit coverage. These requirements result from the interest of the Congress of the United States and from two reports issued by the United States General Accounting office in 1979 and 1984 respectively.

In January, 1987 the government of the Dominican Republic created a commission to study the question of funds received from external sources, establish mechanisms to guarantee their adequate administration and see that they are not used for purposes different from those established in the respective agreements.

Price Waterhouse carried out this accountability assessment between May 18 and July 14, 1987. Our Spanish language report presents in detail our findings, conclusions, and recommendations in accordance with our terms of reference of the engagement which are set out in detail in the Spanish language version. This English language summary version of the report is intended to emphasize those aspects of our findings, conclusions, and recommendations which are of most interest to AID. The Spanish

language report is more detailed and includes annexes presenting supplementary information. These reports are primarily concerned with assessing the capability of present governmental financial management systems to administer control and account for AID provided funds and presenting recommendations regarding major areas where improvements can be made.

The Price Waterhouse consulting team was composed of James P. Wesberry, Jr., Luis S. Piña, Mario Andrade and Ramon Ortega.

II. SCOPE METHODOLOGY AND PROCEDURES APPLIED

In those Dominican Republic agencies listed in our terms of reference, we analyzed generally the administrative, financial and control activities carried out by the departments or sections having functions related to AID-furnished resources. Therefore our comments, conclusions, and recommendations do not provide general opinions on such organizations taken in their entirety. The degree of understanding reached depended in great measure on the collaboration provided by officials of the agencies reviewed. We encountered reiterated requests for special authorization from the Executive Branch to authorize furnishing the information necessary for our work.

We also visited five agencies implementing projects financed by AID, three in the central government, one in the decentralized sector and one in the private sector.

Details of the methodology and procedures used as well as the entities and units visited are contained in our Spanish language report. The depth of our work was very limited and it was not possible to obtain access to several entities until the last days of the project.

Our work consisted of a diagnostic review and should not be considered a review and evaluation of internal control of the entities and organizations which provide financial management in the public sector. Our assessments are based on the situations encountered at the moment the work was carried out which may vary with the passage of time.

SECTION B - GOVERNMENT OF THE DOMINICAN REPUBLICIII. LEGAL FRAMEWORK OF THE KEY GOVERNMENTAL FINANCIAL
MANAGEMENT AND CONTROL ENTITIES

Those agencies responsible for centralized financial management and control activities are: The National Budget Office (ONAPRES), the National Treasury Office (TN), the Office of the Comptroller General of the Republic (CGR), the Chamber of Accounts (CC), and the General Directorate of Public Credit (DGCP). Their responsibilities and the scope of their functions is set out in the respective laws which have been issued in different epochs over various decades.

National Budget Office (ONAPRES)

ONAPRES, the institution considered "axle of the budgetary system of all the public sector institutions" is governed by the 1969 Organic Law of The Budgetary System of the Dominican Public Sector. This law incorporates in good measure the techniques of program budgeting. In the various phases of the budgetary cycle the law is only partially observed. Processes of the agencies still follow in large measure provisions similar to the 1937 budget law for purposes of approval and appropriation of funds

The budget law establishes "as revenues the total estimate of the loans in the proportions which are estimated to be received in the following budgetary year, whether internal or external, long or short term" and additionally determines that "amounts corresponding to the usage of present loans, whether external or internal in proportion to amounts presumably to be received during the next budgetary year shall be incorporated into expenditure programs". For this reason the process of appropriation and allotment followed in processing disbursement requests for projects financed by AID, as well as all those included in other agreements for loans or grants, is the same as

that followed for internally generated funds. This situation constitutes a legal limitation which due to its obligatory nature must be complied with at the present time so that implementing agencies may obtain resources from international sources such as AID.

The "appropriation" consists of the amount set out in the general budget approved by the executive based upon which budgetary records can be opened by the agency, ONAPRES, CGR, and CC in similar form.

The "request for allotment" is a document which the Secretaries of State send to ONAPRES to initiate the expenditure process. It is approved when the implementing agency has an appropriated balance and resources are available.

Office of the Comptroller General (CGR)

CGR has had a fairly constant legal structure since 1929 when the "Accounting Law" was issued. A "General Accounting Office" then set up was "charged with maintaining budgetary and proprietary accounts of the Dominican government" as well as prescribing "all forms, systems and procedures for administrative accounting in the various departments and agencies and for examination and intervention by financial officials".

Later a new Accounting Law in 1954 maintained the basic functions of accounting, review and inspection grouping them in orderly form in chapters for each function. Finally, a 1970 law established the present name of the office and stated that the CGR "will be responsible for general State accounting ; audit (fiscalizar) the correct receipt and expenditure of funds, verify of the examination of the accounts which should be presented by persons or entities, as well as accounting inspection of offices responsible for revenues" (emphasis added).

CGR's basic functions which date from 1929 relating to accounting and record keeping incorporate only budgetary execution (revenue and expenditure accounting). Review is made through the "examination" of supporting documents submitted by agencies to CGR attached to Warrant Requests (Solicitudes de Libramiento), which are a prerequisite for the Comptroller General to authorize TN to issue a check in the name of the beneficiary. Ex post facto reviews made by CGR, according to officials we interviewed, are made in compliance with the audit ("fiscalización") provisions presently in force. However, it is evident that due to its antiquity, the law centralizes incompatible functions in CGR making it both executor and auditor in the government's financial management and control system.

As regards accounting, CGR does not follow generally accepted accounting principles. This is also true of the "accounting" of the other central government agencies.

While it is CGR's duty according to law to prescribe systems and procedures for administrative accounting, this has not been done. Therefore, the public sector does not have standards, policies or principles of accounting nor other provisions to guide this function.

Treasury (TN)

According to its 1954 law the Office of the Treasury of the Nation (TN), a part of the Finance Secretariat, is responsible for "collection, custody, disbursement, and accounting in this office, of the public funds". Whenever resources are received from any source TN receives either the funds themselves or appropriate information on collections. In order to deposit funds in the Reserve Bank a written order from the Comptroller General must be obtained indicating the account and the fund into which the resources should be deposited. Once agencies have processed the Request for Allotment for ONAPRES and the the Request for

Warrant (Libramiento) for CGR and supporting documents are received, TN issues the respective checks to the beneficiary agencies. The documentation must be in original and at least four copies which are later distributed to the different users.

Issuance of checks to beneficiary agencies is done on a centralized basis by TN in accordance with the Treasury Law after approval by the Comptroller General. This procedure which is later analyzed in detail is applicable to all resources.

We were told that approximately 226,000 checks are prepared monthly and distributed directly or through respective government departments to payees. This great volume of checks requires that they be signed using an automatic signing machine purchased for this purpose which is exclusively operated by two persons who are not supervised by the TN. Centralized check preparation probably worked more efficiently many years ago when the State had fewer entities and smaller budgets.

Chamber of Accounts (CC)

The CC consists of five members as provided for in the Constitution of 1966, selected by the Congress in each case from three candidates nominated by the Chief Executive. The President of CC is elected by its members. According to the Constitution the functions of CC are "1) Examine the general and specific accounts of the Republic; 2) Present to the Congress in the first ordinary legislative session of each year a report on the accounts of the previous year."

The 1942 law establishing the CC which is still in effect states that it shall have "consultative, auditing (fiscalizadoras) and jurisdictional functions." It further states "After the accounts have been examined and approved by the Comptroller General, said official shall present them with the

appropriate observations to the Chamber of Accounts which shall proceed to their final review." Additionally it states "When in the use of its attributes the Chamber of Accounts has doubts regarding the correctness or legality of an account or the regularity of the work of the Comptroller General, it may carry out in any public office any work considered necessary to discover the truth" (emphasis added).

In order to carry out these and other functions CC receives from TN all originals of the Requests for Warrant (Libramiento) and other documents supporting the operations. Thus in project implementing agencies as well as other central government agencies only copies of documents are retained.

CC is also responsible for maintaining records of state property and is to be present wherever there is printing and counting of monetary emissions or documents. In addition in 1947 CC was also converted into a Superior Court of Administrative Law, an activity which takes much of its time although not mentioned in the present Constitution.

General Directorate of Public Credit (DGCP)

There is no specific law establishing this unit, however, it is mentioned in laws published in 1977, 1979, and 1982 which attempt to control the emission of public debt. Basically these laws state that no entity can issue credit obligations either nationally or internationally without executive approval. The General Directorate is the unit which is responsible for said approval.

All of the legislation which we have mentioned to this point was approved in periods and circumstances quite different from the present. Substantial changes in financial management cannot be made without a comprehensive study and updating of the cited legal provisions and others which relate to financial management and control in the government.

IV. INTERNAL CONTROL AND ACCOUNTING SYSTEMS OF IMPLEMENTING AGENCIES

The Implementing Agencies (UE) are responsible for disbursements and the degree of reliability of internal control is primarily their responsibility. In obtaining additional funds the UCR, CGR and internal audit units participate in monitoring resources. In this chapter we set out significant aspects in relation to the UCR and the UE.

Resource Coordinating Unit (UCR)

The Technical Secretariat of the Presidency (STP) has under it the National Office of Planning (ONAPLAN), the National Budget Office (ONAPRES) and the National Personnel Office (ONAP) among others. ONAPLAN is responsible for monitoring and management of external resources through small administrative units. To speed up the process of disbursement and achieve more direct control approximately one year ago the Resource Coordinating Unit (UCR) was established as an administrative unit of ONAPLAN.

General Aspects

- o The Resource Coordinating Unit's (UCR) organizational chart contains in addition to its head, three operating units: projects, accounting and auditing, and marketing. While a document describing their functions exists, there is no evidence of its official approval and the functions assigned to each unit have not been communicated to staff members. Thus work is performed in a routine manner based on verbal communications. There are no procedural manuals which set out the steps to be carried out in typical operations and there is lack of uniformity in the activities of the different administrative units when handling common situations.

- o The files of UCR do not permit the location of documents. In the opinion of unit officials this situation results because the organization is relatively new. This deficiency is known by the AID official assigned to the project who has initiated corrective actions.
- o The chief of UCR does not receive management information which permits him to periodically and systematically know status of physical or financial progress of projects. Timely management actions are limited due to the absence of this type information.
- o The staff is unstable as former employees' contracts recently expired and were not renewed. We were informed that these persons had appropriate professional education and experience in their work. Most present personnel have only about seven months' experience, and there are various cases where people have worked since January without the appropriate signed and legalized contract. This results in a lack of technical continuity over the life of the projects.
- o Three microcomputers have been available for the past four months however they have not yet been used.
- o According to UCR officials grant agreements signed by the Technical Secretary of the Presidency with executing agencies lack the appropriate legal elements. For this reason judicial actions initiated by the legal department against implementing agencies for noncompliance with contractual clauses have had little effectiveness. Based on our review of the basic content of these type agreements, we share this opinion since the only penalty contemplated for failure to comply with contractual clauses is suspension of payments.

Specific Aspects

Project Unit

- o New projects presented by potential implementing agencies for approval are subjected to long delay by the projects unit of the UCR. The reasons for this, we were told, are:
 - There are multiple deficiencies in the projects presented.
 - Project information is not sufficient to constitute fundamental support.
 - Little care is taken by potential UE's in preparing projects.

We believe that this is due to the fact that UCR has not prepared instructions with minimum requirements so that those presenting projects might present information in a uniform manner and include all necessary elements.

It is alleged that the technicians in charge of reviewing projects do not return them or formally communicate their errors except in informal meetings or discussions. During this time they keep documents. Therefore the period of delay depends on many factors which are not well controlled or officially communicated. The head of UCR does not have precise knowledge of the date a project was presented for study or its status in the approval process. Added to this staff instability creates a situation for concern due to the lack of continuity in the study and approval of projects.

- o UCR does not have a project inventory nor individual records which permit determination of project status compared with that programmed or actions taken by implementing agencies or UCR regarding variations.

- o Each technician studies prepared projects according to different criteria. The lack of basic methodology for review results in differences of opinion. The absence of minimum standards makes it impossible to control the performance of those responsible for studying proposed projects.

Accounting and Auditing Unit

- o Project agreements require that accounting systems be available for inspection and audit and four public accountants work in UCR for this purpose. Even though they have university degrees, they do not have sufficient experience and technical knowledge to perform their duties. There is little possibility of obtaining qualified personnel due to the instability already mentioned, as well as the low salary level. In addition, there are no staff training programs.
- o Attached to the Request for Disbursement are copies of vouchers which support the payments made. These documents are reviewed and approved by an accountant of UCR in regard to legality and propriety. The auditors carry out their work in the field examining the same documents that the accountant has already examined in the UCR resulting in a duplication of effort. We feel that these duplicating procedures are of questionable value since similar procedures should also be followed by internal audit units and CGR.

Marketing Unit

In spite of the obvious importance of data about products marketed under PL-480, UCR does not have any record which provides information and control over the process followed from

time of receipt and delivery of the product nor regarding time of collection and deposit. The only report produced is an annual one which summarizes the different shipments received and their sale as well as collection data and certain supplemental information. The person responsible for marketing indicated that for control of PL-480 funds in 1987 records of shipments, sales and collections are to be established. We believe that these are necessary.

Implementing Agencies (UE)

Our work in the UE consisted of obtaining a general understanding of financial management and the actual control procedures based on interviews with officials and operating personnel. Our opinions on internal accounting and administrative control and accounting systems are based upon our general assessment of the procedures which are presently carried out in the principal operations for which the UE are responsible. We do not express any opinions on technical aspects since they are outside our terms of reference.

We will first present some general aspects outlining common characteristics of the five implementing agencies which we reviewed.

General Aspects

- o The UE do not have organizational charts nor descriptions of functions which disclose their structure, lines of authority and communication, or activities carried out by each administrative unit. Operations are performed in a routine manner according to the criteria of each individual responsible in the circumstances.

- o Activities carried out on a repetitive basis are performed employing procedures determined informally. The lack of manuals which describe steps to be followed makes it impossible to clearly identify the degree of coordination between the different administrative units and the sequence of steps followed within the organization.
- o The UE have charts of accounts and some minimum coding at the level of control accounts. They do not have such fundamental elements as descriptions of accounting functions, classifications of sub-accounts and subsidiary ledger accounts, and designs of basic and supplemental financial records and reports. Transactions are recorded on a cash basis which, among other things, does not disclose the value of the rights and obligations of the agency.
- o Executives receive information regarding available cash and a statement of receipts and disbursements on a periodic basis. They do not receive complete financial statements prepared according to generally accepted accounting principles nor complimentary financial information showing costs of each activity by element, status of contract execution, fidelity bonds presented by contractors, variances between the financial plan and execution, etc. This is due, among other factors, to the absence of accounting systems which produce management information necessary for decision making.
- o Staff of the UE accounting units have university degrees in accounting or are students in their final year. There are no plans for continuing education and professional development to keep staff updated.

- o The failure to execute fidelity bonds at the time employees are contracted is common. The UE do not have policies regarding fidelity bonding of persons responsible for financial functions, thus resources are not adequately protected.
- o UE projects have not been audited by CGR or CC and in only a few cases have been examined by private accounting firms. This has been due to a failure to include this requirement in agreements signed STP or failure to comply with the respective clause where it exists.

Specific Aspects

The specific aspects noted with regard to each implementing agency may be found in detail in our Spanish language report.

V. POST AUDIT BY GOVERNMENT AGENCIES

The entities responsible for post audit in the government of the Dominican Republic are basically the Chamber of Accounts (CC), the Office of the Comptroller General of the Republic (CGR), and the internal audit units in the various agencies.

Chamber of Accounts

While the five members of the Chamber are appointed by the National Congress the CC is subject to a budget proposed by the executive branch thus diminishing in good measure its otherwise good degree of independence. For purposes of auditing, CC has 40 auditors, about 95 percent of whom are university graduates in accounting. Due to instability of posts and budgetary austerity present staff does not have sufficient experience in its functions and it is difficult to recruit individuals with better technical ability. The result is that generally accepted auditing standards, are only partially observed.

Audits are made as a result of specific requests, allegations or at the initiative of the President of the CC. There are no annual audit plans and specific audits are not adequately programmed. Our review of working papers of recent audits did not indicate that auditors review and evaluate internal control as a part of their audit. We also noted a lack of evidence of supervision in the working papers.

Reports contain comments, conclusions and recommendations regarding the items which the auditors consider important. They are reviewed by the Chief of the Audit Department who, after making or requesting modifications, sends the reports to the President of the CC who in turn forwards them to the President of the Republic for the action he considers necessary. Furnishing audit reports only to the Chief Executive is not the usual practice in audit institutions since other users who lack knowledge of their contents would not be able to carry out their recommendations.

Working papers do not include copies of report drafts. Upon requesting an explanation we were told that drafts are destroyed since their content is very delicate. Action based on audit reports involving irregularities or losses is a responsibility of the Executive Branch.

We believe that there is an insufficient number of auditors to carry out audit needs in the public sector and that only partial compliance with generally accepted auditing standards does not assure highly professional work.

The originals of supporting documentation of all UE operations are received and recorded in the CC without any verification of them. They are used to record budget execution data for the annual report to the Congress.

Office of the Comptroller General of the Republic

This office is responsible for "the General Accounting of the State, for audit (fiscalizar) of the correct receipt and investment of funds of the various departments of the public administration, whether autonomous or not, and of municipalities; for verifying examination of the presentation of accounts by persons or entities who receive or maintain funds or goods as well as the accounting inspection of the offices of the foregoing."

It is evident that CGR has as its functions those of a General Accounting Office performed through its Accounting Section which records budgetary execution classified by object and program. In addition it carries out pre-control functions prior to disbursement through review of Warrant (Libramiento) Requests and supporting documentation. It is also responsible for bank reconcilements of TN bank accounts which have not been made since 1982 and it should audit (fiscalizar) the accounts of the public sector.

The audit function is performed by approximately 50 persons who are called auditors or inspector-accountants. About 90 percent have university degrees in accounting and 50 percent have worked in CGR for more than two years. The remainder generally have less than one year's experience in CGR. The Comptroller General is named by the President and reports directly to him, therefore, the generally accepted auditing standard regarding independence cannot be observed. The Latin American Institute of Auditing Sciences (ILACIF) recommends that audit institutions report directly to the Legislative Branch to strengthen audit objectivity. In addition to this the pre-control approvals prior to expenditure and the accounting functions performed by CGR result in impairing its independence to perform audits, in our view.

In our opinion, even though in practice CGR is performing audits, the functions of accounting, pre-control and audit assigned by law are incompatible.

We reviewed two recently completed audits and noted the absence of audit programs as well as the failure to perform evaluations of internal control. Supervisory initials on working papers were also absent.

Audit reports contain conclusions, comments, and recommendations and only where financial statements of public enterprises are examined, which are few in the Dominican Republic, is it possible to find an auditor's opinion. It is more usual to find a report on a partial examination of certain segments performed at the initiative of the Comptroller General, upon request, or as a result of allegations. Completed audit reports are sent to the President of the Republic who determines their processing.

Accounting systems in public entities do not produce complete financial information regarding assets, liabilities, revenues and expenditures in the central government. They generally only include ledger cards which show mathematical budget execution on a cash basis thus making professional audit work difficult.

Responsibility to provide accounting regulations for the public sector falls upon the CGR; however, it has not issued standards, policies or principles of accounting.

Internal Audit Units

There is confusion regarding the scope and functions of the internal audit units which we visited. All of them carry out pre-control approval functions and sometimes perform cash counts, bank reconcilements and physical inventories, etc. Internal audit consists of the post-examination of financial or

administrative activities or operations as a service to management. Thus it can be seen that it is important to communicate both to internal auditors and to the users of their services what the true role of internal audit should be so that their functions might be properly carried out. There is no coordination between CGR, CC and the internal audit units. Internal audit units do have a high percentage of college graduate accountants. Internal auditors in the central government are appointed by the executive of the agency and generally when this executive leaves the internal auditor is also changed thus affecting the independence of the function.

Internal auditors have no guidance in the form of standards, policies, manuals, etc.

All of the auditors we interviewed from CC and CGR as well as internal auditors indicated the need for professional development and training. In addition they indicated that there is need for some organization to be in charge of issuing standards, guides and other audit criteria.

In our opinion the audit work done by governmental organizations responsible for this function lacks a legal and technical framework which permits its adequate professional performance. Such organizations do not carry out their functions in accordance with generally accepted auditing standards. Thus government auditing in the Dominican Republic may not be described as efficient.

SECTION C - AIDVI. ANALYSIS OF PROCEDURES FOLLOWED FOR DISBURSEMENT REQUESTSBackground

In this chapter we analyze the procedures followed to process disbursement requests for AID financed projects from the moment the implementing agency prepares them until, after passing through various internal and external administrative units, it receives the respective check. For this purpose we selected a small number of the most recent requests prepared by four implementing agencies and followed the documentation through to determine the time used in each administrative unit and to understand the activities carried out.

The results we present do not detail specific cases but are intended to give a general overview of what is actually happening. On June 11 we obtained from the Technical Secretariat of the Presidency a document called "Procedural Manual for Disbursement Requests of Projects Financed by External Resources" prepared by the Secretary of State for Finance with the collaboration of the Technical Secretariat of the Presidency. We made a comparative study of it permitting us to agree with it in a number of areas. In addition we also obtained report presented by Arthur D. Little International, Inc. on a study made of the process followed for disbursement requests for from PL480 funds which we also analyzed and utilized as a useful reference.

The Disbursement Request Process

Loan agreements usually define basic procedures of an administrative, financial, and technical nature and include, among other aspects, objectives, goals, and the implementation schedule, as well as a schedule of expenditures by months and

components. After loan agreements are approved the disbursement request process initiates. Funds normally come from two sources, USAID and counterpart funds. Counterpart funds may come from internal resources or exceptionally from PL480 funds.

Loan Funds

The steps in the process are as follow (see Annex 2 in our Spanish language report for a flowchart of the process):

1. The implementing agency (UE) by letter directed to the AID Controller requests disbursement of funds for the appropriate quarter. Beginning with the second disbursement it should include as a minimum a work progress report, a statement of amounts due according to the contract, amounts received and the balance remaining to be received classified by component (salaries, machinery, etc.) This statement may include both the loan component and the counterpart component. Previously AID required that the UE attach supporting documents; however, this requirement has currently been suspended and a certification by the Coordinator is accepted as sufficient indicating that the funds were used for the programmed activities. In this phase a great part of the responsibility falls upon the Project Coordinator in technical, financial and administrative aspects. Project Officers also play a major role by monitoring each project's progress.

2. When when an appropriately prepared request is received, AID should take approximately 20 working days to issue the check to TN. This is the time necessary for study within the mission and processing the request for funds through AID/Mexico where the check is issued.

In two cases payment took about two to three months, due, according to both the UE and AID, to changes in project objectives.

We believe that there is a weakness in the process described up to this point since no minimum amount has been established based upon which a request may be made for new funds to continue project activities during the processing period. This results in a risk that work may be delayed due to lack of funds.

3. TN receives the letter and check from AID and the following day sends a formal note to CGR attaching the check and requesting instructions regarding the account and fund into which the resources are to be deposited. Treasury does not take any action at this point regarding control and recording based on the documentation received.

4. The Comptroller General after one day issues the written order requested, the original of which is sent to TN together with the check. Nine other copies are distributed as indicated in our Spanish language report. The Accounting Law requires that this step be carried out thus permitting CGR to record the transaction; however, CGR does not receive evidence that a deposit has been made by TN. It does receive forms which indicate the receipt of the check.

5. Based upon the document from CGR, the Secretary of State responsible for the project prepares the request for allotment of funds in original and five copies. The Request for Allotment is signed by the Secretary of State or an Under Secretary authorized for that purpose, a representative of the implementing agency, and the finance director of the Secretary's office where accounting is maintained for appropriations, obligations, and allotments for the project. From the time of receipt of the CGN document to the issuance of the request for allotment the time taken is one to eight days.

6. When ONAPRES receives the Request for Allotment (original and four copies) in its Department of Budgetary Execution, analysts review the correctness of budgetary classification and balances

available for allotment. This step is required to be carried out under the Organic Budget Law and the Law of Public Expenditures and normally takes from two or three days. Even though no errors were evident in the preparation of the allotment requests, three of those which we selected for review took between 15 and 30 days. The time which is taken on this process is variable and much depends on the "follow up" done by the officials of the respective Secretary's office or the implementing agencies which in some cases have designated specific employees to "speed up the process". Distribution of the request copies is indicated in our Spanish language report.

7. The responsible Secretary of State prepares the Request for Warrant (Libramiento) in original and five copies which should be accompanied by supporting documentation. As part of the process of pre-control the internal auditor reviews to see that the documentation observes all elements of legality and regularity. This is documented by stamping each document reviewed.

8. The Comptroller General receives the Request for Warrant and supporting documents and his units proceed to study the documentation to determine its propriety and legality, as well as appropriate budgetary classification and to record information regarding the appropriation, allotment, obligation, and disbursement classified by object of expenditure as well as by program. After this process has been carried out, which usually takes between two and three days at most, the Deputy Comptroller General signs the so-called "invoice" (factura) and sends the approved Warrant to TN in original and five copies for preparation of the check along with the supporting documentation.

9. TN proceeds to prepare the check. Before signing there is an internal review process of the content of the Warrant; however, supporting documentation is not examined. The originals of the

Warrant and the other documents are sent to the Chamber of Accounts which proceeds to record the budgetary expenditure which is later used in its report to the Congress.

10. The Secretary of State responsible for the project receives the check from TN, records it and deposits it in the indicated account. If the UE is a decentralized entity it receives a check from the Secretary of State responsible for it.

Disbursements for different purposes are made directly by the UE through their administrators in accordance with the organizational structure applicable to each. The UE perform precontrol and maintain accounting over disbursements. Therefore, internal control within the UE is a principal element in determining the reliability of financial management of AID furnished resources, since the review of supporting documents by CGR and CC over supporting documents are limited only to the total amount of the funds transferred.

PL-480 Funds

The previously described process varies slightly for disbursements of PL-480 funds, principally in the first two steps as follows:

1. The UE prepare Request for Disbursement and send them to the Technical Secretary of the Presidency (STP). STP sends them to ONAPLAN so that it, through the Resource Coordinating Unit (UCR), can carry out the appropriate study. Supporting documentation is attached to the Request which is reviewed by UCR prior to approval. UCR prepares a document for the signature of STP and approval initials of the AID Controller after which it is sent to the Central Bank for a check to be drawn to TN.

In STP the time which is taken varies and, until the request is received by the Central Bank, two or three days may be taken.

We noted that in two cases it required two to three months. We could not determine the causes of the delay.

2. In the Central Bank the time to go through the External Debt Department and Accounting Department is two or three days at the maximum. This last department prepares a check which is signed by the Accountant and the Deputy Accountant and is sent to TN with a transmittal document signed by the Accountant.

From this point on the procedures are identical beginning with Step 3 in the previous section (See Annex 3 in our Spanish language report for a flow chart of the process).

As indicated many of the steps performed are resultant from legal provisions which have been in force over various years. Therefore our recommendations must accept these limitations and on a short-term basis we suggest only very minor improvements. (See Annex 4 of our Spanish language report for a flowchart of the proposed process).

In both ONAPRES and STP there have been unjustified cases of excessive time taken to perform work adversely affecting project execution. We believe that only minor procedures are carried by STP and ONAPLAN. The only administrative unit which really performs worthwhile work in processing of a Disbursement Request is UCR. We agree with the conclusion reached by participants in a seminar organized in the month of April, 1987 in the sense that officials or units should be utilized to follow-up on Requests for Allotments. However, we feel that if they do not have sufficient authority, and if the delays we commented upon have political origin, their "follow-up to speed processing" may be of little help.

Caribbean Basin Initiative Funds

The process followed for Caribbean Basin Initiative resources is the same as for resources from PL-480.

VII. CONTROL MEASURES TAKEN BY AID

In view of its knowledge of the degree of internal and external control exercised by the government of the Dominican Republic, AID has taken a series of measures which improve safeguards over funds provided by loans and grants. These measures have not been limited exclusively to financial areas but also extend to technical and physical controls.

Financial Control Measures

- o For loan funds based on requests which originate with the UE themselves, AID carries out the acquisition process from the selection of suppliers to reception of the goods. In contracting technical assistance AID handles the selection of the consulting firm as well as the evaluation of its services as to quality and timeliness.

The requests referred to above are generally performed because some UE do not have sufficient experience to successfully carry out the activities necessary to complete the acquisition of goods or services. Thus they rely upon AID's experience. AID participation in acquiring goods is often necessary, but as for technical assistance its participation is almost indispensable since this is a specialized area which requires certain relations with international organizations which UE do not possess. AID by possessing information on results of prior projects and those of other Missions can achieve better contractual conditions both as regards costs as well as quality, safeguarding at the same time the adequate use of its funds.

- o At times officials assigned by AID to each of the projects become familiar in certain measure with deficiencies in their management. To avoid risks in the use of resources

and in seeking to better achieve project objectives said officials may make UE managers consciencious that they may request AID's participation in the processes of acquisitions of goods and services commented upon above.

- o As regards acquisitions from grant funds AID, with knowledge of the UE, performs such acquisitions as are necessary so that the UE take advantage of AID's experience. It should be pointed out that for both loans and donations normally agreements include elements which tend to safeguard the use of funds provided by AID.
- o For those acquisitions of goods and services which are made within the country by officials of the UE AID maintains a degree of control through various actions:
 - In acquisitions made using competitive bidding procedures AID project officers participate as observers in the evaluations and selection of offers.
 - In those which due to lower amounts do not require competitive bidding procedures project officers perform field reviews of documentation used by the agency in selecting the supplier. By frequent visits to the UE project officers also participate as observers in the process. Any matter which in one way or another comes to their attention is communicated by project officers to the AID Controller or the proper Mission officer so that appropriate actions may be taken in accordance with their duties.
 - Based on amounts, contractual conditions, and AID's opinion of UE management, the Mission requests total or partial documentation supporting the phases carried out prior to selecting suppliers for providing goods and services so that these may be analyzed and a formal

authorization issued for preparation of the contract. UE also submit together with the indicated documentation a draft contract so that the respective administrative unit may review it and suggest necessary amendments before official signing.

- o In its most recent agreements with the government AID has added as a condition precedent to disbursement a clause which requires evidence that the UE has financial management control systems adequate to account for and duly safeguard project funds.

To comply with this clause AID requires that UE provide a certification by an independent firm of public accountants that: (1) the system of internal accounting control is adequately designed and that the degree of compliance is sufficient to provide reasonable assurance that the objectives of internal accounting control will be met; (2) the UE possesses adequate systems of accounting to satisfactorily comply with contractual provisions and/or letters of implementation; and (3) internal control systems and procedures are adequate to provide: a) appropriate management control of the funds to be provided by AID, b) preparation of adequate and timely reports according to the terms of the contract, and c) timely and reliable verification performed by the agency of payment documents submitted to AID.

To complete its compliance with AID Headquarters' Payment Verification Policy the Mission is organizing a Financial Analysis Unit with three employees, the chief of which is a U.S. Certified Public Accountant. This unit will have four basic functions:

1. Carry out procedures for Payment Verification Policy Implementation Guidance as prescribed by Headquarters.

2. Respond to critical situations which are reported or known.
3. Collaborate with teams designing projects in their initial reviews of new UE.
4. Collaborate closely with the Resource Coordinating Unit of STP in aspects of financial management and control.

It is contemplated that the personnel of the new unit will make routine visits at least annually to each UE to review their financial and internal control systems and present recommendations for improvement. In coordination with project officers and other specific officials they will help the Mission Controller in his annual evaluation of financial management control of the UE of the Government of the Dominican Republic and will carry out continuing reviews of internal control within the Mission itself.

Physical Control Measures

During the visits to implementing agencies AID project officers verify the existence and use of property and goods. In cases of construction projects, inspections are made as work progresses. Project officers with specialized training related to project activities are able to quickly note any situation which deviates from the normal progress of the project, and to devise recommendations which unit executives better perform the work stipulated in the projects.

As indicated, AID has taken measures to continually monitor resources provided through loans or grants in view of the quality of government internal control and auditing. In order to strengthen its control it is in the process of forming an administrative unit which, among other aspects, will serve to perform periodic evaluations of the organization and controls of the UE.

To achieve coordination of the monitoring efforts performed by project officers as well as by the staff of the new Financial Analysis Unit, the integrated planning of their work is contemplated so that, as possible, mixed teams will perform evaluations of both physical progress as well as administrative and financial aspects.

Project officers play an important role in strengthening control of UE on the part of AID. Their constant technical improvement will result in better and greater benefits through more efficient, effective, and economical performance of agencies in charge of carrying out project work.

SECTION D - RECOMMENDED GOALS AND ACTIONSVIII. CONCLUSIONS AND RECOMMENDATIONS

The present financial management system of the government of the Dominican Republic is antiquated, unduly complicated, and slow in processing the flow of funds provided by AID. It is characterized by unnecessary steps and procedures and useless false controls involving various central agencies. Many of the processes are based on obsolete legislation.

We believe the internal control systems of the implementing agencies (UE) constitute the principal element for determining the reliability which may be placed upon financial management of AID furnished funds. Logically, internal control varies from one UE to another. No program has been carried out at the central level to strengthen internal control in public agencies nor to make public employees conscious of its importance, nor has any emphasis been placed upon professional internal auditing. In view of this we conclude in general that internal controls among UE are weak, especially in the central government.

External control performed by the Chamber of Accounts (CC) and the Office of the Comptroller General of the Republic (CGR) will require much strengthening. In order to be considered adequate the work of these institutions must fully observe generally accepted auditing standards.

In these circumstances we have considered the advantages and disadvantages of possible general improvements which might be sponsored by AID, as well as the obvious need to strengthen accountability and financial control of the UE, taking into account present conditions and what can really be expected to be accomplished.

We believe that the government of the Dominican Republic really needs broad reform, reorganization and modernization of its central financial systems and of those of its entities in parallel with a massive training program. A comprehensive program such as that needed would require substantial changes in legal provisions through new and modern organic legislation.

It appears to us that the present time is not appropriate to begin such a general reform program. Our conclusions and recommendations consider as a premise that AID should (1) support specific programs of strengthening accounting and internal control systems and internal audit in present and future implementing agencies as conditions for disbursement making available the resources necessary as components of specific projects when necessary, and in parallel (2) support the establishment of an appropriate environment for future general reforms through strengthening the central financial management control institutions by providing technical assistance in the preparation of technical standards and other provisions within the framework of present legislation, providing modern guidelines and procedures to be followed and at the same time, provide for those persons interested training courses in financial management, accounting, internal control and internal and independent auditing.

Our conclusion is that the actions of AID should not be limited only to improving financial management systems of each UE because it is precisely the central institutions (especially ONAPRES, TN, CGR, and CC) which establish the control environment and the administrative processes to be followed to achieve accountability. Notwithstanding, under present conditions, the first line of action of AID should be to strengthen the financial systems of the UE.

Each UE should be required to maintain a financial management and internal control system capable of assuring proper management, control and reporting of all financial resources under its responsibility. If funds provided by AID are controlled, recorded, and audited and other funds are not, accountability will only be partial. Thus it is recommended that controls within the implementing agency in its entirety be strengthened.

As a result of its knowledge of the Dominican Republic Government's financial management and control, AID has continually monitored, through its project officers, the use and management of resources by UE. Presently, a Financial Analysis Unit is being set up.

Our recommendations for actions to be taken which follow refer to short term - 2 years, medium term - 3 years, and long term - the rest of the century. We consider that strengthening accountability is a continuing and, in fact, a perpetual activity.

1. TRAINING

Training and professional development programs do not exist for financial managers, accountants, auditors and other public servants responsible for financial and material resources. The absence of the opportunity to update oneself with more modern techniques and procedures of financial management and control condemns the individual to becoming obsolete and contributes to the continued observance of obsolete practices and false controls. Updating of knowledge and ability is imperative to provide incentives to accept needed reforms.

Recommended Goal

Offer on a continuing and progressive basis courses, seminars and other professional events for public servants responsible for

receipt custody, management, reporting and control of financial and material resources which will afford them knowledge of modern methodologies and techniques.

Actions To Be Taken

Short term

- o Conduct a training needs survey in the area of financial management control in the public sector and prepare a plan of training courses to be offered.
- o Begin with a short basic 40 hour course on "Orientation to Modern Financial Management and Control" followed by other basic courses in accounting and auditing. Such courses should be given through one of the central institutions. Their frequency may vary according to available resources.

Medium Term

- o Continue the basic courses, updating periodically their contents, and add other specific courses of more advanced nature according to determined needs.
- o Sponsor seminars and workshops for officials with similar functions such as internal auditors, heads of accounting, etc.

Long Term

- o Continue the events improving their content and adding other areas and topics. It is indispensable that new employees be given training as well as that old employees be updated. Professional development has no borders and constitutes a good system for motivating people.

2. STANDARDS AND GUIDELINES

Governmental financial management and control is carried out without guides, standards, or procedures. In those instances where some form of guidance exists it is not officially approved and therefore its communication and use is very limited. There is a general lack of uniformity and continuity which affects the quality of work and the information produced by the various systems. There are no specific criteria or standards which may be utilized for comparison in evaluating systems.

Recommended Goal

Provide to the UE and the agencies responsible for budgeting, accounting, cash management, debt management and independent and internal auditing, and in general throughout the Dominican Republic's sector, technical working guidance through study and issuance of appropriate normative provisions. Publication and monitoring as well as updating should be the responsibility of each competent authority.

Actions To Be Taken

Short Term

- o Provide technical assistance to the appropriate central institutions so that they may prepare (1) technical standards of government accounting, (2) technical standards of internal control, (3) technical standards of government auditing, and (4) other basic provisions considered necessary.

Medium Term

- o Prepare more detailed normative provisions including:
 - (1) generally accepted accounting principles applicable in the public sector, (2) general manual of government accounting, (3) other similar manuals or provisions.
- o Prepare drafts for new organic laws for the central institutions (ONAPRES, TN, CC, CCR) based upon a plan for systematizing financial management and control in the public sector

Long Term

- o Design and implement an Integrated System of Financial Management and Control which includes budgeting, treasury, accounting, debt management and auditing systems, etc.

3. Selected Strengthening of Accounting and Internal Control Systems

Systems are not appropriately documented. They lack organization charts, functional and procedural manuals, accounting manuals, etc. Strengthening of these systems in the UE is periodically necessary. There are certain moments of opportunity to improve financial systems, for example, at the beginning of the new project or when a new executive is named in an implementing agency.

Recommended Goal

Based on moments of opportunity and available resources selectively support with technical assistance efforts to strengthen accounting and internal control systems in the implementing agencies.

Actions To Be Taken

Short Term

- o For new agreements, require that the UE have demonstrated capacity to comply with minimum requisites of accountability. When necessary for new projects as well as for ongoing projects and when the situation is appropriate, provide limited or broad scale technical assistance (according to the size or importance of the UE) to strengthen systems.
- o Provide technical assistance to the Resource Coordinating Unit (UCR) in its own organization, direction, management and activities.

Medium Term

- o Provide incentives to the UE to improve their systems by offering technical assistance and advisory services through a specifically established unit within one of the central institutions.

Long Term

- o Continue efforts to strengthen financial management and control systems.

4. Development of Professional Auditing

For various reasons professional auditing has not been performed by public sector institutions in accordance with generally accepted auditing standards. The internal audit function is misunderstood. A maximum degree of independence is essential for both auditors and their organizational units as well as the avoidance of functions which are incompatible with auditing.

Recommended Goal

Develop professional government internal and external auditing based on full compliance with respective professional standards utilizing annual audit plans in a systematic and coordinated manner.

Actions To Be Taken

Short Term

- o Based upon training offered to auditors (see first point above), begin professional audits in accordance with generally accepted auditing standards starting with smaller public agencies in order to obtain experience.
- o Assure adequate planning, supervision, evidence, and quality control of audit work by providing technical assistance of experienced auditors.

Medium Term

- o Perform financial audits in those entities of the central government which prepare financial statements.
- o As required provide adequate supervision through qualified staff contracted for this purpose.
- o In those entities where it is not possible to perform audits of financial statements begin work with special examinations of the principal accounts or areas.

Long Term

- o After conducting training programs for selected auditors who have required sufficient ability in financial auditing, initiate operational audits to evaluate economy, efficiency and effectiveness.

5. Strengthening of AID Monitoring of Implementing Agencies

Funds provided by AID as well as counterpart funds provided by the government may be vulnerable to irregularity or human error in the absence of adequate accounting, internal control and internal and independent auditing systems. The capacity of the systems of the entities we reviewed is questionable. Even excellent systems may diminish in efficiency over short periods. AID's continuing evaluation of such systems has been and is indispensable so that it may rely on management control and accountability of its resources.

AID Headquarters does not provide standards nor orientation guides or minimum requisites to be observed by the implementing agencies as regards financial management systems. Therefore, the AID mission has initiated its own measures to comply with its monitoring responsibility.

Recommended Goal

Strengthening of efforts made to evaluate and improve of internal control, accounting, and financial management of the implementing agencies including the establishment of specific basic guidelines and preparation of procedural guides which orient them in complying with said guidelines.

Actions To Be Taken

Short Term

- o Perform periodic review and evaluation of the soundness of financial and internal control systems at each implementing agency.
- o Provide follow-up on significant weaknesses reported.
- o For new grants and loans, include in implementation letters, clear and detailed basic guidelines regarding the capability of managing, controlling and accounting for funds handled, as well as regarding internal and independent auditing. (Anexo 6 in our Spanish language report presents suggestions for possible content of the implementation letters).

Medium Term

- o In the absence of standards furnished by headquarters, the AID mission should prepare accounting, internal control, financial reporting, and auditing guides for the implementing agencies. It should continue reviews and evaluations taking advantage, wherever possible, of the government's own organizations to carry them out.

Long Term

- o Delegate reviews and evaluations to the government if it has developed its own capacity

6. CONTROL MEASURES BY AID

AID has acted in a timely and effective manner to reduce the degree of risk due to weak internal accounting controls among UE

and other governmental agencies. These AID controls rely in a good measure upon the AID project officers, and they can be strengthened once the new Financial Analysis Unit is fully operational.

Recommended Goal

Improve controls by integrating both physical and financial aspects through coordination of work of project officers and staff of the new AID Financial Analysis Unit.

Actions to be Taken

Short Term

Complete the organization of the Financial Analysis Unit. Set out in writing its structure and the functions of the unit and each of its staff members.

Medium Term

Issue directives or guides to orient the work of the employees of the new Financial Analysis Unit. Prescribe mechanisms for coordinating their work with that of Project Officers.

Long Term

Continue to provide monitoring of AID provided funds in accordance with circumstances.

Recommendations of Other Consultants

We fully agree with the recommendations presented by other consultants in two reports similar to ours which we reviewed:

"System of Disbursing PL-480 Funds" by Arthur D. Little International Inc., November, 1986.

"Evaluation of PL-480 Program Resources, Vol. I," by Rural Development Services, Inc., August 2, 1986."

Both consulting firms are concerned about the "delaying of disbursements" and present recommendations regarding it, especially regarding monitoring/follow-up and speeding up the simplification of processes. Without repeating their recommendations here, we state that we are in agreement with them.