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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

PANAMA

PROJECT PAPER

FINANCIAL MANAGEMENT REFORM PROJECT

AID/LAC/P-686

PROJECT NUMBER: 525-0306

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number _____

DOCUMENT CODE

3

COUNTRY/ENTITY

PANAMA

3. PROJECT NUMBER

525-0306

4. BUREAU/OFFICE

LAC

05

5. PROJECT TITLE (maximum 40 characters)

FINANCIAL MANAGEMENT REFORM

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 07 31 96

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 91 B. Quarter 3 C. Final FY 92

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>91</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)						
(Loan)	(4,500)	()	(4,500)	(6,300)	()	(6,300)
Other						
U.S.						
Host Country		200	200		2,200	2,200
Other Donor(s)						
TOTALS	4,500	200	4,700	6,300	2,200	8,500

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	669	720				4,500		4,500	
(2) FDA	669	720				1,800		1,800	
(3)									
(4)									
TOTALS						6,300		6,300	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

710

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	EQTY	TECH	TNG
B. Amount			

13. PROJECT PURPOSE (maximum 480 characters)

To improve and integrate Government of Panama financial management systems, and promote accountability of government officials in managing public resources.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 08 93 01 95 02 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

Approval of methods of implementation and financing:

Harry C. Dorcus
 Harry Dorcus, Controller

17. APPROVED BY

Signature

Thomas W. Stukel

Title Thomas W. Stukel
 Mission Director

Date Signed MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

Project Authorization

Country: Panama
Project: Financial Management Reform Project
Project No.: 525-0306

1. Pursuant to Part II, Chapter 4, Section 534 of the Foreign Assistance Act of 1961 as amended, I hereby authorize the Financial Management Reform Project for Panama (the "Cooperating Country") involving planned obligations of not to exceed \$6,300,000 in grant funds over a five year period subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to help in financing foreign exchange and local costs of the project. The planned life of the project is five years from the date of initial obligation.

2. The Project will assist the Government of Panama (GOP) to improve and integrate its financial management and audit systems and promote accountability of government officials in managing public resources by providing technical assistance, commodities, and training to help establish an integrated financial management system and a comprehensive audit system which assures fair, objective, reliable, and independent review of government performance and financial reporting.

3. The Project Agreement which may be negotiated and executed by the office to which such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States (A.I.D. Geographic Code 000), except as A.I.D. may agree in writing. The supplies of commodities and services shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

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b. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) An opinion of the Attorney General of Administration or other counsel acceptable to A.I.D. that this agreement has been duly authorized and/or ratified by the Cooperating Country and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance with all of its terms.
- (2) A statement of the name of the person holding or acting in the Office of Controller General of Panama and of any additional representatives, together with a specimen signature of each such person specified in such statement.
- (3) Evidence that a Project Manager in the Controller General's Office acceptable to USAID and the GOP has been designated with appropriate delegations of authority to effectively manage the implementation of the Project.
- (4) Evidence of an agreement among the Controller General, the Minister of Planning and Economic Policy, and the Minister of Finance and Treasury which commits the support of the participating agencies to the project's objectives and implementation plan.
- (5) Evidence that the National Economic Council has created a technical task force that, as appropriate, will include a member appointed by the Budget Commission of the Legislative Assembly, and that will serve as the technical support to the National Economic Council for the purposes of implementing the Project, including recommending studies, analysis, policies and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve complete and efficient integration of the IFMS subsystems.
- (6) Evidence that the Controller General has issued an administrative order creating the Office of the Auditor General under his

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authority, naming the Auditor General, and giving the Auditor General the operating authorities that will ensure professionalism and impartiality of the technical work, independent of other operations of the Office of the Controller General.

- (7) Evidence that the GOP's approved Principles of Ethics applicable to all government officials and employees has been officially issued.

c. Covenants

The Cooperating Country shall covenant in substance that it will:

- (1) assure ongoing support for the implementation of the project, and the reforms which it is designed to implement, through the allocation of appropriate personnel and financial resources to the project, and
- (2) agree to provide its best efforts to ensure, within the existing legal framework, the development and support of the Office of the Auditor General as a totally independent organization.

5/20/91
Date

Thomas W. Stukel
Thomas W. Stukel
Mission Director, USAID/Panama

.C'

**PANAMA
PROJECT PAPER
FINANCIAL MANAGEMENT REFORM**
Project Number 525-0306

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Project Paper

USAID/Panama: Financial Management Reform (525-0306)

I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/Panama recommends the authorization of a 5-year, \$6,300,000 grant to the Government of Panama (GOP) for the Financial Management Reform Project. The project will be implemented by the Controller General of Panama in collaboration with the Ministry of Planning and Economic Policy and the Ministry of Finance and Treasury.

B. Project Summary

The breakdown of constitutional government in Panama in the late 1980's left GOP institutional capacity to manage public finances seriously impaired. The Controller General of Panama considered the problem in a Report issued in March, 1990 and requested A.I.D. assistance to assess what problems exist in the management of public finance and what needs to be done to make the financial management system of the GOP effective.

A.I.D. agreed to provide assistance and the ensuring assessment confirmed the existence of a wide range of problems in financial management and auditing. It set out a series of recommendations specifically identifying the extent and nature of reforms which were required. At the request of the Controller General, a group including members of the assessment team designed a technical assistance project which would help the GOP address the critical defects in government financial management and auditing through a five year, A.I.D. assisted reform program.

The goal of the Financial Management Reform Project is to strengthen the financial management capability of the GOP and renew public confidence in the integrity and competence of the Government.

The purpose of the project is to improve and integrate GOP financial management and audit systems and promote accountability of government officials in managing public resources.

The project will have two major outputs.

- 1) The establishment of an Integrated Financial Management System composed of four subsystems:

- A budget subsystem which produces an effective financial plan and which facilitates control over the expenditure of government funds.
 - A treasury subsystem which manages the cash assets of the government through projection and monitoring of cash flows, receipt and control of revenues, and the processing of disbursements.
 - A debt subsystem that manages acquisition, servicing and retirement of public debt.
 - An accounting subsystem which classifies, records, and analyzes all government financial transactions.
- 2) The establishment of a comprehensive audit system which assures fair, objective, reliable, and independent review of government performance and financial reporting.

Implementation will involve the respective GOP institutions responsible for the management of each of these subsystems. Project assistance will consist primarily of long-term technical assistance supplemented by carefully targeted short-term advisors and a limited quantity of supplies and equipment.

When the project is completed, the GOP will have in place the core components of a national level Integrated Financial Management System (IFMS) which will enable the GOP to manage its financial resources with a high degree of efficiency. The GOP will also have a Comprehensive Auditing System (CAS) based in an independent Office of the Auditor General.

The project will involve the following activities conducted over a five year period:

- Draft proposed legislation for reform of government financial management and audit procedures;
- Formulate, document, and implement financial management standards, policies, regulations, and procedures;
- Plan and implement organizational changes and improvements associated with the program including those relating to establishment of an independent Office of the Auditor General;
- Adopt and implement generally accepted accounting principles based on international accounting standards applicable in the public sector and base external purpose financial reporting on such principles and standards;

- Train government personnel in financial management and government audit functions; and
- Implement activities which promote an awareness of responsibility for providing honest and efficient management of public resources and which encourage establishment of anti-corruption principles.

C. Summary Project Budget

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(\$000)

	<u>AID</u>	<u>GOP</u>	<u>Total</u>
Technical Assistance	4,588		4,588
Equipment and Supplies	150		150
Evaluation and Audit	100		100
GOP Personnel & Support		1,844	1,844
PSC Project Officer	<u>640</u>		<u>640</u>
Total	\$5,478	\$1,844	\$7,322
Contingencies/Inflation	<u>822</u>	<u>356</u>	<u>1,178</u>
Total	<u>\$ 6,300</u>	<u>\$2,200</u>	<u>\$ 8,500</u>

D. Conditions and Covenants

In addition to the standard conditions precedent the following provisions are proposed:

- Condition precedent to initial disbursement that the GOP provide evidence of an agreement among the Controller General, the Minister of Planning and Economic Policy, and the Minister of Finance and Treasury which commits the support of the participating agencies to the project's objectives and implementation plan.
- Condition precedent to initial disbursement that the GOP provide evidence the National Economic Council has created a technical task force that, as appropriate, will include a member appointed by the Budget Commission of the Legislative Assembly, and that will provide technical support to the National Economic Council for the purposes of implementing the Project including recommending studies, analysis, policies and other actions aimed at promoting the coordination of all the functions related to the financial management reforms in order to achieve a complete and efficient integration of the various IFMS subsystems.

- Condition precedent to initial disbursement that the Controller General issue an administrative order creating the Office of the Auditor General under his authority, naming the Auditor General, and giving the Auditor General the operating authorities that will ensure professionalism and impartiality of technical work, independent of other operations of the Office of the Controller General.
- Condition precedent to initial disbursement that the GOP's approved Principles of Ethics applicable to all government officials and employees has been officially issued.
- Covenant from the implementing Ministries of Planning and Economic Policy and Finance and Treasury, and the Controller General to provide ongoing support for the implementation of the project and the reforms which it is designed to implement through allocation of appropriate personnel and financial resources to Project activities.
- Covenant from the Government of Panama to provide its best efforts to ensure, within the existing legal framework, the development and support of the Office of the Auditor General as a totally independent organization.

II. PROJECT RATIONALE AND DESCRIPTION

A. Background/Rationale

Panama is emerging from a severe political and economic crisis which culminated in the events of December 20, 1989 and their aftermath. Loss of investment, national income and employment over the last several years has been substantial. The new government and the private sector face a daunting challenge of reactivating the economy and reestablishing an effective, efficient democratic government.

In January, 1990, A.I.D. resumed assistance to Panama. This assistance is directed toward helping Panama meet its most pressing requirements. During the initial emergency period, A.I.D. focused attention on providing for the most immediate needs of food, shelter, and medical care. Then on May 25, 1990, President Bush signed a supplemental bill providing resources for a broad-based economic recovery program. The purposes of the economic recovery program are to assist Panama with the implementation of an economic reform program and to restore credit worthiness to the Panamanian public sector. The Financial Management Project is a key element of the economic recovery program. Defects in public sector financial management are undermining Panama's ability to: (1) effectively marshal public sector financial resources to meet the extraordinary range of problems now facing the country; and (2) instill public confidence in the Government.

The Controller General of Panama described the state of deterioration into which Panamanian public finances had fallen under the previous administration in a report titled "Report on the State of Public Finances and Some Aspects of the Fiscal Crisis", presented on March 1, 1990. In summary, the Controller found that the institutions controlling public finance had neglected to fulfill their responsibilities; no national budget had been formulated during the last three years; public debt payments were delinquent; overdrafts in the National Bank of Panama had reached dangerous proportions; and the fiscal deficit was exerting severe pressure on the already dangerous state of public finances. In addressing these issues, the new government has imposed strict fiscal disciplinary measures on itself, adjusted public expenditures, and set for itself the goal to improve administrative efficiency.

The implications of inadequate financial management are staggering because of the sheer amount of resources directly or indirectly affected. Central Government expenditures in 1990 have been projected in the range of 1.165 billion Balboas. Improvements in public sector financial practices resulting in savings of one-tenth of one per cent of such expenditures would be equivalent to 1.165 million Balboas.

As part of the Immediate Recovery Project (IRP), the Controller General of Panama requested assistance from the U.S. Agency for International Development (A.I.D.) for establishing financial management and control systems. In response A.I.D. financed the technical assistance services of Price Waterhouse to complete an assessment of the country's public finance system.

The assessment reviewed a representative sample of various kinds of public sector entities in Panama. For example it included the Controller General of Panama, the Ministry of Planning and Economic Policy (MIPPE), and the Ministry of Finance and Treasury which are directly responsible for financial management and control. The Ministries of Health, Education, Housing, and Public Works were included as representatives of central government ministries. The National Bank of Panama (NBP), and the Institutes of Hydraulic Resources and Electrification, Telecommunications and Agricultural Marketing were included as decentralized and autonomous institutions. The municipalities of Panama and Penonome were also included in the analysis. The functional areas covered by the assessment included the budget, cash and debt management, government accounting, auditing, contract administration, construction auditing, and information systems.

The assessment summary report was presented at the beginning of July for the review and comment of the Controller General and his principal assistants. The results of the assessment and other evidence gathered during its implementation revealed that government financial management and auditing in Panama had deteriorated. It was determined that a significant effort must be made to address the weaknesses of the financial management systems and the absence of an independent and professional audit capability within the GOP. The assessment consultants suggested that the best means of achieving the goal of improving both accountability and financial management of scarce public resources, and thereby renew public confidence in the integrity of the government, was through the design and implementation of an Integrated Financial Management System and a Comprehensive Audit System.

The Price Waterhouse Office of Government Services was then contracted by A.I.D. to design a technical assistance project that would address the identified weaknesses and install both an IFMS and CAP. The contract with Price Waterhouse also provided for interim technical assistance until an implementation contract could be awarded. This Project Paper incorporates the proposed design resulting from that Contract.

Given Panama's current economic crisis, reform of public sector financial management practices is viewed by USAID as a critical objective. If reform is achieved, it will result in more effective utilization of scarce resources and greater confidence by public and private international sources of investment and

assistance which in turn would lead to greater investment in Panama.

B. The Problems to be Addressed

1. Findings of the Assessment

The assessment of the Government of Panama's general operating procedures, its financial management system and auditing capability found that Panamanian public finance was in a state of serious deterioration. It identified many areas requiring improvement and reform. The following provides a summary of the principal problems classified according to areas of governmental financial management and auditing and demonstrates the need for a thorough reform of public finance administration in Panama.

2. The Legal and Procedural Basis for Public Financial Management

The assessment found that the existing legislation applicable to government financial management (located primarily in the Constitution, the Organic Law of the Controller General's Office, the Organic Budget Law, the Fiscal Code, the Municipal Organization Law) and respective implementing regulations are not organized, consistent, or even compatible. This results in administrative overlap and duplicative oversight efforts in the Controller General's Office and in internal auditing offices. Further, the lack of up-to-date procedures and inadequate regulations, create deficiencies in budget, treasury, public debt, accounting, public contracting, and project management operations. Also, external control is not supported by quality levels and standards that would make public operations more efficient, professional and independent.

3. Current Financial Management Functions in Panama

a. Budget

All ministries and public institutions participate in the formulation and execution of the budget. In addition, the Controller General's (CG) Office participates in the control process and is mandated to provide advice on the viability and suitability of (1) issuing supplementary and extraordinary debt, and (2) legislative proposals that eliminate revenues and establish substitute sources or increase revenues from existing sources. The assessment found that coordination between the CG office and other ministries participating in the budget process is insufficient. This prohibits the CG from exercising effective financial control on carrying out its advisory function.

b. Accounting

Generally, each public institution in Panama has two independent offices assigned to administer resources and budgeting operations. This boosts operating costs by increasing the number of steps in the review and approval process. Furthermore, it increases paperwork, office equipment needed, and administrative support requirements. In spite of this, the Controller General's Office, as of June 30, 1990, did not have the 1989 financial statements from all public institutions. Lack of this information limits the ability of the CG to perform one of its principal functions: analyzing expenditures to ensure consistency with the budget. This problem is exacerbated by the fact that financial reports produced in the public sector vary widely in frequency of publication, document type, and the accounts that compose basic financial statements.

Accounting in the central government is limited to simple recording of budget operations and primarily expenditures. Further, the records on appropriations, quarterly allowances, obligations and payments are so widely dispersed within the Controller General's Office and in public institutions that they are not reliable. Controls are inadequate, and the system does not permit the prompt correction of errors or deviations. This, too, negatively effects the analytical function of the CG.

Inventory control procedures are not consistent from one entity to the next. In some cases, records on goods are not maintained by the entity responsible for their oversight. Warehouses and storage facilities are in charge of maintaining individual cost inventories for every item. The result is an incomplete and, in some cases, inaccurate listing of public goods, which ultimately has budgetary implications for the entire public sector.

c. Treasury

Law No. 106 assigns responsibility for the recording and controlling municipal funds to the Ministry of Finance and Treasury. However, that organization does not have a manual or other information base which describes the scope and limitations of each entity and therefore duplication is possible as is the possibility of exceeding limitations of authority. Furthermore, evaluation is difficult under these circumstances.

No national level programming of government cash flows is being undertaken, nor are they incorporated into the macroeconomic program of the government. The control system for cash management is dispersed, and lacks clearly defined techniques and procedures. No single organizational unit in the central government is assigned to program, consolidate or regulate cash flows.

The offices of the Controller General and the Treasury lack the ability to project reasonable estimates for expected tax revenues and other income or payments and expenditures, and cash reserves. Summaries of expenditure budgets submitted by nonfinancial ministries and public sector entities are not available.

The Payment Office of the Controller General's Office produces a listing of daily payments to which are appended figures which are treated as approved payments. This list is sent to the Ministry of Finance and Treasury for approval. There is no system of payment prioritization. The methods for canceling obligations of the state are long, and complicated and they create too much operating and management centralization.

Revenue generation is carried out directly through offices in the Ministry of Finance and Treasury (eleven offices of the Revenue Service and six of the Customs Service). A survey by an independent accounting firm revealed that the income collection system has inadequate controls. The procedures used by these offices for depositing money in the Treasury account in the National Bank of Panama and in accounting and reconciliation do not assure the efficient and honest management of public funds.

d. Public Debt

Numerous off-budget expenditure items result in spending which exceeds the limits authorized by the Legislative Assembly.

The procedures utilized for public debt management do not provide assurance that all contracted and pending internal and external debt is recognized, approved, recorded, and accounted for in the financial statements prepared by the public institutions. These amounts and the amounts required for future debt servicing and amortization, adjusted for exchange rate variation, should be included in the Government's financial statements.

4. Information Systems

The lack of a supervisory body, as well as the absence of operational standards in the Government's information systems and data bases at the national level results in poor cooperation among the various information offices of the GOP. In addition, there are no "user committees" in the various institutions. This causes a reliance on informational offices, as opposed to users, in assigning priorities on what data to gather and report on in the information systems. Finally, development of the information systems is constrained by the lack of: (1) a prioritized master plan which would assist in targeting areas of

most critical need; and (2) investment resources required to renovate and modernize the systems.

5. Human Resources

a. Personnel

Selection and hiring of personnel is not carried out according to well-defined policies or appropriate procedures that insure competency. As a result, the Controller General's Office and the public sector in general lack sufficient numbers of trained personnel to carry out needed improvements in finance, control and auditing. In the case of the Controller General's Office, only 21% of the employees in the Auditing Division (160 persons) are certified public accountants. The problem is exacerbated by an inadequate salary scale. A variety of salaries within the same job category exist irrespective of technical criteria or evaluations. This affects morale, dampens individual initiative and contributes to the loss of good professionals.

This problem is compounded by the absence of technical and managerial training in the public sector, generally, and in the Controller General's Office specifically. The Training Center of the Contraloria is composed of a Chief in charge, two coordinators, and a secretary. For a short time following December 20, 1989, the courses given were limited to secretarial and grammar curricula. With assistance from the Price-Waterhouse team, courses on Government Control, Public Works Control, Auditing on Fraud, and Instructors Training were developed and provided. As a result, there are now ten qualified instructors ready to initiate a more substantive training program under this project.

b. Payroll

Payrolls for the central government employees are produced by the Controller General's Office through the Payroll Office of the Accounting Division. Each government institution works on a computer network, and through teleprocessing, regulates the information on the position, responsibility and salary of its employees without central guidance or control. The institutions maintain information on appointments, vacations, leaves of absence, etc., which is then forwarded to the Controller General's Office, where the payroll process is completed. The Accounting Division of the Controller General releases the payroll and corresponding paychecks to the information office of the respective institutions which account for the checks through a simple release measure. This allows for inflated payrolls and unequal treatment of incumbents in similar positions.

6. Other related areas in financial management

a. Contract Administration

The standards that regulate contract guarantees, especially through bonds, do not accurately reflect normal risks associated with contracting. Bonds are often required in excessive amounts and for extended periods. These costs are added to the bid and, as a result, the projects are more costly.

The organizational structure of some of the GOP's largest project implementation agencies does not allow adequate coordination among the offices responsible for project planning, programming, implementation, and control. This results in inefficiencies and, ultimately, higher project costs.

Current Panamanian law does not consider fundamental issues such as the process for evaluating and selecting eligible bidders, consultant contracting, and rules which require bidders to demonstrate unit prices. This, too, results in inefficiencies that impact on the costs of government-financed projects.

The division responsible for overseeing the Controller General's regional offices focuses all of its efforts on pre-control. In the execution and control of projects, it should include modern concepts related to post audit activities.

b. Inventories

The existence of excessive formal inventory controls causes considerable delays in purchasing procedures, which leads to increased costs and poor inventory flow in warehouses that, in some cases, are in a constant emergency situation. Improved controls and management are needed to reduce unnecessary delays and costs associated with public projects.

c. Fixed Assets

There is inadequate control of fixed assets in the Panamanian public sector. Although attempts have been made to establish some type of records (e.g., a "Manual of Administrative Standards, Procedures and Standard Forms for the Recording and Control of Resources of the State" has been prepared as has a document on "Procedures for the Recording and Control of Fixed Assets", however, neither has been published), it is difficult to obtain specific information on location, physical condition, depreciation, etc. of fixed assets of the government. For the same reason, physical inventories do not exist.

7. Audit

The passage of Law No. 32 on November 8, 1984 led to the Controller General's Office being assigned operational functions incompatible with its oversight role. Specifically, the Office is responsible for the authorization of operations as well as the recording of budget execution. This distorts the independence of external controls.

The pre-control (pre-audit) policy practiced by the Controller General's Office has created a loose and poorly controlled organizational structure. The Auditing Office at the Contraloria has a multiplicity of management positions scattered throughout more than 100 institutions (8 managers in the Auditing Office, 63 in decentralized institutions and ministries and 44 managers in provincial, regional and municipal audit offices). This greatly complicates the coordination, control, and continuity of the work, and contact between managers and the director. Another consequence of this structure is the breakdown of functions into distinct hierarchical levels which is neither satisfactory nor equitable.

Audit activities are not governed by specific procedures included in auditing manuals for planning, execution, control, and reporting. The supervisory function is weak and does not work on most levels. Field work is not reviewed. Regional work schedules are neither coordinated nor evaluated. Finally, although most internal auditing offices in government institutions have reasonable internal structures, their work is confined to pre-control with very little attention paid to post-control since there are no standards in this regard.

8. Integration of the Financial Management System

A major problem of the GOPs financial management system is the lack of an integrated government wide approach. Data is not collected and reported in a consistent manner from agency to agency. There are no government-wide standards for recording, analyzing, and reporting transactions. Financial data may be aggregated, but it is not consistent across agencies. There is, therefore, a critical need for efficient interaction among financial management subsystems if effective control of GOP resources is to be achieved.

C. Goal and Purposes

1. Project Goal

The goal of the project is to strengthen the financial management capability of the GOP and renew public confidence in the integrity and competence of the Government.

2. Project Purpose

The purpose of the project is to improve and integrate GOP financial management and audit systems and promote accountability of government officials in managing public resources. The project will create an integrated financial management system that will provide common data and common standards for recording, analyzing, and reporting transactions which, taken together, will develop confidence in the GOP's capacity to manage its financial resource base.

3. End Of Project Status

To achieve the project goal and purpose, the following outputs have been established in each of the functional areas to be addressed by the project.

a. Budgeting: A budget subsystem which produces an effective financial plan and which facilitates control over the expenditure of government funds.

b. Treasury: A treasury subsystem which manages the cash assets of the government through projection and monitoring of cash flows, receipt and control of revenues, and the processing of disbursements.

c. Public Debt: A debt subsystem that manages acquisition, servicing and retirement of public debt.

d. Accounting: An accounting subsystem which classifies, records and analyzes all government financial transactions.

e. Auditing: A comprehensive independent audit system which ensures fair, objective, reliable reviews of government performance.

The project goal will be achieved through the coordinated activities of technical assistance contractors and Panamanian counterpart personnel and the transfer of technology from the advisors to counterpart personnel. The result will contribute to promoting both accountability and responsible performance among government officials.

D. Project Elements

1. Introduction

The project will produce modern government financial management subsystems in the four key areas of budgeting, cash management, debt management, and accounting. These four subsystems

constitute the Integrated Financial Management System. The principal integrating factors for the system are a commonly shared reliable data base and generally applied standards for recording and reporting financial data. These four subsystems form the minimum critical mass for a government wide integrated financial management system. While this project establishes financial system integration among the key financial agencies of the GOP, the standards it creates will lay the base for extending the IFMS throughout the entire public sector. By maintaining a narrow focus during this initial period, the experience gained will contribute significantly to such an extension at a later stage. Other financial management subsystems, such as tax administration, receivables management, acquisition and supply management, and social security management can be then added to the system at an appropriate time in the future by simple addition to the basic IFMS framework in building block fashion.

In addition, the IFMS developed under the project will be complemented by the development of a Comprehensive Audit System which will help assure the integrity and reliability of all government financial management operations. The audit process is not a subsystem because it is characterized by a governing body that provides independent and professional audits of other government institutions. Furthermore, the audit process includes the participation of the internal auditing entities of public institutions and private auditing firms.

In the case of both the IFMS and the CAS, the project will provide technical assistance for development of appropriate legislation, policies, standards, regulations, procedures, and organizational manuals for system operation. Afterwards, technical assistance will be continued to assist with application of these policies and manuals and their institutionalization in the operations of the government entities. Extensive training for the staffs of the Controller General's Office, the Ministry of Planning and Economic Policy and the Ministry of Finance and Treasury will also be provided. New or revised financial management systems will be implemented under ministerial level oversight. Where possible, other government agencies will receive the financial management manuals, implementation directives and training to assist them in adopting the policies, regulations, organizational models, procedures, and forms developed by the project.

The project elements discussed below form the core of an overall Panamanian public financial management system and a comprehensive auditing system. The strategy and mix of project inputs that will be utilized to achieve the elements' objectives are described in Part IV, Implementation Plan, and Part VI, Summaries of Project Analyses, of the Project Paper.

2. Budget Subsystem

a. Objective: The objective of the budget subsystem is to estimate the cost of implementing activities planned by the government and to determine the sources of funds to finance expenditures for each annual period. To achieve this objective it will be necessary to establish regulations, standards, and technical processes and procedures that regulate programming, implementation, follow-up and evaluation of the annual budget for the central government, decentralized entities, public enterprises, financial intermediaries, development corporations and municipalities. The budget is also an instrument to control the expenditure of government funds.

b. Purpose: The budget subsystem must be capable of preparing timely and accurate budgets on government revenues and expenditures in compliance with financial and economic policies and consistent with the objectives and goals of the national investment plan.

c. Activities: The project will help create a subsystem which will produce annual government sector budgets which record all current revenue and capital holdings, operating expenses, and investments using classifications by program, institution, purpose, sector, and region. Formulation and implementation of budgets will be based on the "National Strategy for Development and Economic Policy Modernization for Recovery, Sustained Growth, and Job Creation", prepared by MIPPE in June 1990, which identifies the main economic problems facing the GOP and outlines a strategy for addressing those problems. The system will depend on financial and investment plans which identify priority projects and their respective financing requirements; discussion and approval by the executive and legislative branches; execution by all parts of the government including changes and readjustments; and follow-up and evaluation with respective feedback. The budget subsystem is implemented by the Ministry of Planning and Economic Policy and other public sector institutions.

3. Treasury Subsystem

a. Objective: The objective of the treasury subsystem is to receive and deposit resources; make disbursements in conformity with budgetary law; and receive, safeguard and negotiate securities such as bonds, promissory notes and treasury securities.

b. Purpose: The purpose of the treasury subsystem is to provide for an equilibrium in the execution of the budget through, among other mechanisms, transfers between deficit and surplus accounts of the central government, decentralized institutions, public enterprises, financial intermediaries,

corporations, development projects and provinces and municipalities.

c. Activities: With the assistance of the project, a treasury subsystem will be developed which formulates, executes, and controls cash; generates daily, weekly, monthly, quarterly and annual cash flow forecasts; and administers treasury accounts within the national banking system. Such a treasury subsystem will include:

- o Cash flow data that is regularly compared to the cash flow projections.
- o Monthly updates of the annual cash flow forecasts that include aggregate revenue and expenditures authorized by budgetary law, conforming to appropriate accounting classifications.
- o Basic legal standards and provisions that regulate the administration and operation of the Treasury.

Operation of the treasury subsystem is the responsibility of the Ministry of Finance and Treasury, program agencies, and other public sector institutions which deal with taxation and revenue collection systems, and the national banking system.

4. Public Debt Subsystem

a. Objective: The objective of the public debt subsystem is to assist in the management of public sector financial requirements by borrowing national and foreign currency with payment terms in excess of one year. The public debt subsystem encompasses the resources made available from internal and external indebtedness, from institutions of the central government, decentralized entities, public enterprises, financial intermediaries, corporations and development projects, and provinces and municipalities.

b. Purpose: The purpose of the public debt subsystem is to manage the acquisition, servicing, and retirement of public debt.

c. Activities: The project will help create a debt management subsystem that will provide for:

- o Coordination, recording, control, renegotiation and utilization of the resources acquired from public debt, in accordance with guidelines established by the CG and other appropriate government agencies.
- o More efficient mechanisms for the assignment and disposition of resources.
- o Implementation of "exception management reporting" to identify funding requirements during critical periods.
- o Policy and procedure manuals covering recording, control and auditing of the public debt in accordance with requirements of the GOP and international financial institutions.

The public debt subsystem will continue to be managed by a central public debt office in the Ministry of Planning and Economic Policy. Management and accountability of resources received through public debt operations will remain the responsibility of the individual public sector institutions.

5. Accounting Subsystem

a. Objective: The objective of the accounting subsystem is to classify, record, analyze and report financial transactions to management and other users on a timely basis in a format that is useful and which supports users' information needs for decision making purposes.

b. Purpose: The purpose of the accounting subsystem is to produce useful, timely, reliable financial data and that is based on generally accepted accounting principles, policies, technical standards, practices and procedures for recording and reporting the governmental financial transactions.

c. Activities: The project will assist in creating an accounting subsystem which will provide for:

- o General ledger control over all financial transactions of GOP entities including central government agencies, decentralized entities, public enterprises, development corporations, financial intermediaries and municipalities.
- o Verifiable accounting controls that assure the timely and proper recording of all government transactions.

- o Government-wide accounting standards and legal provisions supporting the principle of integrity in public sector operations.
- o Timely and accurate financial statements for each reporting entity of the GOP produced periodically and disaggregated by government unit and in consolidated government-wide form.
- o Management reporting which supports decision-makers information requirements.

Operation of the accounting subsystem is the responsibility of the Controller General. That entity is responsible for preparing the consolidated financial statements of the government and establishing the accounting standards applied by the various accounting units of the public sector institutions of the Panamanian government.

6. Comprehensive Audit System

a. Objective: The project will help to establish a Comprehensive Audit System in the GOP. The objectives of the CAS are to determine in a professional and independent manner that the GOP has obtained appropriate value for monies invested, that revenues have been collected and deposited intact, that assets are adequately protected, and that financial statements and other financial data are fairly presented in accordance with generally accepted accounting principles and applicable legislation.

b. Purpose: The purpose of the comprehensive audit system will be to determine that plans have been executed effectively, efficiently, and economically according to management authorization, within the policies and programs of the government.

c. Activities: The auditing process requires:

- o Financial audit reports on the annual financial statements of the GOP and individual public entities issued by OAG auditors or by contracted private public accounting firms.
- o A compendium of governmental auditing standards and procedures, applicable to Panama in accordance with the standards and guidelines of the International Organization of Supreme Audit Institutions (INTOSAI) and the International Federation of Accountants (IFAC).

- o Operational (performance) auditing manuals and reports.
- o Ongoing specific training programs in financial, compliance and operational auditing for internal and external auditors.

The overall supervision of the CAS will be the responsibility of the Auditor General (AG), which is currently located within the Controller General's Office. In addition to supervision of the audit program, the AG's direct responsibilities include the regulation and monitoring of audits conducted on public sector agencies by the internal agency audit units and audits performed by private auditing firms.

While achieving all of these objectives lies beyond the scope of the proposed project, the planned assistance will initiate the process and provide the training needed to ensure that the skills and technical capacity will exist to sustain required activities over the long term. Once, the comprehensive auditing system established by the project becomes institutionalized within the initial participating agencies, it will be easy to extend the system throughout the entire public sector including central government institutions, decentralized agencies, public enterprises, intermediate financial institutions, development corporations, provinces and municipalities.

Internal control operations are the responsibility of each government entity. However, the Controller General is currently responsible for establishing applicable technical standards. With the recent creation of the AG, this responsibility passes to that office. Internal audit includes the financial and performance audits performed by each institution's internal audit personnel. External audit includes the external financial and performance audits performed by the Office of the Auditor General and by contracted private auditing firms.

7. Project Input Requirements

The objectives of each project element will be accomplished primarily through the efforts of GOP personnel and a technical assistance team supported by additional Panamanian experts and other support personnel. The estimated levels of effort required in person-months are as follows:

Position/skill	<u>Y 1</u>	<u>Y 2</u>	<u>Y 3</u>	<u>Y 4</u>	<u>Y 5</u>	<u>Total</u>
Foreign Technical Assistance						
Team leader	5	12	12	12	7	48
Budget expert	4	12	12	12	4	44
Treasury expert	4	12	12	12	4	44
Accounting expert	4	12	12	12	4	44
Debt expert	4	12	12	12	4	44
Audit expert	4	<u>12</u>	<u>12</u>	<u>12</u>	<u>4</u>	<u>44</u>
Subtotal	25	72	72	72	27	268
Short-term TA (6 persons)	30	46				76
Local Technical Assistance						
Information systems exp	6	12	12	12	6	48
Training specialist	6	12	12	12	6	48
Administrator	6	12	12	12	6	48
Secretaries (2)	<u>12</u>	<u>24</u>	<u>24</u>	<u>24</u>	<u>12</u>	<u>96</u>
Subtotal	30	60	60	60	30	240
Grand Total	<u>85</u>	<u>178</u>	<u>132</u>	<u>132</u>	<u>57</u>	<u>584</u>

Technical training is essential to accomplishing the project's goal. Training will be provided on an on-going basis throughout the life of the project by means of seminars, workshops, courses, conferences, and on-the-job experiences. A complete detail of the training schedule is provided in the Training Plan section of Annex F, Technical Analysis.

The technical assistance team will include experts on each of the subsystems comprising the IFMS, including a team leader who will have experience in the development and application of the IFMS model. The team leader will serve as the principal technical resource for the project and will be responsible for coordinating the work of the other team members as well as assuring appropriate participation of counterparts in the review of each stage of subsystem development.

In addition to the experts on the IFMS subsystems, the project will finance an information specialist to ensure that required information flows within and between the subsystems is achieved. Since it is expected that the IFMS will ultimately be automated, this specialist will also ensure that subsystem development prepares for that eventuality by working closely with project staff to prepare a computerization plan for consideration by GOP authorities.

The final long-term advisor to be financed by the project is a training specialist. Although each member of the team will continually provide training to counterparts, the training specialist will ensure that training activities are consistent with subsystem development and that appropriate cross-training occurs. The training specialist will also see that team members have the materials needed to maximize the impact of their training efforts and will work with the team members on presentational methodologies that will facilitate those efforts.

Detailed descriptions of the qualifications required for the technical advisors are set out in Annex J3.

III. COST ESTIMATE AND FINANCIAL PLAN

A. Project Budget

The Financial Management Reform Project consists primarily of long-term technical assistance provided to the Office of the Controller General of Panama, and the Ministries of Planning and Economic Policy and Finance and Treasury. The total cost of the proposed project is \$8,500,000 of which AID will contribute \$6,300,000 or 74%. The GOP will contribute \$2,200,000 or 26% of the budget. The A.I.D. funds will be obligated through a project agreement between USAID/Panama and MIPPE.

Because Panama uses the U.S. dollar as its medium of exchange, there is no functional distinction between US dollars and Panamanian balboas for budget purposes. Table III-1 shows summary expenditures by project year. Table III-2 (Illustrative Budget) shows project costs by category and source of financing. Table III-3 shows methods of implementation and financing for the project.

B. GOP Contribution

A major portion of the GOP's contribution to the project will be in the form of staff support for the project and provision of other project support requirements. The nature of the project is such that the most significant contribution the GOP can make is to assure the participation of key personnel and other staff members as counterparts to the technical assistance team. Computer time, office space, and other office support activities constitute the balance of Panamanian contributions which total \$2.2 million including contingencies and inflation.

C. Audits and Evaluations

Funds are included in the project budget for mid and end-of-project audits. These audits will focus on the technical assistance services provided to the project and will be carried out by firms qualified to contract under IQC's for non-Federal audits in accordance with criteria established by the A.I.D. Inspector General's Office. In addition, one mid-term and one end of project evaluation will be carried out. The first evaluation will concentrate on project progress while the second will examine project impact.

D. Recurrent Costs

To a significant extent, once the systems developed by the project are installed, sustained utilization of project outputs will simply reflect routine operations of the GOP. However, some benefits of the project will be sustained only if the GOP is willing to continue to fund activities originally developed with

AID funding (i.e., continued training). Appropriate compensation for well-trained personnel will also be essential. In other areas, such as the ultimate computerization of the IFMS, new investment by the GOP will be necessary to realize the full benefits of the system. Nevertheless, benefits in the form of improved cash and debt management, are sufficient to justify the investments proposed under this project even if computerization does not occur over the foreseeable future.

The proposed project has been developed in conjunction with the Controller General and other GOP officials. Counterpart funding for the project and future GOP funding of new and recurring costs of sustaining the benefits of the project will not present problems in part because of the key position and influence of the current Controller in the GOP but more because the financial benefits of sustaining the improved functions under the project will compellingly demonstrate to future GOP officials the desirability of adequate funding of financial management and audit operations. Nonetheless, a covenant will be sought to assure appropriate funding and staffing in the future.

Table III-1

Summary Expenditure by Project Year (\$US)

<u>Project Year</u>	<u>USAID</u>	<u>GOP</u>	<u>Total</u>
1	1,065	369	1,434
2	1,617	369	1,986
3	1,113	369	1,482
4	1,074	369	1,443
5	609	368	977
Inflation/ Contingencies	822	356	1,178
TOTAL	<u>6,300</u>	<u>2,200</u>	<u>8,500</u>

Table III-2

Illustrative Budget (\$US)

<u>Item</u>	<u>AID</u>	<u>GOP</u>	<u>Total</u>
Short-term Technical Assist.	898	0	898
Foreign Technical Assist.	2,983	0	2,983
Local Technical Assist.	707	0	707
Equip. & Supplies	150	0	150
Audit & Evaluation	100	0	100
GOP Personnel & Support		1,844	1,844
Project Officer	640	0	640
Inflation/Contingencies	822	356	1,178
Total	<u>6,300</u>	<u>2,200</u>	<u>8,500</u>

Table III-3

Methods of Implementation and Financing (US\$)

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Amount</u>
1. Foreign TA Contract/AID direct	Direct reimbursement	2,983
2. Local Professional TA and Support/AID direct	Direct reimbursement	707
3. Short-Term TA/AID direct contract	Direct reimbursement	898
4. Commodities/AID direct	Direct payment	150
5. Audits and Evaluations/ AID direct	Direct payment	100
6. PSC Project Officer/ AID direct contract	Direct payment	640
TOTAL		<u>5,478</u>

IV. IMPLEMENTATION PLAN

A. Project Approach

The project will improve GOP financial management through:

- o the implementation of an Integrated Financial Management System based on the coordinated actions of the Ministries of Planning and Economic Policy and Finance and Treasury, and the Office of the Controller General; and
- o the establishment of a professional and independent comprehensive government audit capability, primarily in the Office of the Auditor General.

The primary technical assistance activities to be carried out in the project are:

- o the implementation of organizational improvements, including the rationalization of financial management responsibilities among government entities and better definition and documentation of key financial functions;
- o the formulation, documentation and implementation of improved financial management standards, policies regulations and procedures;
- o establishment of an independent AG, initially based within the Contraloria General and ultimately operating as an independent organization;
- o formulation and implementation of professional government audit standards, policies, practices and procedures;
- o assistance in the preparation and advocacy of proposed draft financial management and government audit legislative reforms;
- o the provision of classroom and on-the-job training in new financial management and government audit responsibilities, functions and procedures;
- o development of a common data base to serve the IFMS system; and
- o the promotion of an awareness in all public servants of their responsibility to provide responsible and efficient management of public resources.

Technical assistance operations will be conducted by a core team of eight full time experts working over a period of approximately five years. The team leader will direct the technical assistance effort and will work directly with the

Controller General and the CG official designated as the Project Director. Also based in the Contraloria will be experts in accounting, information systems, and training. An expert in auditing systems and process will be based in the newly formed Office of the Auditor General within the Contraloria. Two experts in budget and debt management will be based in the Ministry of Planning and Economic Policy. An expert in cash management and related treasury functions will be based in the Ministry of Finance and Treasury.

The focus of the team will be on building an integrated financial management system and comprehensive audit system that are fully institutionalized within the GOP. The consulting team will work closely with Panamanian officials to develop IFMS and CAS in conjunction with regular GOP operations. The assistance offered will be constantly exposed to on-going operations and thus tested under actual working conditions. In addition, Panamanian officials will remain in control of the design and implementation of the new subsystems as they are developed. The core technical assistance team, supported by qualified Panamanian professionals, will prepare documentation and attend to other functions necessary to implement changes in policies and procedures recommended by consultants and approved by the key GOP officials involved. Cooperation among the key agencies will not be left as the final task at the end of the process, but rather will be incorporated as an essential day-to-day working condition.

Training for broad-based implementation of IFMS and CAS reforms will be a major responsibility of the TA team. The team will develop appropriate curricula and support activities including preparation of teaching materials and training Panamanian trainers to implement a broad-based IFMS training program in the GOP as well as to provide specialized auditor training.

The team leader will help coordinate activities and disseminate information concerning integrity in the government through the promotion of an awareness in all public servants of their responsibility to provide honest and efficient management of public resources, and the formulation and implementation of professional government audit standards, policies practices, and procedures. The approach to implementing these activities is described in further detail in the Technical Analysis, Annex F Section 4.

B. Roles of GOP Agencies Participating in the Project

The Office of the Controller General is currently responsible for a number of primary GOP financial management functions. The project design is based on the continuation of the current basic distribution of responsibilities in financial management in the GOP with the role of the Controller General strengthened in regards to establishment and maintenance of an Integrated Financial Management System and an Auditor General established to strengthen and give independence to audit functions. Thus the CG will continue to play the coordinating role in the

financial management of the government. The Ministry of Planning and Economic Policy will continue to be primarily responsible for planning, budget policy, and debt management matters through oversight of the budget and debt subsystems of the IFMS. The Ministry of Finance and Treasury will continue to be primarily responsible for cash management as a part of the treasury subsystem. That Ministry is also responsible for other functions beyond the scope of this project such as tax and customs policy and revenue collection. The Ministry would serve as a vehicle for expanding the IFMS and CAS to other financial functions of the government upon successful conclusion of the project.

Acceptance by MIPPE and MHT of the CG's coordination role in the development and maintenance of an integrated financial management system and the commitment of the CG, MIPPE and MHT to work together in the definition and integration of their respective financial management responsibilities within the government are essential to the successful implementation of the project. Interviews with the Controller General, the Minister of Finance and Treasury, the Minister of Planning and Economic Policy, and representatives of other government institutions have confirmed support by the key GOP agencies for implementation of the Integrated Financial Management System and Comprehensive Audit System.

Because of the crucial importance of agreement among the key GOP agencies on their responsibilities and commitments to the project, the signing of an agreement by the chief officers of CG, MIPPE, MHT, and the President of the Budget Committee of the Legislative Assembly, which defines those responsibilities and commitments is established as a condition precedent to initial disbursement. A copy of the draft memorandum indicating the key substantive provisions of the agreement is reproduced in Annex F, Section 10.

C. Creation of the Office of the Auditor General

The project includes technical assistance to assist the GOP implement certain organizational changes designed to improve financial management. Of particular importance is the need to separate financial and audit functions. This process was started in an announcement by the Controller General of the establishment of an Office of the Auditor General within the Office of the Controller General. The Office of the Auditor General will conduct independent government audits, strengthen efforts against fraud and corruption, and work to improve the efficiency and effectiveness of GOP financial management.

Although the AG has been established and an Auditor General named, the Controller General must issue an administrative order which defines the policies and procedures which will assure the independence of the Office of the Auditor General from other elements of the Office of the Controller General. The technical assistance team, and the team leader in particular, will work with

the CG and the AG in the development of these procedures and policies.

Staffing and maintaining a sufficient number of qualified auditors under conditions of budget restrictions is a potential implementation problem. Therefore, a recent precedent will be followed in which another office, the Office of Investigative Auditing, was established. In that case some current CG personnel were recruited and transferred to staff the new office. However, it probably will be necessary to recruit key AG officials from outside the CG. There is a pool of approximately 70 officials in CG from which staff could be selected for the AG.

Among the technical assistance activities involved will be improving efficiency and effectiveness through reorganization of certain CG financial functions, training in work techniques such as selective sampling, increased use of spreadsheet software packages and similar efforts.

The GOP, and specifically the CG, has demonstrated strong commitment to improving financial management and government auditing. In his report on the financial situation of public finance as of June 30, 1990, presented to the President of the Republic and the Legislative Assembly, the Controller General noted: "...we are making an effort to solve this limitation reviewing the standards of budget formulation and accounting and the creation of an Integrated Financial Management System." A covenant will be included in the project agreement to assure appropriate support for the AG in the future.

D. Counterpart Personnel Training

As with all development projects with significant training components, maintaining trained personnel in the organization, or at least in the government, is an on-going problem. The project design addresses this issue by strengthening the existing CG Training Center and focusing initial efforts in training of trainers.

Panamanian instructors, employees taken from the current ranks of the Office of the Controller General, will be trained by the technical assistance team to provide training to newly hired employees and continuing education to more advanced personnel. This will help assure a steady flow of personnel within the CG (and other financial institutions) who are appropriately prepared in specialized fields. It will also support career growth for these individuals. It should be anticipated that IFMS personnel trained in the CG, and AG auditors trained in CAS, may move to other agencies and institutions. While this may generate a chronic turnover problem in the central financial agencies, the financial management of other government institutions who hire these individuals as internal auditors or financial managers will be significantly strengthened.

Continuous training will be provided to counterpart personnel through the CG Training Center or directly by the technical assistance team. This training will provide an important incentive for counterpart personnel to stay with the government.

Consideration will be given during project implementation to requiring signed agreements between the government and the beneficiaries of the training, especially when the training requires a significant investment on the part of the government. Under such an agreement, the beneficiary of the training would agree to continue to work for the GOP for a defined period of time after completion of training.

E. Timing of Financial Management and Government Auditing Improvements

The project design team recommended that integrated financial management system and the government audit capability should be strengthened concurrently. Government audit effectiveness is severely limited when poor financial systems do not provide audit trails. Similarly, financial management systems generally require audit review to ensure their proper functioning. Efforts will be made in implementation to assure a parallel development pace in the two areas.

F. Project Management

The project will be coordinated by the Controller General of Panama who will designate a Project Director. The Controller General and the Ministries of Planning and Economic Policy and Finance and Treasury will assign other key Panamanian personnel to critical supervisory roles in development of IFMS and CAS.

The National Economic Council will create a technical task force that, as appropriate, will include a member appointed by the Budget Commission of the Legislative Assembly. This task force will serve as the technical support to the National Economic Council for the purposes of implementing the Project, including recommending studies, analyses, policies, and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve complete and efficient integration of the IFMS subsystems.

GOP counterpart personnel will work directly with the technical experts referred to in the previous section. These mechanisms are considered to be adequate to assure smooth and effective project management and inter-agency cooperation.

The legal functions, staffing, and managerial capacity of the Contraloria and other GOP agencies involved in the project are discussed in Annex I, Institutional Analysis, which concludes that the agencies have the legal authority and managerial capability to carry out the project.

G. Project Schedule and Milestones

The project will be implemented over a five year period. The proposed schedule is set out at Annex J 1. Project milestones are set out in the Annex J 2. Qualifications for technical assistance team members are set out in Annex J 3.

H. Procurement Plan

1. Introduction

The project procurement plan calls for several significant procurements of technical assistance services and equipment, specifically:

- a negotiated 8 (a) contract for under \$3,000,000 for recruiting, compensating, and providing logistical support for foreign technical assistance advisors;
- a local contract for recruiting and compensating local hire technical and clerical support personnel;
- a commodity procurement to purchase computer equipment and related equipment required by project funded advisors and not otherwise provided by the GOP;
- an evaluation contract under which a highly qualified group of evaluators will follow the contract throughout the life of the project;
- a contract to perform audits on the project; and
- a personal services contract for a qualified A.I.D. project manager.

The procurement plan is designed to achieve several objectives:

- to begin implementation of the project as soon as possible while the enthusiasm of key GOP officials is high;
- to utilize Panamanian professional expertise to the greatest extent feasible over the life of the project; and
- to control costs by utilizing lower-cost U.S. personnel services firms instead of higher-cost consulting firms for the bulk of foreign technical assistance requirements.

2. Technical Assistance and Support Services

Technical assistance will be secured through two contracts.

a. Foreign Experts and Consultants

USAID proposes to negotiate an 8(a) contract for under \$3,000,000 for recruiting, compensating, and providing logistical support for technical assistance advisors. The use of a negotiated 8(a) contract will permit initiation of project implementation with minimum delay. In addition, it is believed that costs can be minimized by negotiating with firms which are in the business of providing the specific services; i.e., recruiting and personnel management, although negotiation with firms with staff capability in the field of financial management will also be considered. Home office staff capability is not considered a necessary characteristic of a suitable contractor because project activities will be directed by a highly experienced team leader and managed by a highly qualified contractor employed by USAID for this purpose.

The success or failure of the project will be determined by the Panamanians, not by the technical assistance team. The critical task for assuring success is to locate and recruit highly qualified experts, get them into Panama efficiently, pay them, and get them out if they fail to perform effectively. A high level of headquarters technical knowledge and experience in government financial systems in Latin America is not required to perform these critical functions. Thus, a procurement strategy which emphasizes cost savings in technical assistance support appears to be particularly appropriate in this case. Conversely, pure price competition would entail serious risks of inadequate performance. USAID has therefore determined to use the 8(a) mechanism to seek an appropriately qualified and competent firm with an established track record with the U.S. and other governments to handle the recruiting and support contract for technical assistance.

Consideration was given to whether Spanish-speaking experts in government financial management and audit would be available in the range of costs reflected in the financial analysis. It was determined that there are highly qualified experts in these fields available, among whom are third country nationals peculiarly well suited by reason of language and cultural affinity to working in a Latin American government environment. Thus, the Mission believes that it is reasonable to expect that many if not most of the tasks required may be performed by qualified third country nationals and by Americans whose salaries have not yet reached the levels associated with senior positions in major U.S. consulting firms. Thus, the cost estimates are considered realistic.

b. Training and support personnel

If available, USAID will contract with a local American firm to provide training and clerical support personnel. If not available, a Panamanian firm will be contracted to perform these tasks. This contract will be tied through the statement of work with the 8(a) foreign technical assistance contract to assure close coordination.

c. Evaluation

An evaluation contract will be let under which a highly qualified group of evaluators will follow achievements throughout the life of the project. Evaluators must be experts in financial management and auditing. Because of the nature of the technical assistance to be provided and the difficulty of fairly assessing progress or the lack thereof, it is believed that the best evaluation approach is to employ a group of highly knowledgeable, language competent observers and perform evaluations once at mid project and again upon project completion.

d. Audits

Audits will be performed on the project in accordance with normal USAID practice which may entail local auditors or firms with contractual arrangements with AID.

3. Personal Service Contractor as AID Manager

A personal services contract will be let as soon as possible after project authorization for an AID project manager who is technically qualified in government financial management systems and audits, fully familiar with AID regulations and procedures, and competent in the Spanish language. The PSC project manager will report to the USAID controller, the Mission staff officer in charge of the project.

4. Commodity Procurement

Approximately \$150,000 worth of microcomputers and related materials required for the project funded advisors and not otherwise provided by the GOP will be purchased directly by AID. No vehicle procurement is contemplated. Microcomputers will cost less than \$100,000 and no other computer procurement is contemplated over the life of the project obviating the need for IRM clearance.

Commodities will be procured directly by USAID. Source and origin will be AID Geographic Code 000.

5. Procurement Financial Plan

<u>Procurement</u>	<u>GOP</u>	<u>AID</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Total</u>
AID Advisor		X	133	124	127	123	133	640
Foreign TA		X	330	766	766	766	355	2983
Local TA & Support		X	88	177	177	177	88	707
Short-term TA		X	355	543				898
Equipment		X	150					150
Evaluation & Audit		X	8	8	43	8	33	100
Total AID			1064	1618	1113	1074	609	5478
HC			369	369	369	369	368	1844
Inflation/Contingencies			235	235	236	236	236	1178
Grand Total			<u>1668</u>	<u>2222</u>	<u>1718</u>	<u>1679</u>	<u>1213</u>	<u>8500</u>

I. Training Plan

An illustrative training plan is set out in the Technical Annex, F9. A comprehensive training plan will be developed in the early stages of project implementation.

Project training will be carried out by the technical assistance contract team who will gradually be replaced by Panamanian trainers trained under the project. A subplan will be developed for each IFMS subsystem and the Audit function. The plans will include:

- o a list of required and optional courses for each category of employee participating
- o course outlines
- o course sequencing, if applicable
- o methods of selecting officers for training
- o training of trainers
- o equipment requirements

Preliminary plans contemplate a program of 17 seminars on 5 subjects with 165 participants, 44 workshops on 6 subjects with 120 participants, 82 presentations of 18 different courses with 460 participants, and 5 conferences with 150 attendees. The project team will adjust this program based on experience during the implementation phase.

V. MONITORING AND EVALUATION

A. Project Monitoring

Coordination of overall project implementation will be the responsibility of the Controller General of Panama who will designate a Project Director. The Ministers of Planning and Economic Policy and Finance and Treasury and the Controller General will appoint other key project officials. An Executive Commission composed of the Ministers of Planning and Economic Policy, of Finance and Treasury, the Controller General, and the Chairman of the Budget Committee of the Legislative Assembly will formulate project policy and assure coordination among the various agencies of the GOP. A Coordinating Commission within the government's National Economic Council will develop studies and recommend actions to promote the coordination of all functions related to the financial management reforms planned by the project to achieve a complete and efficient integration of the IFMS subsystems. Technical assistance advisors will coordinate work plans and objectives with the team leader and the GOP Project Director in the Office of the Controller General. Thus management of the project is firmly seated in the GOP.

Monitoring by USAID/Panama will be the responsibility of:

- o The Mission Controller who will be the designated Project Officer and will have supervisory responsibility for the project within the Mission.
- o A personal service contractor who will be contracted by USAID immediately upon authorization of the project and who will report directly to the Mission Controller.
- o A Mission Project Committee which will be chaired by the Mission Controller and include representatives from the Program and Project Development Office and the Public Administration Office.

Monitoring will be accomplished through regular visits to project activities, examination of progress reports, examination of documentation produced by IFMS and CAS activities, and interviews with project participants and others affected by the financial management and audit operations.

B. Reporting

Through the team leader, the technical assistance contractor will report directly to the AID Project Director. Arrangements for reporting to the GOP Project Director will be established in Project Implementation Letters.

The TA contractor will provide quarterly administrative reports to USAID on project progress. Each quarterly report will include a summary of expenditures by project component as well as

narrative discussions on project activities. The timing of these reports will match the Mission's semi-annual review process.

C. Evaluation Arrangements

The Financial Management Reform Project is composed of five major components each of which involves a large number of specific activities such as drafting legislation, formulating policies and procedures, developing organizations and plans, and training personnel. Ultimately, it is the performance of the responsible GOP agencies in formulating and implementing financial management and auditing reforms which will determine project success. Because of the complexity of the project and the importance of the timely integration of systems into an IFMS, an evaluation at mid project is planned, as well as a final evaluation upon project completion.

Project implementation will be evaluated based on:

- o the quality of performance in generating the project's specific outputs;
- o the technical quality of the GOP's financial management and audit performance as reflected in the accuracy and soundness of documentation produced in the IFMS subsystems and audit system; and
- o meeting the project schedule as reflected in the milestones set out in the Implementation Plan.

Project funding in the amount of \$100,000 is allocated for evaluation and auditing. It is anticipated that a team composed of knowledgeable experts in financial management and auditing and experienced A.I.D. officers will be contracted to perform the evaluations over the life of the project thus maintaining continuity as well as independence requirements.

VI. SUMMARIES OF PROJECT ANALYSES

A. Technical Analysis

The Technical Analysis is based on two extensive reports, the "Assessment of Governmental Financial Management in Panama", June 30, 1990, and "Design for a Technical Assistance Project to Improve Government Financial Management in Panama", August 31, 1990, revised final October 17, 1990, both of which were prepared under contracts with Price Waterhouse.

The Assessment ranged broadly across financial management problems of the GOP and generated a large number of findings and recommendations, selections from which are presented in Annex F 1. The "Design" report defined the objective of the project to be the development of an integrated financial management system and related comprehensive audit system. These objectives are discussed in Annex F 2.

The "Design" report included a recommendation to prepare and implement an extensive computerization plan for the IFMS. In the final project design, however, this recommendation has been modified to include only the development of a strategic plan for computerization which is to be accomplished during the first two years of project implementation. This change was based on budgetary constraints as well as advice from the LAC Regional Financial Management Project that the needs of the GOP's reform efforts would best be supported by adding a full time information systems expert to the technical assistance team to allow ongoing interaction between financial management/audit technical activities and information systems expertise.

The project technical design is conceived as a set of technical assistance activities to improve four financial management subsystems (budget, treasury, debt management, and accounting) and the government auditing system. In each of these five areas, policies, regulations, procedures, and, if necessary, draft legislation will be formulated. Documentation will be developed. Personnel will be trained. Organizational changes requiring technical assistance will be supported. The integration of the IFMS subsystems will be a focus of attention by the technical assistance team. Each subsystem will thus be addressed both independently and as a part of a larger, integrated whole.

This "modular" approach has both technical and operational consequences. Technically, the system units into which project activity is divided reflect well-understood organizational and accounting practice. Perhaps more important, the modular approach is characterized by working within the existing GOP structure under the responsibility of existing Panamanian organizational leadership and chain of command. While the Controller General is responsible for the overall coordination of the program, development in each functional subsystem remains the responsibility of the top managers of the responsible agency and the Panamanian subsystem project directors who report to them. The

project-financed technical advisors will report to the team leader who will work directly with the Project Director in CG. As subsystem activity remains the operational responsibility of the respective GOP officials, the technical assistance team members will coordinate their activities with the individual subsystem project directors.

The chiefs of the participating agencies will form an Executive Committee to formulate policy and assure necessary coordination among the agencies. The arrangements described above are designed to place management responsibility and accountability for carrying out the proposed policy reforms squarely on the respective agency management structure, while overall coordination of the project is the responsibility of the Controller General. The Executive Committee is the forum within which any conflicts in project implementation will be resolved.

A discussion of the philosophy of the technical approach is presented in Annex F2. Specifics of the activities to be undertaken in each subsystem are set out in Annex F7. The functions and necessary qualifications of technical assistance personnel are set out in Annex J3.

Preliminary schedules for various activities and the proposed in-country timing of technical assistance consultants is set out in Annex J.

The overall approach selected for the project ensures a high probability of being institutionally, administratively, and politically feasible.

B. Institutional Analysis

The Institutional Analysis, Annex I, provides details on the GOP agencies participating in or affected by the project (Annex I 1), the state of computerization of GOP financial management operations (Annex I 2) and the legal environment of GOP financial management and audit operations (Annex I 3). More extensive detail on these matters is presented in the "Assessment of Government Financial Management in Panama" prepared by Price Waterhouse.

The conclusions of the Assessment are that:

1. The organizational structure, staffing, authorities, and management of participating GOP agencies is adequate to recommend undertaking the project although reforms, which are the subject of the project, will be required to establish a fully functioning financial management and audit environment in the agencies involved. An example of these reforms is the creation of the Office of the Auditor General where a small part of the staff must be recruited from outside the CG. The GOP has agreed to undertake this recruitment.

2. There are many financial management functions of the GOP which are computerized. However, these functions should be strengthened and much better integrated. The project technical assistance team will include an information systems expert whose function will be to provide a computerization perspective on all financial management and audit systems reforms under consideration. The technical assistance team will not undertake implementation of computer operations as such.
3. A basic structure of constitution and statutes supports the objectives of the project. However, much is required to be done through a combination of new legislation and policies to create consistent and compatible financial, accounting, and auditing systems for the GOP.

C. Financial Analysis

The Financial Management Reform Project is composed primarily of AID-funded technical assistance and a GOP contribution of personnel and support. There are minor commodity procurements which are separately analyzed in Annex H. However, the bulk of the Financial Analysis, Annex H, addresses contracted technical assistance personnel costs. Annex H is based on estimates of level of effort by technical assistance function. Monthly personnel costs of experts in various salary levels were developed for several types of contractors including high and medium priced U.S. consulting firms, U.S. firms providing personnel services such as recruiting and personnel support for foreign technical assistance experts, and local Panamanian personnel support firms. A detailed comparison was run for each category of employee for each type of consultant required. It was determined that a distribution of work between a U.S. 8(a) personnel management firm for up to \$3,000,000 in foreign technical assistance and a local firm for all locally available skills offered the lowest cost approach.

The cost of an AID PSC contractor to act as Mission project manager is reflected in Annex H, Table 10. Annex H, Table 1 summarizes the estimated overall costs of the project.

D. Economic Analysis

The project has the objective of improving and integrating GOP financial management systems and promoting accountability of government officials. At current expenditure levels, some \$1.2 billion Balboas flow through the central government annually. Benefits totaling roughly seven-tenths of one percent of this annual budget flow would roughly equal the total project cost of \$8.5 million. Given the state of public expenditures, the probability of achieving a positive cost benefit ratio would appear to be very high. Measuring the benefits, even after the fact, much less projecting them with any degree of confidence before the fact, however, would be extremely difficult.

The economic analysis, therefore, addresses this problem through the following, least-cost logic. The economy of Panama has undergone serious shocks in recent years. The banking sector in particular has been hit hard by the consequences of the Noriega regime's "policies". There is a particular need for the central government to be able to undertake high priority activities to restore confidence and get the once robust economy moving again. However, the ability of the GOP to manage the financial resources at its disposal is subject to serious question on the purely technical grounds of the adequacy of the financial management system to maintain internal control through budget and treasury operations; manage cash needs through debt management, and generally to account for financial operations. The project will reform the GOP's financial management and audit systems and thus bring a much higher degree of effectiveness to the management of public financial resources or reduce unit costs of financial management and audit services. Thus, the project should reduce overall costs of financial management or result in delivering a much higher quality service, thus improving information for decision making or both.

Some economic benefits of the project are reasonably definable. For example, reduction in uncertainties should significantly improve cash management and allow savings through reduced costs of interest on public debt. However, generally speaking, quantification of project benefits at this point is a rather speculative undertaking.

The essence of the project's approach is to address the financial management system as a series of subsystems to be developed into an integrated whole more or less simultaneously. Technical assistance is provided to a central coordinating body, the Office of the Controller General, which has the responsibility to apply financial management policies and procedures throughout the government. Implementation assistance and group training is provided to other affected agencies as needed to facilitate the implementation of the system.

Among the alternative designs considered for the project were approaches which would focus on one particular high priority functional area or which would focus on a sequence of functional areas one after the other. All alternatives which fail to address the system as a whole simultaneously were rejected on technical grounds because of the risk of developing systems which would not share information effectively and which would have inconsistent or contradictory policies and procedures. Correcting such problems later was considered to be considerably more difficult and costly than simultaneous development of the key functional areas.

Another design alternative considered was to provide direct, on-site technical assistance to each affected public sector organization. This alternative was rejected on grounds of excessive levels of effort and cost. Finally, approaches which are dependent on major legislative or constitutional changes were rejected on grounds of potential political risk and delay.

As a practical matter, the selection of this project's approach was based on the ability to achieve the technical benefits and political advantages listed below. The choice was not made on economic grounds. However, the project, if successful, will generate significant economic benefits.

- o The Integrated Financial Management System approach ensures that there is a harmonization of all standards, policies, regulations and procedures among subsystems and common interfaces between subsystems so that data is shared in an efficient and effective manner.
- o The concurrent strengthening of the GOP financial management system and government auditing ensures that the financial systems provide an adequate audit trail in order to perform external reviews and that internal control weakness, financial reporting errors, and fraudulent actions are detected and acted upon in a timely manner.
- o Major financial management policy issues are resolved before beginning implementation of computer systems.
- o There is a broad consensus among GOP financial management and information systems officials on the distribution of financial management responsibilities and the standards, policies, regulations, procedures and automated information systems that are necessary to fully carry out those responsibilities and to be accountable to the public.
- o There is an appropriate balance between practical solutions that are finely tuned to the Panamanian political, social and economic environment and conceptually desirable solutions.
- o There is a cost effective approach which will ensure significant improvements in the financial management of the public sector, public officials accountability and the public perception of the government's financial management integrity.
- o There will be a significant technology or "know-how" transfer from the contractor(s) to GOP financial managers and other personnel.

Based on this analysis, the full Economic Analysis as presented in Annex G concludes that the approach planned for the project is the least-cost approach to the problem of delivering technical assistance to the GOP to support reform of its financial management and government audit systems.

E. Social Soundness Analysis

The proposed Project is unusual in that it is beneficial virtually to all and harmful to no one except those who might take personal advantage of a weak governmental financial management and audit system. If the project is successful, waste of financial resources will be reduced significantly leading to greater benefits from the available revenue stream. Further, confidence in the integrity and competence of the GOP will be enhanced which may strengthen the ability of the government to lead the nation. The project does contemplate limited assistance to help publicize the project and its results in order that the latter potential benefits are, in fact, realized.

As a practical matter, the project must operate within the named GOP agencies. While extending project operations beyond the central government to the municipalities and to other GOP agencies might well bring benefits to a broader range of beneficiaries, funding is not presently available for a wider scope project. As a technical matter, the process of financial management and audit reform must start in the key central government agencies and not in peripheral agencies.

It is concluded that the project is socially sound.

F. Environmental Considerations

The proposed project will not involve activities which directly affect the natural and physical environment. The activities which will be carried out qualify for a categorical exclusion under 22 CFR 216.2 (c) (2) (i) as "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning". An IEE based on this conclusion and approved in AID/W is contained in Annex E.

VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

In addition to the usual initial conditions precedent relating to assurances that the Project Agreement is authorized, legally binding and signed by appropriate officers of the GOP, and naming a project manager accepted to A.I.D. the following conditions precedent and covenants are planned:

A. Condition Precedent to Initial Disbursement Concerning Roles of the Panama Government Agencies in the IFMS

Since the Office of the Controller General is currently responsible for the primary GOP financial management functions, the project design is based on this approach. The Ministry of Planning and Economic Policy will be primarily responsible for planning and defined budget policy matters. The Ministry of Finance and Treasury will be primarily responsible for tax policy, administration, and revenue collection.

Acceptance by MIPPE and MHT of the CG's financial management role, the commitment of the CG, MIPPE and MHT to work together in the definition and integration of their respective financial management responsibilities within the government, and commitment of personnel and other resources is essential to the successful implementation of the project.

The following conditions precedent to initial disbursement are proposed:

- Condition precedent to initial disbursement that the GOP provide evidence of an agreement among the Controller General, the Minister of Planning and Economic Policy, and the Minister of Finance and Treasury which defines the roles of the interested agencies in project implementation and which commits the support of the participating agencies to the project's objectives and implementation plan.
- Condition precedent to initial disbursement that the GOP provide evidence that the National Economic Council has created a technical task force, that as appropriate, will include a member appointed by the Budget Commission of the Legislative Assembly, and that will provide technical support to the National Economic Council for the purposes of implementing the Project, including recommending studies, analyses, policies and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve complete and efficient integration of the various IFMS subsystems.

B. Condition Precedent to Initial Disbursement to Create the Office of the Auditor General (AG) within the Office of the Controller General

The project design includes technical assistance to assist the GOP to implement organizational changes that will improve the government audit function. Specifically, financial and audit functions must be separated by the creation of the Office of the Auditor General. This will require an administrative order from the Controller to establish the AG within the Office of the Controller General. The new AG within the CG will be carefully insulated from the rest of the CG operations to insure its impartiality.

The AG will be created to perform professional government audits, improve financial management, and strengthen the efficiency and effectiveness of government operations. It will be an important element in efforts against fraud and corruption. Ideally, the AG should be entirely independent of other GOP agencies. Independence of the AG is an objective of the project and is expected to take place as soon as the AG is functioning effectively enough to operate independently. Until it becomes independent in fact, the AG will operate as independently as is practicable within the CG. The project includes technical assistance to establish an AG totally independent of the CG but effecting this change is not essential for the success of the project.

The Controller General has indicated his willingness to establish the AG within the CG. This action is within the administrative powers of his office. The Controller General has already established a similar new office (Investigative Auditing) within the CG using this administrative authority. Because of the importance of the function, it is proposed that establishment of an Office of Auditor General within the Contraloria General be made a condition precedent to initial disbursement.

The following condition precedent to disbursement is proposed:

That the Controller General issue an administrative order creating the Office of the Auditor General under his authority, naming the Auditor General, and giving the Auditor General the operating authorities that will ensure professionalism and impartiality of technical work, independent of other operations from the Office of the Controller General.

C. Condition Precedent to Initial Disbursement to Promulgate GOP Principles of Ethics

The Principles of Ethics applicable to all government officials and employees have been prepared and approved in principal by the GOP but have not yet been promulgated. As a condition precedent to disbursement for technical assistance under

the project, the GOP will promulgate the Principles of Ethics. Therefore, the following condition precedent is proposed:

- That the GOP's approved Principles of Ethics applicable to all government officials and employees has been officially issued.

D. Covenant to Make the Office of the Auditor General Independent

A covenant is proposed to assure that organizational independence of the Auditor General's Office is effected as soon as is practicable:

- Covenant that the GOP agrees to provide its best efforts to ensure, within the existing legal framework, the development and support of the Office of the Auditor General as a totally independent organization.

E. Covenant to Provide and Maintain Appropriate Staffing and Funding

Providing and maintaining adequate funding and a sufficient number of highly qualified auditors under conditions of budget restrictions poses a major concern for project implementation and continuing effectiveness after the technical assistance program ends. It is proposed that the project's implementing ministries covenant to provide ongoing support for implementation of the project and maintenance of the reforms which it is designed to establish through appropriate personnel and financing policies and actions.

- Covenant to provide ongoing support for the implementation of the project, and the reforms which it is designed to implement, through the allocation of appropriate personnel and financial resources to the project.

F. Negotiating Status

USAID and consultants worked closely with GOP officials throughout the design period of the project. Sections of earlier drafts of the Project Paper were shared with GOP counterparts and adjusted to reflect their comments. Finally, a meeting was held with the Controller General, the Minister of Planning and Economic Policy and the Minister of Finance and Treasury to review the final design, including the proposed conditions and covenants. Based on the above, all outstanding issues have been resolved and agreement reached on the design of the project, its component parts and the overall objectives. Signature of the Project Agreement, therefore, will be possible shortly after the project is authorized.

ANNEXES

7) ACTION: AID-3 INFO: E DCM ECON FA

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PP RUEHZP
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25-JAN-91 TOP: 06:19
CN: 11441
CEFG: AIC
DIST: AIC
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RECEIVED
25 JAN 1991
FOR SECTION

AIDAC

E.C. 12356: N/A
TAGS:
SUBJECT: FINANCIAL MANAGEMENT REFORM - PP (525-0306)

REF: PANAMA 11647

LAC HEREBY GRANTS PROGRAM CONCURRENCE FOR THE MISSION TO APPROVE THE PP ON THE BASIS OF THE PROJECT DESCRIPTION, ILLUSTRATIVE BUDGET AND CONDITIONS AND COVENANTS PROVIDED IN REFTEL. PAKER

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OFFICE	ACTION	INFO
NO		
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INITIALS		

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PANAMA FINANCIAL MANAGEMENT PROJECT

<i>GOAL:</i>	<i>MEASURABLY VERIFIABLE INDICATORS</i>	<i>MEANS OF VERIFICATION</i>	<i>ASSUMPTIONS</i>
Strengthen the financial management capability of the GOP and renew public confidence in the integrity and competence of the Government.	GOP using improved financial management systems	Annual financial statements and reports of government entities CG's Annual Report	Host country political will exists to support implementation of financial reforms

<i>PURPOSE:</i>	<i>END OF PROJECT STATUS</i>		
Improve and integrate GOP financial management and audit systems and promote accountability of government officials in managing public resources.	Integrated Financial Management in: Budget Treasury Public Debt Accounting Information systems strategic plan Comprehensive Auditing Coverage of all significant public sector entities		Introduction of required legislation Commitment on part of host government to commit qualified counterpart personnel

OUTPUT:	MEASURABLY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
I. Implementation of an Integrated Financial Management System			
Budget subsystem which produces an effective financial plan and which facilitates control of the expenditure of government funds	<ul style="list-style-type: none"> -Preparation of timely and accurate budgets -Draft proposed legislation and standards -Policy and procedural manuals 	Annual budget law or documents CG's Annual Report Report on training program	GOP commitment to improve inter-institutional communication and coordination.
Treasury subsystem which manages the cash assets of the government through projection and monitoring of cash flows, receipt and control of revenues, and the processing of disbursements	<ul style="list-style-type: none"> -Daily, weekly, monthly, quarterly and annual cash flow forecast -Policy and procedural manuals -Draft proposed legislation -Training courses offered 	Annual financial statements CG's Annual Report Report on training program	Intra Ministry cooperation between Contraloria and the Ministry of Finance & Treasury
Debt subsystem that manages acquisition, servicing and retirement of public debt	<ul style="list-style-type: none"> -Timely and accurate records of public debt, debt servicing amortization records -Policy and procedure manuals covering registration, and control of the public debt -Draft proposed legislation and standards 	Annual financial statements CG's Annual Report Report on training program	Intra Ministry cooperation between Contraloria and the Ministry of Planning & Economic Policy

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OUTPUT:	MEASURABLY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Accounting subsystem which classifies, records, analyzes and reports all government financial transactions</p>	<ul style="list-style-type: none"> -Unified general ledger control -Verifiable accounting controls -Draft proposed legislation and standards -Government accounting manuals and procedures -Implementation of "exception management reporting" -Consolidated financial statements for GOP -Training courses offered 	<p>Annual financial statements CG's Annual Report Report on training program</p>	
<p>GOP information systems strategic plan</p>	<ul style="list-style-type: none"> -A computer information systems strategic plan -Transfer of technology to counterpart 	<p>Copy of plan Inspection</p>	

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OUTPUT:	MEASURABLY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>II. Comprehensive Audit System which ensures fair, objective, reliable and independent audit of government management and financial reporting</p>	<ul style="list-style-type: none"> -Office of the Auditor General established. -Draft proposed constitutional amendment and legislation -Professional auditing standards applicable in public sector -Internal audit units in all significant government agencies -Regulations for selection and contracting of independent auditing firms and their performance under AG's monitoring -Audit reports used by GOP donor agencies and financial institutions -Compendium of governmental standards and procedures -Compendium of governmental standards and procedures -Operational auditing manuals and reports -Training courses offered 	<p>Reports of individual audits performed. Copies of documents produced to govern audit process Data on actions taken resulting from audit findings and recommendations</p>	<p>GOP passes legislation creating independent Auditor General's office.</p>

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ACTIVITIES:

-Proposed drafts of financial management and audit legislation

Drafts of financial management and audit legislation

-Implementation of organization improvements including better definition and documentation of key financial functions

Organizational structures revised and documented

-Formulation, documentation and implementation of financial management standards, policies, regulations and procedures

For each component area:
a. Policy established
b. Technical standards issued
c. General procedural manual issued

-Promotion of awareness of responsibility to provide honest and efficient management of public resources

Code of ethics for public servants issued
Seminars and workshops held
Concepts integrated into training courses (below)

-Training in financial management and government audit

Number of courses held
Number of instructors trained

-Establishment of an independent OAG

Administrative Order of the Comptroller General issued

-Implementation of government audit standards, policies and procedures

Professionally prepared audit reports by Auditor General, internal audit unit and firms contracted

-Computer information systems strategic plan

Strategic Plan issued

INPUTS:	Summary Budget (US Dollars)			MEANS OF VERIFICATION	ASSUMPTIONS
	US	Panama	Total Project		
Foreign TA	2,983,661	--	2,983,661	- USAID earmarking	GOP contributions are effective and made in a timely manner
Local TA	706,588	--	706,588	- Approved requests for payment	
Short-term TA	898,451	--	898,451	- USAID project manager reports	
Equip. & Supply	150,000	--	150,000	- Standard Accounting Records	
Audit & Evaluation	100,025	--	100,025		
GOP Contribution	--	1,844,000	1,844,000		
PSC Project Mgr.	639,314	--	639,314		
Subtotal	5,478,039	1,844,000	7,322,039		
Inflation & Contingencies	821,961	356,000	1,177,961		
TOTAL	6,300,000	2,200,000	8,500,000		

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5C(2) - Project Checklist

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

- | | | |
|----|---|--|
| 1. | <u>FY 1990 Appropriations Act Sec. 523; FAA Sec. 634 A.</u> If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress; has Congress been properly notified? | Yes |
| 2. | <u>FAA Sec. 611 (a).</u> Prior to an obligation in excess of \$500,000, will there be:
(a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? | (a) Yes
(b) Yes |
| 3. | <u>FAA Sec. 611 (a)(2).</u> If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? | Officials from each of the implementing agencies have given assurance that necessary legislation will be passed as it is identified during project implementation. |
| 4. | <u>FAA Sec. 611 (b): FY 1990 Appropriations Act Sec. 501.</u> If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, | N/A |

et. seq.)? (See A.I.D. Handbook 3 for guidelines.)

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. (a) By helping to strengthen the GOP's management capability the project should renew international confidence in the integrity and technical competence of the government and increase businesses' interest and willingness to invest in Panama.
(b) No (d) No
(c) No (e) No
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The project will procure the services of an American company to provide the extensive technical assistance required for the project.
9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Panama uses the U.S. dollar as official currency.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

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11. FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A
12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No
13. FAA Sec. 119(g) (4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? (a) No
(b) No
(c) No
(d) No
14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A

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15. FY 1990 Appropriations Act Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A
16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A
17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A
18. State Authorization Sec. 139. (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). This will be carried out in accordance with Appendix 6G.
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified The project will purchase only a few commodities including computers, virtually all of which do not come in metric units.

in metric units when economically available and technically adequate?

20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased? The project will make every effort to recruit women to fill positions on the technical assistance team and encourage the GOP to fill vacant position simi-

21. FY 1990 Appropriations Act Sec. 592(a). larly.N/A

If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

22. FY 1991 Appropriations Act, Sec. 520. If funds are to be made available to an international financial institution, will steps be taken to ensure that its United States Government representative can, upon request, obtain (a) the amounts and N/A

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- names of borrowers for all loans of the institution, including loans to employees, and (b) any document developed by or in possession of the institution's management?
23. FY 1991 Appropriations Act Sec. 516. Will any part of the assistance be used for publicity or propaganda purposes within the United States? No
24. FY 1991 Appropriations Act Sec. 504. If the assistance will be used for making payments on a contract for procurement to which the United States is a party, will steps be taken to ensure that such contract contains a provision authorizing the termination of such contract for the convenience of the United States? Yes, the contract will contain such a provision.
25. FY 1991 Appropriations Act Sec. 503. Will any of the assistance be used to pay pensions, annuities, retirement pay or adjusted service compensation for any person serving in the Armed Forces of the recipient country? No
26. FY 1991 Appropriations Act Sec. 501. If the assistance is to be used to finance the construction of any new flood control, reclamation, or other water or related land resource project or program, will steps be taken to ensure that such project or program meets the standards and criteria used in determining the feasibility of flood control, reclamation, and other water and related land resource programs and projects proposed for construction with the United States? N/A
27. FY 1991 Appropriations Act Title II. If the assistance is to be used for South Africa, will any of such assistance be used to promote support to organizations or groups which are financed or controlled by the Government of South Africa? N/A
28. FY 1991 Appropriations Act Sec. 510. Will any of the assistance be used to finance the export of nuclear equipment, fuel or technology? No

29. FY 1991 Appropriations Act Sec. 524. If the assistance will be used for any consulting service through procurement contract, will steps be taken to ensure that such assistance is limited to those contracts where such expenditures are a matter of public record and available for public inspection? Yes

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

This is basically a technical assistance project, and the advisors will help develop systems of management and auditing that are most appropriate in the Panamanian context.

c. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self government.

This project is the direct result of a special request by the Controller General of Panama for help in improving the GOP's management of its public resources. The technical assistance team will work directly with Panamanians to help improve their public administration expertise, thereby also encouraging the institutional development of the Controller General's Office.

d. FAA Sec. 101 (a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

By helping to improve Panama's management of its public resources, investors (Panamanians and foreigners) should become more confident in the Panamanian environment and more willing to invest here.

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will:
(1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions;
(2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries;
(4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

(1) The project should help to increase the GOP's ability to manage its resource well, with many of the "savings" going ultimately to the poor who will receive more benefits from better government programs.

(2) The project will help improve government institutions

(3) N/A

(4) N/A

(5) N/A

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

Yes

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with

N/A

the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waved for a "relatively least developed" country)? Yes

j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? Yes

k. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. See Blc above.

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No

Are any of the funds to be used to pay for the performance of involuntary No

sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A

In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

m. FAA Sec. 601 (e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes, although the 8(a) mechanism will be used for one contract.

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women? One of the 2 major U. S. Contractors will be an 8(a) firm.

o. FAA Sec 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainable managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11) utilize the resources and abilities of all relevant U.S. government agencies?

Yes

- p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2) take full account of the environmental impacts of the proposed activities on biological diversity? N/A
- q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? (1) No
(2) No
- r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? (1) No
(2) No
(3) No
(4) No

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s. FY 1990 Appropriations Act
Sec. 534 (a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

t. FY 1990 Appropriations Act
Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA" (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational

N/A

system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management. N/A

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement has been waived by the President because of a national security interest? N/A

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

3. Economic Support Fund Project Criteria

a. FAA sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes
Yes

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? No

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A



Republica de Panamá

RECEIVED
28 EKL 1991
C&R SECTION

Panamá, 25 de enero de 1991

Contraloría General

Nota Nº D.C. 155-91

51-129

Señor
THOMAS STUKEL,
Director
Agencia para el Desarrollo Internacional
E. S. D.

OFFICE	ATTACH	INFO	DATE	INITIALS
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Estimado señor Stukel:

Me refiero al Proyecto para la Recuperación Inmediata (IRP), en cuyos términos fueron autorizados y realizados por la Misión de su digno cargo, con la participación de la firma consultora Price Waterhouse, servicios de asistencia técnica tendientes a mejorar la gestión financiera y la auditoría del Gobierno de Panamá, según el Convenio que suscribimos el 7 de marzo de 1990.

Al mismo tiempo comunico a usted que en su debida oportunidad recibí los informes derivados de dichos servicios técnicos, con base en cuyos diagnósticos y recomendaciones se ha diseñado un nuevo proyecto para que el Gobierno de Panamá cuente con asistencia técnica adicional, durante un período de cinco años, a fin de implantar medidas concretas de mejoramiento de la gestión financiera, la auditoría y la credibilidad públicas.

De acuerdo con estos antecedentes me permito solicitar formalmente a la Agencia para el Desarrollo Internacional, por el apreciable conducto de usted, la ayuda financiera necesaria que el Gobierno de Panamá requiere para la realización de este nuevo proyecto.

Le agradezco anticipadamente la atención que conceda a la presente solicitud y aprovecho la oportunidad para saludarlo cordialmente.

RUBEN CARLES
Contralor General

RC. eda.-

ENVIRONMENTAL DETERMINATION

Project Location: Panama
Project Title: Financial Management Reform Project
Project Number: 525-0306

Project Description

The goal of the Financial Management Reform Project is to strengthen the financial management and reporting capability of the GOP and renew domestic and international confidence in the integrity and technical competence of the Government in financial matters.

The purpose of the project is to improve and integrate GOP financial management systems and promote accountability of government officials and employees in managing public resources based on the leadership of the Office of the Comptroller General and subject to professional audit by an independent Auditor General.

The project will have two major outputs: (1) The establishment of an Integrated Financial Management System composed of four subsystems:

- A budget subsystem which produces an effective financial plan and which facilitates control of the expenditure of government funds.
- A treasury subsystem which manages the cash assets of the government through projection and monitoring of cash flows, receipt, deposit and control of revenues, and the processing of authorized disbursements.
- A debt subsystem that manages acquisition, servicing and retirement of public debt.
- An accounting subsystem which classifies, records, analyzes and reports all government financial transactions.

and (2) The establishment of a comprehensive audit system which assures fair, objective, reliable, and independent review of government financial management and reporting.

The project will provide technical assistance, training and commodities (PCs).

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When the project is completed, the GOP will have in place the core components of an Integrated Financial Management System at the national level which will enable the GOP to manage its financial resources with a high degree of efficiency. The GOP will also have a Comprehensive Auditing System based in an independent Office of the Auditor General.

Statement of Categorical Exclusion: It is the opinion of USAID/Panama that the Project does not require an Initial Environmental Examination because its activities are within the class of actions described in Section 216.2 paragraph (c)(1)(i) and 216.2 (c)(2)(i) of 22 CFR part 216 on "Categorical Exclusions," which read as follows:

"Section 216.2(c)(1)(i)"

"The action does not have an effect on the natural or physical environment,"

"Section 216.2 (c)(2)(i)"

"Education, technical assistance, or training programs, except to the extent such programs include activities directly affecting environment (such as construction of facilities, etc.)".

ENVIRONMENTAL DETERMINATION

PROJECT LOCATION: Panama

PROJECT TITLE: Financial Management Reform Project

FUNDING: FY 91-FY 95 GRANT \$6,300,000

LIFE OF PROJECT: Five (5) years

ED PREPARED BY: Douglas A. Chiriboga
Douglas A. Chiriboga
USAID/Panama
Chief, Program and Project
Development Office

DATE: December 20, 1990

**ENVIRONMENTAL ACTION
RECOMMENDED:** That the Project does not
require an Initial Environment
Examination and therefore a
categorical exclusion is
appropriate.

CONCURRENCE: Thomas W. Stukel
Thomas W. Stukel
Director
USAID/Panama

Agency for International Development
Washington, D.C. 20523

LAC-IEE-91-40

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Panama

Project Title : Financial Management Reform Project

Project Number : 525-0306

Funding : FY 91-Fy 95 GRANT \$6,300,000

Life of Project : Five (5) years

IEE Prepared by : Douglas A. Chiziboga
USAID/Panama, Chief
Program and Project Development
Office

Recommended Threshold Decision : Categorical Exclusions

Bureau Threshold Decision : Concur with Recommendation

Comments : None

Copy to : Thomas E. Stukel, Director
USAID/Panama, Director

Copy to : Harry Dorcus,, USAID/Panama

Copy to : Frank Zadroga, REMS/ROCAP

Copy to : Mark Silverman, LAC/DR/CEN

Copy to : IEE File

James S. Hester Date 5/14/91

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

ANNEX F - TECHNICAL ANALYSIS

1. Recommendations of the Financial Management Assessment (Translated and summarized from Spanish language report).

The following are the major recommendations of the Assessment:

- a) An analysis of all legal provisions and regulations is needed in order to create a financial, accounting and auditing code for the Government of Panama that will be responsive to the new policies. This code should contain organizational guidelines and appropriate policies and procedures which incorporate modern practices and principles. The observance of this code should be mandatory.
- b) An improvement plan should be prepared which defines the policies, processes, procedures, standards, principles, manuals, and methods that would provide standardized technical and conceptual guidelines for the implementation of an integrated financial management system and a comprehensive audit system. This would ensure adequate control over and reporting on national resources. It will also provide a coordinated and comprehensive audit process which would result in more efficient resource utilization and increased confidence in government financial management.
- c) An organizational development plan is needed that will provide a basis for the proper execution of the budget process, integrate the efforts and actions of the various institutions, and highlight the central role of the executive branch, the sectorial entities, the institutional units, and the participation of the legislative branch through the Budget Commission and the Controller General's Office.
- d) A multi-level, interagency dialogue is needed to insure that the budget reflects the actual plans of the government and is the principal political and administrative tool incorporating all revenues and expenditures of the government.
- e) An organizational plan is needed which should include principles, standards, and functional and procedural manuals for the recording of all financial operations of the government. Responsibility for execution of all these principles, standards and functions should reside in one organization. This entity would also have the responsibility of consolidating all the financial statements prepared by the various government entities.

- f) A complete revision of government accounting systems and procedures is needed. Information to be combined on a national level should include revenues and expenditures, assets, liabilities, and government equity. The revision should eliminate scattered uncoordinated records and create a reliable and timely financial information system. Basic financial statements should be prepared by each entity.
- g) A study should be carried out in order to separate incompatible functions according to functional and control concepts. No one individual should perform an entire transaction cycle since this weakens control.
- h) A study of the available alternatives for the responsible management of acquisition and use of physical resources is needed. The study should present criteria and procedures for adequate oversight by the responsible offices.
- i) It is necessary to provide an organizational and functional structure in order to implement the new conceptual design which will convert the Controller General's Office into a national supervisory agency with the Controller General as Chief Financial Officer of Panama so as to interact with other elements of government financial management and with the decentralized, autonomous, and territorial entities.
- j) A national cash flow forecast should be prepared in concert with the government's macroeconomic financial programming effort. This should be done in conjunction with customs, budget programming, planning, and the national banking system so that the estimates of revenue, investments, public debt, and other related items are realistic.
- k) A compliance procedure is needed which insures that the Ministry of Finance and Treasury and the Controller General adequately fulfill their revenue collection and accounting duties in such a way that it is possible to reconcile the amounts recorded in the accounting system.
- l) It may be more efficient to transfer the responsibility for certain payments to the individual entities while maintaining the integrated information at the national level for the nonfinancial government entities. That is, operational and management decentralization and normative and control centralization.
- m) Improvements in administrative procedures are needed for efficient collection, control, assignment, and reconciliation of revenues. Exact and prompt knowledge of accounts receivable is needed in order to adopt measures to incur debt when necessary.

- n) A stronger organization administering internal and external debt is needed in order to have real leadership in the control, formulation, and implementation of financial policy.
- o) Procedures are needed for processing public debt transactions. These procedures should record when the debt is incurred, using the information found in the contract, or disbursement of internal and external credit or amortization payments or debt service. The reports generated should be based on documentation received directly from the National Bank of Panama and the lenders.
- p) A national information systems commission is needed to coordinate the individual efforts of the different information offices. This will improve the opportunity to integrate information nationally and to exploit available resources.
- q) User committees should be established to direct the efforts of the information offices toward national and institutional goals and to modernize and organize standards which will lead to system development.
- r) The design of an information system development master plan is necessary for government financial management. In addition to the respective individual plans of each entity, a development scheme will make possible systems applications, implementation, and integration within the government.
- s) Investment in equipment to modernize government information systems should be budgeted.
- t) A strategic information systems plan should be developed to analyze alternatives to better integrate the government's automated information systems.
- u) A plan should be devised for the selection and relocation of personnel, so that a group of trained professionals is available for government financial management and audit in order to meet the accountability needs of the government.
- v) The Controller General's Office should initiate training in financial management and government accounting. Training should be coordinated with necessary institutions and professional schools. It should emphasize practical training and it should also provide training for instructors.
- w) Technical criteria and universal personnel management principles are needed in personnel selection and contracting. Based on specific requirements, such as development, evaluation, promotions, and other incentives, this can enhance professional status in the public sector.

- x) An overhaul of the personnel offices and the Payroll Office in the Controller General's Office is needed to eliminate duplicate efforts in payroll processing. The control and authorization of the payroll should not be an Auditing Division function. The accounting records should use the double entry system of accounting.
- y) Alternative methods of providing guarantees to the government are needed to avoid unnecessary costs.
- z) General guidance should assist government agencies to establish their own procedural instructions. This guidance would serve to standardize procedures in contract administration and achieve efficient and effective planning, execution, and control of projects.
- aa) The number of administrative steps in the purchasing process should be reduced. Procurement actions should be delegated to responsible officials and internal controls should be rationalized on a cost-benefit basis.
- bb) General guidelines should be provided to government agencies to standardize the preparation of procedures for the control of fixed assets.
- cc) Fixed assets policy and procedures should be improved. These should cover the safeguarding, recording, inventorying, and proper use of fixed assets.
- dd) External auditing should be the responsibility of an independent audit office which has no financial management functions. Financial management and the development of an internal control structure and procedures is the responsibility of the management of each institution.
- ee) An institutional restructuring plan should be developed to modernize the Controller General's Office. As part of the modernization plan, a separate and independent Office of the Auditor General should be created to perform the supreme audit institution function. This would facilitate the verification of efficiency, economy, and effectiveness in government management and reliability of financial management systems and financial statements and reports.
- ff) Auditing manuals are needed which present outlines, processes, procedures, and methodologies that provide an auditor with technical and professional guidance for internal and external government audits, financial and compliance audits, operational audits, and project audits. They must integrate the efforts of the supreme audit institution, internal audit offices and contracted private firms so that the initiation,

understanding, and development of a comprehensive audit process is achieved.

- gg) The supervision function needs to be developed by selecting a group of highly qualified auditors to guarantee coordination and quality work and to avoid waste and duplication of efforts.
- hh) The internal audit function should be analyzed and reoriented in order to change it into a management tool for evaluating controls and systems that operate within the institutions.

2. The Technical Objectives of the Project: Integrated Systems of Financial Management and Government Auditing

An Integrated Financial Management System (IFMS) consists of an interrelated set of subsystems which plan, process, and report upon resources in financial terms. The basic subsystems normally are accounting, budgeting, cash management, debt management, and their related internal controls. Other subsystems sometimes included are collection and receivable management, acquisitions and supply management, information management, tax and customs administration, retirement or social security system administration, etc.

The principal factor which "integrates" the system is a common, single, reliable data base to and from which all data expressed in financial terms flows. All of the subsystems and all users of financial data must be required to participate in common data sharing. The validation, classification and recording of data is a function of the accounting subsystems and produces timely reports of classified data for use by them.

The common data base may be manually maintained, but is much more flexible and available where processed electronically.

An IFMS can be developed regardless of the specific organizational structure but it is likely to function better where the four basic subsystems - accounting, budgeting, cash management, and debt management - are closely related within the organizational structure.

The failure to integrate financial management information traditionally results in:

- fragmented and unreliable data;
- duplication of data difficult to reconcile failure to utilize actual results in the planning and budgeting processes; and
- undue emphasis upon one of the component subsystems (usually budgeting) which tends to dominate, duplicate and crowd out the others.

The accounting subsystems is at the heart of the IFMS because all of the other subsystems depend upon it for useful, timely and reliable data. If the accounting subsystem fails to produce timely data (which is all too frequently the case), the remaining subsystems cannot function properly.

In this case substitute data is often sought, new ad hoc records are set up to produce indispensable data, and management decisions are made without the information necessary to apply good judgement. Thus, sound development and maintenance of the

accounting subsystem is absolutely necessary to the success of the IFMS and constitutes another important factor in its "integration".

There are five "links" necessary to achieve true integration of a financial management system: training, harmonization, communication, coordination and collaboration. Most financial management systems fail due to the absence of these links.

A comprehensive training program covering all aspects of the IFMS is essential to ensure that all individuals involved in the various subsystems understand the role, need and basic underlying concepts involved in each subsystem. Frequently, financial management systems fail because budget personnel know nothing about cash management, for example, or debt management staff fail to consider accounting requirements.

Therefore, an ongoing IFMS training program designed to fully acquaint all IFMS staff with each subsystem as well as with other related considerations such as internal controls and management principles, is essential to the IFMS' success.

The coordination and harmonization of the IFMS component subsystems are two additional links necessary to achieve "integration". Harmonization is achieved by means of consistent provisions and standards governing application of each of the subsystems. The principles, policies, standards, manuals, procedures, etc., must be harmonized in such a manner as to avoid conflicts, inconsistencies, and other defects between one subsystem and the others.

All drafts of internal provisions for each of the subsystems must be closely coordinated by obtaining comments and suggestions from each of the other subsystems before being completed and issued in final form.

Communication between the subsystems must not be limited only to the process of preparing internal provisions. Periodic meetings, conferences or round table discussions should be held to discuss problems, areas of possible friction or duplication and common measures to be taken to achieve more operational efficiency. A frank debate of problems within the IFMS will avoid its gradual disintegration due to lack of communication.

The final link which assures the success of IFMS is a spirit of collaboration and cooperation between each person and each operating unit involved in the System. Professional jealousy, conflicts over areas of responsibility and other factors which act to disintegrate the System must be avoided. Each individual within the IFMS must place the objective of the common welfare of an efficient and reliable System ahead of other interests.

Institutional collaboration and cooperation is the final link in the integration of public sector financial management.

The degree of integration of financial management systems in any country is a matter requiring considerable study and analysis in the light of national and international realities. Almost any program directed toward integration will require considerable costs in training and reorientation, even where costs of computers are minimized. Full integration is not likely to be cost-beneficial. However, varying degrees of partial integration are viable options. Each national government should consider its own unique situation - the success of its existing systems, the integration efforts as a part of improvements - and determine what degree of financial management systems integration is reasonable to expect, what expertise will be required and what financing is available.

It is very important to consider all aspects of financial management - not just the traditional ones. All financial management systems must be improved in parallel if improvements in any of them are to be long-lived.

The key "end of the project" status objective of this project is an "integrated financial management system" in the GOP. In this case, the financial management system will include subsystems of budget, treasury or cash management, public debt and accounting. These subsystems will be coordinated through common rules and a common financial data base to form a single system designed to promote optimum allocation and efficient utilization of the resources of the state and accountability of GOP public officials.

In the public sector, auditing is indispensable to maintaining financial management accountability. Government auditing strengthens financial management by analyzing the internal control structures verifying that financial reports are fairly presented and making recommendations to improve these areas. The independent review by the external audit function provides the public assurance on the integrity of government financial management and permits society to rely upon the fairness and accuracy of the government's final reporting.

The Controller General's Office, by constitutional mandate participates in budgeting activities as well as the management, control and authorization of disbursements and the approval of each payment order against the national treasury.

The Controller General's Office is also constitutionally mandated to oversee the operations and results of public sector management through the independent review function. The Office is not now fully carrying out this role. The oversight function that the Controller General's Office performs in the area of control

consists of prior disbursement approval and ratification and corroboration of the validity of contracts and other legal instruments. Participation in the processing and approval of financial transaction is contrary to the audit concept of "independence" and thus makes it impossible for the CG to perform its external review function.

Performance of the "pre-control" or "pre-audit" is traditional in the LAC region. It is recognized that the performance of this function by the OCG as supreme audit institution weakens financial management rather than strengthens it. Thus the project design incorporates support for the establishment of an Office of the Auditor General as an independent agency.

The objective of the project is to design and implement an integrated financial management system and a comprehensive auditing system based in an independent Auditor General's Office. At the outset all functions will remain in institutions where they currently are managed. During project implementation, consideration will be given to organizational changes which may be desirable for more efficient operation of the IFMS. In the case of the Auditor General's Office, it has been determined that an independent office will be established. However, it is operationally expedient for the Controller General's Office initially to act as the institution responsible for the independent audit function since most of these activities are now carried out by OCG. In the second stage of the process, these functions would be incorporated into a completely separate agency in the Legislative Branch. Arrangement for separation of functions and as extensive independence as practicable within the OCG will be established as reflected in the draft memorandum on separation of functions appended to this section of Annex F.

3. The Scope of the Project and Timing of Components

Defining the scope of activity and level of effort under the project was a major concern in project design. There are a large number and many different types of GOP institutions. Too narrow a scope might not achieve the objectives of the IFMS and CAS. Too wide a scope might be difficult to achieve, excessively costly, and beyond the absorptive capability of the GOP.

To achieve IFMS objectives, implementation will be carried out primarily in the Office of the Controller General, the Ministry of Finance and Treasury, and the Ministry of Planning and Economic Policy. Policy and procedure manuals developed in the project will be disseminated Government wide. Implementation directives and group training will be provided to all entities comprising the public sector. Limited, direct, on-site implementation assistance may be provided to major public enterprises and other important public entities. All standards, policies, procedures, and organizational guidelines developed at the national level will be transmitted to the municipalities. Implementation assistance in the municipalities is not contemplated during the five year project time frame. Future dissemination of the IFMS system developed under the project will be proposed as a covenant.

With respect to the timing of financial management and auditing improvements, the design team strongly recommended financial systems and government audit capability must be strengthened concurrently. Government audit effectiveness is severely limited when poor financial systems do not provide audit trails. Similarly, financial management systems generally require audit review to ensure their proper functioning. Therefore, improvements in financial management systems and development of a professional government audit capability are complementary and should be developed concurrently. The project design reflects this proposition and ties progress in each area to the other.

4. Project Approach

The project will improve GOP financial management of scarce public resources and its accountability to the public and others for the use of these resources through:

- o the implementation of an integrated financial management system (IFMS) based in the coordinated actions of the Ministries of Planning and Economic Policy (MIPPE) and Finance and Treasury (MHT) and the Office of the Controller General (CG); and
- o the establishment of a professional and independent government audit capability (CAP) in the Office of the Auditor General (OAG), an independently functioning unit of the CG, and latter, support of the separation of the OAG from the CG in order to create an independent OAG.

The primary technical assistance activities to be carried out in the project include the following:

- o the implementation of organizational improvements, including the rationalization of financial management responsibilities among government entities and better definition and documentation of key financial functions;
- o the formulation, documentation and implementation of improved financial management standards, policies regulations and procedures;
- o the establishment of an independent OAG initially based within the Contraloria General and ultimately operating as an independent organization;
- o the formulation and implementation of professional government audit standards, policies practices, and procedures;
- o the preparation of proposed draft financial management and government audit legislative reforms with on-going assistance to support their approval;
- o the provision of classroom and on-the-job training in new financial managment and government audit responsibilities, functions and procedures; and
- o the promotion of an awareness in all public servants of their responsibility to provide honest and efficient management of public resources.

The approach to implementing these activities is described below in greater detail.

a. IFMS

The description of the project approach to establishing the IFMS is divided into design and implementation activities. The IFMS can be implemented on a manual, computerized, or part manual/part computerized basis. Thus, later extension of computerization based on the manual system will be convenient. An information systems expert will be a member of the technical assistance team to assure that computerized information systems considerations are taken into account at each step in the project implementation process.

1. IFMS Design

The approach to the design of the IFMS consists of developing new or modifying existing government-wide financial management standards, policies, regulations, procedures, internal controls, organizational structures and reporting requirements. These will be formalized and documented in policy, procedure and organizational manuals and implementation directives and guidelines.

The project team will work primarily with the OCG, Ministry of Planning and Economic Policy, and Ministry of Finance and Treasury in the development of the government-wide financial management manuals and directives. However, input from the other public sector institutions is essential in order to incorporate sufficient flexibility in the policies and procedures for the varying requirements of the different types of public sector institutions including central government agencies and public enterprises.

Project teams will work concurrently in each functional area. The Project Director will be primarily responsible for coordination of the different functional teams to obtain the required integration of the IFMS subsystems and consensus from the different regulatory agencies which may have conflicting perspectives and/or information requirements.

Training will be provided to host country counterparts through formal courses, seminars, and on-the-job experience. In the design phase, seminars are oriented at training counterpart staff who will participate in the development of policy and procedure manuals in IFMS and CAP concepts and standard methodologies to be used by all project personnel. This will ensure consistency in work methods and products. Workshops presented by TA team members will be designed to develop consensus among GOP officials on policy issues. formal courses will be designed to instruct financial managers, auditors, and

administrative employees in IFMS and CAP concepts and related standards, policies, regulations, practices, procedures, reporting requirements and schedules, and use of standard forms.

As financial management responsibilities and functions are better understood and defined in the design phase, the internal organization of the financial management functions may require restructuring. The TA team will help GOP officials define any required organizational changes for the key agencies involved. These may be used as models to be followed by financial management units in the other public sector entities.

The project will also focus on changing the legal environment necessary to support the IFMS and the corresponding organizational changes which have been identified as essential to improved financial management. Existing laws governing financial management in Panama are often out-of-date, fractionalized, incomplete and contradictory. Existing laws must be compiled which will support the drafting of proposed legislative reforms by experienced legal and technical advisors in each of the functional areas.

Significant improvements can be made in the GOP financial management system utilizing existing hardware and software. However, the analysis performed during the GOP financial management assessment and preparation of this project design also indicates that opportunities exist to increase the degree of integration, and the efficiency and effectiveness of the IFMS information processing and reporting through computerized information systems enhancements and/or the development of new systems.

The information systems expert on the TA team will help GOP officials assess the value of potential computerization of information systems on an application by application basis, taking into consideration budget restraints and priorities.

The key to integrating financial information systems is the set of interfaces among the subsystems. Accordingly, institutions should have latitude with internal reporting but stringent guidelines for the use and control of information which is either a) shared among institutions; or b) strategically important to the GOP.

The GOP IFMS will be required to support both centralized and decentralized environments. For interface institutions, those which are not centrally serviced, procedures for consolidating information at the national level should be developed in order to facilitate government-wide reporting.

Institutions which are serviced centrally will be subjected to the priorities, controls, and guidelines that are established by the central information processing or regulatory agency.

The information systems expert will work in close coordination with the IFMS functional teams developing the standards, policies, procedures and organizational manuals in the core IFMS functional areas. This will ensure that the information requirements from each of the subsystems or functional areas necessary to develop the IFMS are defined in a manner to assure convenient future computerization if desired.

2. IFMS Implementation

Implementation efforts will be initiated immediately following the development of the standards, policies, regulations, procedures and organizational manuals. Implementation will consist of application of these manuals and include significant training.

Training will be provided to host country counterparts through formal courses, seminars, and on-the-job experiences. Seminars will be continued from the design phase to train counterpart staff who will participate in the implementation of the IFMS. Workshops will also be continued in the implementation phase to generate consensus among GOP officials on implementation issues presented by the contractor. Formal courses developed in the design stage will be given to instruct financial managers and administrative employees in IFMS and CAS concepts and to facilitate the implementation of the related standards, policies, regulations, practices, procedures, reporting requirements and schedules, and use of standard forms by the public sector entities.

The consultants in each specialized area will give the training for officials and for future trainers in that area of specialization. Thus there will be a uniform approach to the work done in analysis and design, implementation, and training of the officials responsible for managing IFMS and CAS. The consultants will schedule training on a periodic basis throughout the project. In the training of GOP personnel as Training Center instructors, a training expert in addition to subject matter specialists will participate in order to ensure the sustainability of Panmanian training capability and lower costs of extending the systems government-wide.

In support of efforts to obtain approval of legislative reforms, legal and technical advisors in each of the functional areas will participate in workshops with government officials and provide expert testimony to the legislature, if requested. They will also continue to revise proposed legislation

to incorporate the changes that result from workshops, legislative hearings and other discussions.

New or revised financial management subsystems (such as financial and budgetary accounting, budget execution control, and cash and debt management) will be implemented at the key agencies. Other government agencies will receive the financial management manuals, implementation directives and small group training to assist them in adopting the new government-wide policies, organizational models, procedures, forms, etc. Priority will be given to providing on-site technical assistance to large public entities in order to obtain general ledger and budget execution control over a high percentage of government operations in the shortest time period possible.

In order to ensure an orderly, controlled transition, and one which is both cost effective and within the absorptive capacity of the GOP, implementation of new organizational structures and procedures will be pilot-tested, followed by a time-phased implementation by type of public entity (public enterprise, financial intermediary, etc.), according to a prioritization schedule agreed to by the contractor and the GOP counterpart.

Implementation will include the use of the existing computer information systems to the extent possible. However, alternative automation approaches may be identified while implementing some of the financial management improvements. The information systems recommendations of the TA team expert will be analyzed on an on-going basis. If computer system enhancements or new systems are approved, these can be taken into consideration in project implementation. Any implementation of computer information systems enhancements and/or new systems will be financed separately from this project.

b. Comprehensive Audit System (CAS)

1. CAS Design

An Office of the Auditor General (OAG) will be established in order to develop an independent and professional government audit capability. The OAG will initially be part of the Office of the Controller General (CG) but will have operational autonomy and independence with respect to other CG financial management functions.

It is envisioned that the OAG will later be separated from the CG within two years. Assistance will be provided in drafting proposed legislation to establish a totally independent OAG reporting directly to the Assembly. However,

achieving a strong government audit function is not dependent upon establishing the OAG outside of the CG.

Specific CAS design activities will include the organizational design of the OAG, including the definition of its mission statement, functions and responsibilities. Administrative policies and procedures for the day to day functioning of the OAG will also be developed.

To develop the required professional capability of the OAG auditors, a series of technical manuals will be prepared on financial, compliance and operational (performance) auditing, the related audit procedures and specific topics such as report writing, audit supervision and quality control. Internal control standards will also be developed for use throughout the public sector and training material will be prepared on all technical areas.

2. CAS Implementation

Implementation of the CAS will consist of day to day technical assistance in the establishment and operation of the OAG. This will include implementing the organizational design of the OAG in the CG and refining the responsibilities and functions developed during the design phase. On-going assistance will be provided in refining proposed legislative reforms in order to create a totally independent OAG which reports directly to the Legislature.

To develop the required professional audit capability, the contractor will provide audit planning assistance, classroom training in the technical material developed during the design phase and field supervision of OAG and internal auditors. The project team government audit specialists will also provide assistance to OAG and internal auditors throughout the audit life cycle (planning, execution, report preparation and follow-up) and perform quality assurance reviews of audits.

c. Other Activities

Some analytical and design tasks overlap other initiation activities as timely and sometimes immediate solutions must be found to address urgent and chronic problems. Postponement of corrective measures might incur high social and political costs. Therefore, the technical assistance should be prepared to provide periodic assistance to the CG in areas to be defined.

5. Roles of Government Agencies and Creation of Office of Auditor General

a. Interagency Cooperation

The Office of the Controller General (CG) is currently responsible for a number of primary GOP financial management and audit functions. The project design provides for the CG to continue to play the coordinating role in the financial management of the government. The Ministry of Planning and Economic Policy (MIPPE) will be primarily responsible for planning and defining budget policy matters. The Ministry of Finance and Treasury (MHT) will be primarily responsible for tax policy, administration and revenue collection.

Acceptance by MIPPE and MHT of the CG's financial management role and the commitment of the CG, MIPPE and MHT to work together in the definition and integration of their respective financial management responsibilities within the government is important to the successful implementation of the project.

Interviews with the Controller General and representatives of other government institutions have shown a great receptiveness to the concepts of the Integrated Financial Management System (IFMS) and Comprehensive Audit System (CAS).

Because of the crucial importance of interagency agreement on roles, the signing of an agreement by the chief offices of GG, MIPPE and MHT is established as a condition precedent to initial disbursement.

b. Creation of the Office of the Auditor General (OAG)

The project design includes technical assistance (TA) oriented at assisting the GOP to implement organizational changes that will improve the way that financial functions are carried out by the government. Specifically, financial and audit functions must be separated by the creation of the Office of the Auditor General (OAG). Initially this will require an administrative order from the Controller to establish the OAG within the Office of the Controller General (CG). Later, the OAG would become independent of the CG. However, this would require legislation which will be submitted by the GOP administration during the project.

Ideally, the OAG should be totally separate and independent of the CG, reporting directly to the Assembly. The CG, which will have only financial management functions, should ideally report to the Executive Branch. These ideal conditions would require legislative actions to modify the present constitution and law.

The fact that the financial management functions are not organized in a conceptually ideal manner does not mean that these functions can not be effectively carried out. Policy and procedural changes, better information systems, internal control improvements, training and implementation assistance can overcome conceptual organizational defects and vastly increase operational efficiency and effectiveness.

The creation of the OAG to conduct independent government audits and strengthen the efforts against fraud and corruption is an important objective of the project. While not strictly adhering to conceptual models, the OAG will perform professional government audits and improve GOP financial management and the efficiency and effectiveness of the government operating within the CG. The project includes technical assistance oriented at establishing an OAG totally independent of the CG but legislative reform required to effect this change is not essential before the project begins.

The Controller General has indicated his willingness to establish the OAG within the CG and this action is within the administrative powers of his office. The Controller General has already established a similar new office (Direccion de Responsabilidad Patrimonial) within the CG using this administrative authority. It therefore appears likely that the project goal of creating the OAG can be achieved. A covenant is called for the GOP to provide its best efforts to ensure, within the existing legal framework, the development and support of the Office of the Auditor General as a totally independent organization.

Staffing and maintaining a sufficient number of highly qualified auditors under conditions of budget restrictions poses another concern. In the case of the Direccion de Responsabilidad Patrimonial, existing CG personnel were transferred to staff the new office. With screening to select the appropriate personnel, this mechanism can be utilized to recruit many of the initial OAG professional and administrative staff. However, it may be necessary to recruit the Auditor General and other key OAG officials from outside the CG. Hiring these few officials would not have a significant impact on the CG budget.

Budget impact will be small in at least years one and two as OAG personnel will be increased gradually. Reductions in CG personnel can be compensated for by improved efficiency and effectiveness gained through reorganization of certain CG financial functions, training in work techniques such as selective sampling, increased use spreadsheet software packages and similar efforts. The GOP, and specifically the CG, have demonstrated sufficient commitment to improving financial management and government auditing that it is reasonable to assume that increased OAG personnel will be budgeted in the out years of the project. The

continued recovery from the recent economic crisis will provide a better budget environment for these increases.

As with all development projects with significant training components, maintaining trained personnel in the organization, or at least in the government, is an on-going problem. The project design addresses this issue by strengthening the existing CG Training Center and focusing initial efforts in training of trainers.

Panamanian instructors trained by the contractor will continue to provide training to newly hired employees and continuing education to more advanced personnel, ensuring a steady flow of appropriately specialized personnel in and up through the organization, anticipating normal personnel turnover associated with the public sector. It should also be recognized that while the loss of OAG auditors through turnover may temporarily weaken the OAG, the financial management of other government institutions who hire these individuals as internal auditors or financial managers is often significantly strengthened.

6. Project Management

The project will be managed by the Controller General of Panama who will designate a Project Director and other key Panamanian personnel.

The legal functions, staffing, and managerial capacity of the Contraloria and other GOP agencies involved in the project are discussed in Annex I, Institutional Analysis which concludes that the agencies have the legal authority and capacity to carry out the project.

A technical task force that, as appropriate, will include a member appointed by the Budget Commission of the Legislative Assembly, will be created within the National Economic Council. This task force will serve as the technical support to the National Economic Council for the purposes of implementing the Project, including recommending studies, analysis, policies, and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve complete and efficient integration of the IFMS subsystems.

The GOP project management team, composed of the following officials, will coordinate with contractor personnel in the execution of the project:

- o Executive Project Director, with the support of an Advisory Committee on special matters;
- o Official in charge of the Integrated Financial Management System;
- o Official in charge of the Comprehensive Audit Process; and
- o Official in charge of administrative support.

Each of the project counterpart personnel will work directly with the contractor's project management team in a specialized area, supported by the counterpart technical personnel referred to in the previous chapter.

These mechanisms are considered to be adequate to assure smooth and effective project management and inter-agency cooperation.

7. Detailed Description of Project Activities

This section describes the activities that have been designed to implement the project. Coordination among activities and working groups is required in order to facilitate integration of the subsystems. This coordination, if not specifically stated, should be assumed as integral to each of the activities.

For each activity, the results expected and the level of effort (LOE) required is defined. Education and experience requirements for each consultant has been described in Annex J 3. It is expected that some members of the consultant team will be from Panama. Over the life of the project, as Panamanian expertise is identified and developed, efforts will be made to shift technical consulting functions to Panamanian personnel.

Activity:

IFMS DESIGN - BUDGET

Description:

The following activities will be carried out during the budget design phase:

- o Detailed budget subsystem design, including: organization and functions; standards; relationship with the development strategy, the financial plan, the investment plan and project inventory; technical descriptions of the budget process; and information and personnel requirements for running the system.
- o Analysis of legal provisions, current regulations, and required legislation and regulation reforms related to the budget subsystem.
- o Organizational analysis of the current situation of the following entities: Office of the National Budget in MIPPE, and the budget offices in selected ministries, decentralized institutions, public enterprises, financial intermediaries, development corporations, municipalities and the Comptroller General (CG) Accounting Office.
- o Development of the procedures for programming and drafting of the budgets for the following public sector institutions: central government and decentralized entities; public enterprises; development corporations and municipalities; and financial intermediaries. It will include program budgeting, its relation to the financial plan, the investment plan, and the project inventory. It will contain all the policies and processes necessary to efficiently complete administrative procedures, the new classification and codification of revenue and expenditures, and information flows.
- o Preparation of the procedures for budget execution control and evaluation of the budget in coordination with the accounting and treasury subsystems. This will include the identification of base management indicators which compare and determine the degree of compliance with the financial and investment plans. Indicators should be identified for both revenues and expenditures for all of the public sector.
- o Coordination with the computer information systems strategic plan teams.

Note: The development of the procedures for programming and drafting of the budgets will take into account the existing information systems and those currently under development. Workshops on revision and approval of the manuals will be held as part of the training program.

Products:

1. A detailed description of the proposed budget subsystem to be discussed with the CG, MIPPE, the Ministry of Finance and Treasury (MHT), and the National Bank of Panama (NBP).
2. A draft of proposed budget statutes or budget law with corresponding regulations which will constitute part of a global financial management law.
3. Organizational development plan for all units with budget preparation and control responsibilities, including a description of the primary budget responsibilities and functions.
4. MIPPE National Budget Office manual for ensuring that the budget is consistent with national plans.
5. A personnel and operational procedures manual to be applied in every budget unit in the government.
6. Government budgeting manuals relating to:
 - o Budget programming and drafting.
 - o Budget execution control, follow-up and budget evaluation.

Activity:

IFMS IMPLEMENTATION - BUDGET

Description:

The following activities will be carried out during the budget implementation phase:

- o Assist in the implementation of the basic organization and budgeting functions manuals to be followed by all government budget offices.
- o Assist and provide expert testimony, if requested, to support the approval of proposed laws, regulations and standards relating to the budget subsystem and IFMS.
- o Apply the new methodology on programming and budget formulation to the public sector entities by institutional groups: central government and decentralized entities; public enterprises, development corporations and financial intermediaries.

Note: Practical training courses and hands-on experience as called for in the training program will be provided to apply methodologies and to put the budget manuals into day to day use.

Implementation will take into account the information systems available in order to further the information system plan and exploit newly developed and existing systems.

Products:

1. Functioning budget subsystems: in year 3, central government and decentralized entity budgets; in year 4, public enterprises, development corporation and municipality budgets; and in year 5, budgets of financial intermediaries, including new techniques and budget programming methodologies such as budget execution control, follow-up and evaluation.

Activity:

IFMS DESIGN - TREASURY (CASH MANAGEMENT)

Description:

The following activities will be carried out during the Treasury design phase:

- o Analysis of current legal provisions and regulations and development of proposed laws and regulations that relating to the IFMS treasury subsystem.
- o Preparation of a new and uniform functional organizational structure for treasury offices.
- o Detailed design of the subsystem, including organization and functions; substantive and complementary standards for programming; execution and evaluation of the annual cash flow forecast; cash transactions for the government; and the macroeconomic financial plan, including techniques and procedures for collection, payment and cash management.
- o Preparation of the methodology and administrative procedures to reconcile accounts receivable with the original amounts due from taxpayers and government debtors.
- o Development of uniform administrative procedures for processing payments.
- o Preparation of a methodology to implement a program of prioritizing payments and periodic payment of obligations.
- o Development of a manual that contains the methodology and financial information reporting requirements for the analysis of the cash situation and management decision-making.
- o Creation of a training program for treasury officials; preparation of texts and other necessary documents for instructor training and subsequent training of other treasury officials.
- o Coordination with the computer information systems strategic plan teams.

Products:

1. Report on existing treasury standards and regulations.
2. Draft treasury-related laws and regulations.
3. Functional organization of the treasury as a supervisory entity and corresponding government offices.
4. Manual that presents cash transaction methodology, the annual and monthly cash flow forecast of the government sector and the macroeconomic financial plan, including techniques and procedures for collection, payment and cash management.
5. Procedures to reconcile accounts receivable with collection offices and the general fund appropriations accounts of the Treasury.
6. Unified payment processing procedure.
7. Payments prioritization procedure.
8. Treasury administration financial information reporting requirements.
9. Training program, texts and other documents necessary to bring treasury officials up to date and train future instructors.

Activity:

IFMS IMPLEMENTATION - TREASURY (CASH MGT)

Description:

The following activities will be carried out during the Treasury implementation phase:

- o Implement a new organizational structure for the Treasury.
- o Apply standards and methodologies in the monthly preparation of a consolidated annual cash flow, forecast based on figures prepared by the entities for cash operations, the macroeconomic financial plan, and techniques for collections, payments and cash management.
- o Implement procedures for reconciling accounts, in accordance with the newly designed methodology.
- o Apply the uniform procedures for payments processing.
- o Implement procedures for prioritizing payments and for the periodic payment of obligations.
- o Implement the revised treasury information reporting system.
- o Give training courses on treasury administration, initially to future instructors and then to all government officials.

Products:

1. Restructured national treasury office.
2. Functioning annual and monthly cash flow forecasts, government cash transactions and macroeconomic financial plan.
3. Functioning accounts receivable reconciliation procedure for collections and the general funds appropriations accounts of the Treasury.
4. Functioning uniform payments processing and disbursement prioritization.
5. Functioning cash management techniques.

6. Functioning treasury information system including the following:
 - o Revenues by type
 - o Payments according to expenditure classification, by project and purpose
 - o Treasury report
 - o Cash operations
 - o Consolidated annual cash flow forecast
 - o Comparisons between projected and actual figures
 - o Consolidated financial data for decision-making
 - o Comparative reports on treasury operations
7. Texts, other documents and training for officials in the treasury subsystem.

Activity:

IFMS DESIGN - PUBLIC DEBT

Description:

The following activities will be carried out during the Public Debt design phase:

- o An analysis of existing legal provisions and regulations and the preparation of draft proposed laws and regulations relating to the IFMS public debt subsystem..
- o Detailed design of the subsystem, including organization, functions, standards and procedures.
- o Draft of a procedures manual on how to determine the government's financing needs consistent with the financial plan, national budget and investment plan.
- o A methodology to develop a plan that facilitates recording and reporting contracts, disbursements, amortizations, and the state of public debt and debt servicing, classified by lenders and borrowers.
- o Development of a methodology to calculate foreign exchange adjustments, amounts needed to cover government debt service and to pay capital and interest amounts due.
- o Design of a training program for public debt officials, including preparation of texts and materials for instructors and trainees.
- o Coordination with the system development team members.

Products:

1. Report on existing standards and regulations and proposed public debt laws and regulations reforms.
3. Organizational design of the public debt central regulatory unit and other government public debt offices.
4. Policy and procedures manual covering the calculation of the financing needs of the government.
5. Design and documentation of a public debt reporting system, including at least the following:
 - o Loan disbursements

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- o Current public debt position with corresponding foreign exchange adjustments
 - o Public debt projections
 - o Proportion of total credit contracts by lending entity
 - o Statistical reports for analysis of economic trends and decision-making
 - o Periodic comparative reports on projected and actual figures and the differences in disbursements, debt servicing and amortizations
6. Training program, texts and other material for the training of public debt officials, selection and preparation of future instructors.

Activity:

IFMS IMPLEMENTATION - PUBLIC DEBT

Description:

During this activity, the project team will:

- o Initiate the organizational restructuring in the national public debt office.
- o Apply the proposed standards and methodology that determine government financing needs, consistent with the financial plan, the national budget and investment plan.
- o Implement, according to the designed methodology, procedures to adequately record and report in the financial statements, contracts, internal and external loan disbursements, debt service, amortization payments and the status of the debt including foreign exchange adjustments.
- o Give courses on public debt administration, initially to future instructors and then to all government officials with public debt responsibilities.

Products:

1. Functioning organizational structure for public debt subsystem units, with a supervisory body and financial programming department in each entity.
2. Operating government financing program as a component of the cash operations of the government.
3. A functioning lender and borrower financial information system covering at least the following aspects:
 - o Loan disbursements
 - o Status of the public debt with corresponding foreign exchange adjustments
 - o Public debt projections
 - o Proportion of total credit contracts by lending entity
 - o Other financial information suitable for the analysis of economic trends and decision-making.

- o Periodic comparative reports on projected and actual figures and the differences in disbursements, debt service and amortization.
- 4. Material, texts and training for instructors and for officials of the public debt subsystem.

Activity:

IFMS DESIGN - ACCOUNTING

Description:

The following activities will be carried out during this IFMS design phase:

- o Identification and analysis of constitutional, legal and regulatory provisions, existing manuals and standards in government accounting.
- o Analysis of the organizational structure in the CG's Accounting Office and in accounting offices of public sector entities, and the number and technical experience levels of professionals, technicians and officials in charge of government accounting.
- o Analysis of the accounting process at the level of the Controller General's Office and in government accounting offices.
- o Preparation of proposed draft legal reforms in the accounting area.
- o Definition of accounting principles, policies and standards to be employed in the government.
- o Design of uniform accounting procedures and development of accounting manuals for entities of the following groups:
 - central government
 - decentralized institutions
 - development corporations and municipalities
 - public enterprises
 - financial intermediaries
- o Preparation of organizational manuals for the supervisory body and organizational guidelines for the other public entities' accounting offices.
- o Design of the accounting process at the national level for combining the financial statements of public entities, including the design of a standardized general ledger chart of accounts for combination of financial statements.

Products:

1. Report on the existing legal and administrative standards.
2. Guidelines for the organization of the accounting function in public sector entities.
3. Draft of a proposed law on the IFMS accounting subsystem.
4. Report on the existing accounting principles, policies and standards used in the government.
5. Uniform accounting procedures applicable to public sector entities.
6. Organizational and functional manuals to be used by the central government national accounting office and by individual public entity accounting offices.
7. Procedural manual for combining the financial statements of public entities at the national level.

Activity:

IFMS IMPLEMENTATION - ACCOUNTING

Description:

During this activity, the project team will:

- o Develop a training program, prepare didactic material and develop seminars on the scope and function of the accounting subsystem.
- o Pilot test each application of the accounting subsystem for the following groups:
 - Central government
 - Public enterprises
 - Financial intermediaries
- o Implement the accounting system in the national accounting office in the CG.
- o Provide on-going training courses to facilitate the adoption of the accounting system by public entities
- o Provide implementation assistance to public entities previously identified as priorities
- o Implement procedures for combining public sector entities' financial statements at the national level.

Products:

1. Seminar modules to be used in the instructor training process.
2. Diffusion of the accounting subsystem for subsequent application.
3. Results of the accounting subsystem functionality tests in the selected pilot institutions.
4. Functioning of the accounting subsystem in the national accounting office of the CG and priority public entities.
5. Combined financial statements at a national level.

Activity:

CAS DESIGN - GOVERNMENT AUDITING

Description:

The following activities will be carried out during the CAP design phase:

- o Organization of the Office of the Auditor General (OAG) so that it has the capacity to perform financial compliance, and operational (performance) auditing, using evaluation criteria adapted to the complexity and scope of the government institutions.
- o Development of a standardized legal framework to enforce duties within the scope of professional internal and external auditing.
- o Development of internal control standards for government institutions, including administrative contracting.
- o Preparation of training courses as a means of developing human resources and transferring knowledge of the new IFMS.

Products:

1. OAG organization chart.
2. Basic functional regulations of the Auditor General's Office and the respective scope of control of its specialized offices.
3. Regulations for the selection and contracting of private audit firms, including a national registry of private audit firms.
4. Manuals on:
 - o External auditing
 - o Internal auditing
 - o Project auditing
 - o Audit administration and supervision
 - o Audit reports

5. Standards concerning:
 - o Internal control
 - o Project control
 - o Internal auditing
 - o External auditing, including financial, compliance, operational (performance), and project auditing, and investigation of fraud
6. Strategy for project control and auditing.
7. Training program that includes objectives, contents, beneficiaries, duration, etc. Course programming, development of consulting texts, for the following courses:
 - o Introduction to the Integrated Financial Management System and the Comprehensive Audit Process.
 - o Financial and compliance auditing
 - o Operational auditing
 - o Computer assisted auditing
 - o Investigation of fraud
 - o Project auditing
8. Evaluation program for internal audit offices.

Activity:

CAP IMPLEMENTATION - GOVERNMENT AUDITING

Description:

The following activities will be carried out during the CAP implementation phase:

- o On-going technical assistance in establishing the OAG, including refining job responsibilities and functions, OAG administration, audit planning, quality assurance and application of standards and manuals developed during the design phase.
- o On-going assistance in all phases of the audit process, including audit planning, execution, report writing and presentation, and follow-up.
- o On-going classroom training.
- o Creation of internal auditing offices in the public sector entities, internal audit training in all phases of the audit process
- o Developing the appropriate coordination mechanisms between the external and internal audit functions

Products:

1. Annual auditing plan for the OAG that includes project auditing.
2. Annual internal auditing plan for all the internal auditing offices in the government.
3. Promulgation of internal control standards applicable by all public institutions.
4. Reports for each of the internal auditing offices evaluated and corresponding recommendations.
5. Professional external audit reports on the financial statements of the GOP, public sector entities and development projects financed by international agencies.

Activity:

PROJECT EVALUATION

Description:

Project evaluation activities will include the following:

- o Evaluation of the activities and products resulting from the technical assistance project by the Project Director and responsible consultants in each of the areas.
- o Annual evaluations of the project over five years. The objective of this evaluation is to establish an independent opinion on compliance with the proposed activities by consultants and host country counterparts.
- o Discussion of the evaluation recommendations at national seminars.
- o Incorporation of the evaluation recommendations in the project work plan.

Products:

1. Interim evaluation reports.
2. Reports on the results of the final evaluation of the technical assistance project.

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8. Organization of project implementation

To implement the identified technical activities, technical and administrative support staff is necessary. The technical assistance team will include a team leader, a budget expert, a treasury expert, a debt expert, an accounting expert, an audit expert, an information systems expert, and a training expert. In addition, lawyers expert in administrative and fiscal law, administrators, and clerical personnel will be required. The qualifications of required personnel are set out in Annex J. The technical staff will work directly with the Project Director in the OAG.

The GOP will form a technical task force within the National Economic Council for the purposes of implementing the Project. This task force will serve as technical support to the National Economic Council and will recommend studies, analysis, policies, and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve complete and efficient integration of the IFMS subsystems. The technical task force will be composed of executive branch executives and will include a member of the legislative branch when appropriate.

The GOP project management team, composed of the following officials, will coordinate with contractor personnel in the execution of the project:

- o Executive Project Director, with the support of an Advisory Committee on special matters;
- o Official in charge of the Integrated Financial Management System;
- o Official in charge of the Comprehensive Audit System;
and
- o Official in charge of administrative support.

Each of the project counterpart personnel will work directly with the contractor's project management team in a specialized area, supported by the counterpart technical personnel referred to in the previous chapter.

9. Training Plan

Technical training is a crucial dimension of project implementation. Training will be provided on an on-going basis throughout the project based on information obtained in the diagnostic study done prior to the project. The minimum training needs and a tentative schedule are as follows:

o Seminars:

These are events in which selected counterpart personnel are trained in concepts and standard methodologies which will facilitate their participation with contractor personnel in the design and development of standards and manuals.

o Workshops:

Workshops will be events that seek to achieve a consensus with the host country counterpart personnel on issues proposed by the consultants. This training will have a multiplier effect as participants, mainly management level personnel, are expected to review the issues with their staffs.

o Courses:

The consultants will design and prepare the necessary consulting texts and teaching aids, and will teach these courses at appropriate points during the project.

o Conferences:

The purpose of these events is to generate a consensus on the components in each of the specialized areas of the systems. Work groups and panels will be organized to include assistants to help them reinforce the concepts and simultaneously increase their professional development.

The conferences will be organized by the chief executives of the regulatory or supervisory agencies in each functional area.

o Tentative programs:

ACTIVITIES

EVENTS

		No.	Partici- pants
-	Seminars		
	oo Budget:		
	Planning, analysis and elaboration	3	30
	oo Treasury:		
	General aspects of the subsystem	3	30
	oo Public debt		
	General aspects of the subsystem	3	30
	oo Accounting:		
	Legal norms; accounting standards accounting plans; administrative organization and consolidation of financial statements	5	30
	oo Financial and compliance audit:		
	Audit standards, techniques, practices, procedures, evidence, findings, reports, etc.	3	45

Workshops

oo	Budget:		
	Preparation of various manuals, budget laws and regulations	20	20
oo	Treasury:		
	Preparation of manuals	3	20
oo	Public debt:		
	Preparation of manuals	3	20
oo	Accounting:		
	Preparation of manuals	5	20
oo	Government audit:		
	Preparation of manuals	8	20
	Preparation of standards	5	20

Courses:

oo	Budget:		
	Budget planning and programming;	12	25
	Budget follow-up and evaluation	10	25
oo	Treasury:		
	Public finance;	3	30
	Financial programming and policy;	3	30
	Treasury administration	5	30
oo	Public debt:		
	Public finance;	2	30
	Public debt administration	5	30

oo	Accounting:		
	Application of accounting manuals;	10	30
	Application of consolidation manuals	1	30
oo	Government audit:		
	Financial and compliance audit;	4	25
	Internal audit;	8	25
	Operational audit;	4	30
	Fraud investigation;	2	20
	Computer audit;	4	20
	Project audit;	3	30
	Administrative contracting;	2	20
	Costs and budgets	4	30
-	Conferences:		
	IFMS, CAP, and Accountability	5	150
-	Out-of-country training		
oo	Budget:		
	Optional: Project data base observation and study in Chile (2 persons for a maximum of 15 days)	1	

Most training will be conducted in-country. Participant selection will be made on the basis of skills, experience, potential and demonstrated commitment to program objectives. Training will be evaluated as part of the overall project evaluation process.

10. Memorandum of Understanding among Key GOP Agencies
Concerning Support and Cooperation

- I. On March 7, 1990, the Government of the Republic of Panama and the United States Agency for International Development (USAID) signed an agreement entitled Immediate Recovery Project. Its objective is to design and implement an Integrated Financial Management System (IFMS) and a Comprehensive Audit Process (CAP) within the Government of Panama.
- II. A long term technical assistance project has been designed to conduct and support the tasks that will be carried out in the medium and long term, in accordance with the technical and institutional characteristics proposed by the Government of Panama and AID.
- III. The project design includes the objectives, goals, activities and strategies for technical assistance services to be contracted in order to assure the effectiveness of the IFMS and CAP.
- IV. As a condition precedent to sign a new contract entitled Financial Management Project in which the execution of the project will be based, we declare in our capacity of Officers of the Government of Panama, that
 - A. We accept our commitment to improve the financial management capability of the GOP and to promote accountability of government, through the implementation of an Integrated Financial Management System and a Comprehensive Audit Process.
 - B. We all agree to work in favor of the Project contributing from each of our part and institutions the best efforts, in an integrated and coordinated manner.

Guillermo Ford
Minister
Ministry of Planning and
Economic Policy

Mario Julio Galindo
Minister
Ministry of Finance
and Treasury

Ruben D. Carles
Controller General

Milton Henriquez
President
Budget Committee of
the Legislative Assembly

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11. Arrangements to Provide Independence of the Office of the Auditor General from Other Elements of the Office of the Controller General.

The project envisions the immediate creation of the Office of the Auditor General as a division of the Controller General's Office and with operative autonomy and independence with respect to its other institutional functions.

In order to provide the independence of the OAG, the next arrangements should be made:

- a. The Controller General will issue an official resolution based on the rights the Law No. 32 gives him, regarding the creation of the Office of the Auditor General as a new Direction so called, that will report to him directly.
- b. The official resolution mentioned above will describe the general functions of the OAG referred to the practice of government audit in accordance with Generally Accepted Auditing Standards. In this extent, the CG official resolution will give enough elements of professional independence and capability to the OAG functions.
- c. The Auditor General and the Deputy Auditor General must be recruited and officially designated.
- d. The same CG resolution will clearly define that the Office in charge of conducting in the past all type of work identified as "audit", will change its name and continue doing their previous control functions, that are separate and absolutely different from the government audit functions.
- e. The new staff of the OAG will be initially recruited and transferred from the current CG personnel with conformity to a selective process that will consider their performance in the training program the CGO conducted during 1990. Other key officials will be recruited from outside the CG.
- f. A complete training program in government auditing, accounting and finance will be designed and offered to the new OAG staff.
- g. The Controller General's Office will design and conduct a broad program to publish the concepts of ethics in public service, efficiency,

accountability, and the contribution of the independent audit process to these elements.

- h. The accountancy profession in Panama will be invited to participate through its three organizations in the processes of selection and training of the new auditors, and in the publishing program.
- i. The Controller General's Office will promote the improvement on Internal Audit in Government and develop an effective standard setting process to improve the Internal Control as a managerial prospective of all the public institutions. The Panamanian Chapter of the Internal Auditors will be invited to assist in the process.

12. Arrangements to create the technical task force for the Integrated Financial Management System within the National Economic Council
- I. Based on Article 9 of Cabinet Decree No. 75, dated May 30, 1990, whereby the National Economic Council was formally established as an assessment body of the Executive Branch and the Cabinet Council in financial matters of the Central Government and other decentralized entities, a technical task force for the Integrated Financial Management System, is created.
 - II. This technical task force for the Integrated Financial Management System will have the fundamental tasks of being the support to the National Economic Council for the purposes of implementing the Project, including recommending studies, analysis, policies, and other actions aimed at promoting the coordination of all functions related to the financial management reforms planned by the Project to achieve an efficient and complete integration of the IFMS subsystems.
 - III. The functions recognized by the National Economic Council as basic components of the governmental financial management and subject to the integration process that the technical task force will have are as follows: (a) Budget; (b) Treasury; (c) Public Debt; and (d) Accounting. The corresponding mechanisms and internal control structures covering the areas of administrative organization, human resources, contracting of work and services, purchases, and control of physical assets are also included in each of these components.
 - IV. In addition to the principal activities mentioned in the previous paragraph, the technical task force will have the following obligations:
 - a. To develop and divulgate the concepts related to the financial management responsibility of public officers and employees, and to promote its general acceptance as elements of governmental credibility.
 - b. To assist in promoting campaigns for better understanding of the principles of ethics for the public officers and employees, and to combat the administrative corruption.
 - c. To propose simplified administrative measures to actively accomplish the different functions of the financial management.

- d. To suggest to the Executive Branch and the Cabinet Council, through the National Economic Council, the measures that it considers convenient in order to constantly improve the financial management quality, such as legal reform projects, adjustments or reorganizations of the public administrative structure, the creation of new institutions, etc.

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ANNEX G - ECONOMIC ANALYSIS

1. Cost Effectiveness of the Project

Any attempt to quantify expected economic benefits of this project must be quite speculative. The project provides technical assistance to improve selected subsystems analyzing, tracking, controlling, and reviewing evidence of transactions. Benefits flow from reduced costs or greater effectiveness of the transactions of the Government, not from the management of evidence of their existence. A perfect financial management system supporting the efforts of knaves and fools would have only limited utility.

The foregoing difficulties notwithstanding the potential for achieving benefits can, however, be considered by inference. By identifying or estimating the absolute amounts being processed through the various systems, it is possible to estimate minimal percentages levels of the benefits that will accrue through more efficient and effective administration, management and control.

a. Budget Subsystem

An expected benefit of the project is better control over government financial and investment planning and control, through the implementation of budgetary controls which limit or channel the actions of governmental entities to those which are included in approved plans, programs and projects; the identification and programming of the sources of funds; and the coordination of public-sector activities.

Direct benefits are expected from:

- o improved control over expenditures, ensuring that only approved, budgeted amounts from authorized sources are expended; and
- o improved coordination of expenditures, ensuring that obligations will only be incurred only when funds are available.

If better enforcement of discipline over government spending were to save 0.1% of the annual 1,725.5 million Balboa budget, 1,725,600 Balboas would be saved annually.

b. Treasury Subsystem

An expected benefit of the project is improved management of cash balances and projection of cash needs and excess balances. Specific benefits are expected from:

- o maximization of funds deposited in interest-bearing accounts;
- o some benefits will be derived from cash savings and cost avoidance, others from productivity improvements, and yet others from greater effectiveness of planning, administration and management;
- o after implementation it is difficult to demonstrate in quantifiable terms the extent to which the benefits were achieved;
- o achieving some potential benefits requires subsequent legislative or administrative action;
- o benefits such as greater public confidence in the government, and the resulting improved social, economic and political stability which can reasonably be expected to result from the project are not possible to quantify in economic terms;
- o avoidance of penalties and additional interest charges by ensuring the prompt payment of obligations when due;
- o follow-up on budget projections to control variations;
- o improved planning of cash needs, enabling cash managers to reduce the cost of funds; and
- o increased availability of funds when needed thus avoiding temporary transfers from trust and other restricted or donor agency funds.

The estimated daily cash position of the Government is 1,725.5 million Balboas, and average daily collections are 6.004 million Balboas. If we assume that improved administration of these functions can raise the percentage of the daily balance on deposit in interest-bearing accounts by 1%, and the speed of collections by one day, balances on deposit in interest-bearing accounts would be raised to 5.220 million Balboas. Assuming an annual interest rate of 8%, the projected annual benefit would be 417,603 Balboas.

c. Public Debt Subsystem

Another expected benefit of the project is improved administration of internal and external public debt through greater efficiency and effectiveness in the formulation and execution of financing plans for the debt required by the government, decentralized institutions, government-owned enterprises, financial institutions and corporations, development projects, provinces and municipalities.

Specific benefits are expected from:

- o improved timeliness in the contracting for, drawing of and repayment of public debt; and
- o ensuring that debt contracted is only that which has been included in the planning process, and is contracted under approved conditions of disbursement, interest and repayment.

If the enforcement of discipline in contracting debt were to reduce the overall debt level (3,531.8 million Balboas) by 0.1%, a modest estimate, an annual savings of 353,180 Balboas in interest payments at 10% annual interest would be produced.

d. Accounting Subsystem

An expected benefit of the project is to improve the ability to record, classify, analyze, and report all financial and budgetary operations in a timely manner, providing information to all appropriate levels in the form, format and level of detail required for effective financial administration.

Direct benefits may be expected from:

- o more effective control over the disposition of the governments expenditures and assets, reducing the opportunities for waste, loss and misappropriation;
- o more effective management of the governments resources, increasing the efficiency of the application of such resources; and
- o greater accountability for control and management at all levels of government, increasing the incentive for governmental managers to more effectively administer the resources for which they are responsible.

If reduced opportunity for waste, loss, and misappropriation were to save 0.1%, more effective management were

to save 0.1%, and greater incentive to management were to save an additional 0.1%, and given an annual budget of 1,725.5 million Balboas, the total benefit would be \$5,176,500 Balboas annually.

e. Government Audit Process

A primary benefits of the project is the increased auditability of all operations, which will facilitate the ability of internal and external auditors to assure that all operations are properly accounted for and comply with the appropriate directives. If we estimate a benefit, through the stronger incentive for compliance as well as the recovery of misappropriated resources, of 0.3% of the \$1,468 million Balboa budget, a total of 4.404 million Balboas would be saved annually.

f. Other Benefits

The final benefit to be detailed in this section is not subject to quantification, but, perhaps, the most significant, is implementation of improved controls, more effective administration and management, more precise planning, and accountability will produce greater confidence in the government, both internally and internationally. This in turn will produce greater internal political and social stability, and greater access to international financial support and assistance.

g. Conclusion

It would appear that the probability is very high that project benefits will exceed costs. Indeed, given the relatively large size of the public sector, it is reasonable to expect extraordinarily high returns to the project investment particularly if the reforms introduced are sustained over time.

2. Least - Cost Analysis: Alternative Approaches to Achieving Project Objectives

a. Summary of Project Design

The approach to implementation of the IFMS consists of developing new or modifying existing financial management standards, policies, procedures and organizational structures. These will be formalized and documented in organizational and operational manuals and implementation directives and guidelines. At the same time, a computer information systems strategic plan will be developed. Implementation will consist of application of these manuals and include significant training.

The project team will be required to work primarily with the central government regulatory agencies in the development of the government-wide financial management standards, policies, procedures and organizational guidelines, with appropriate input from the other public sector institutions. Project teams will work concurrently in each functional area. The Project Director and Manager of the IFMS component will coordinate the different teams to obtain the required integration of the IFMS subsystems.

Implementation will include the use of the existing computer information systems to the extent possible. However, the computer information systems strategic plan may identify alternative automation approaches to implementing some of the financial management improvements. The information systems strategic plan recommendations will be analyzed on an on-going basis. Computer information systems enhancements will be financed separately and be approved/rejected during or at completion of the information systems strategic plan.

Work on the information systems strategic plan will be carried out in close coordination with work by the project team's financial management specialists developing the standards, policies, procedures and organizational manuals in the core IFMS functional areas. This will ensure that changes in each of the financial management functional areas necessary to develop the IFMS are incorporated into the information systems strategic plan.

Training and other implementation efforts will be initiated immediately following the development of the standards, policies, procedure and organizational manuals, using to the extent possible, existing automated systems. If computer system enhancements or new systems included in the strategic plan are approved, these can be incorporated into the implementation work plan.

It is important to note that implementation of computer system enhancements or new systems (if approved in the strategic plan) are scheduled to begin subsequent to resolution of

major financial management issues which will be addressed during development of the policy and procedure manuals. The risk of a failed computer system implementation can increase substantially by attempting to solve major policy and procedural problems at the same time a new system is being implemented.

Major financial management systems (financial and budgetary accounting, budget execution control, and cash and debt management) will be implemented at the ministerial level. Other government agencies will receive the financial management manuals, implementation directives and small group training to assist them in adopting the new government-wide policies, procedures, forms, etc. Larger institutions will receive limited on-site implementation assistance.

An Office of the Auditor General (OAG) will be established in order to develop an independent and professional government audit capability. The OAG will initially be part of the Office of the Controller General (CG) but will have operational autonomy and independence with respect to other CG financial management functions. It is envisioned that the OAG will later be separated from the CG. Assistance will be provided in drafting proposed legislation to establish a totally independent OAG. However, achieving a strong government audit function is not dependent upon establishing the OAG outside of the CG and this is not a specific objective of the project.

b. Financial Management Systems Improvement Alternatives

The traditional or historically most common approach to government financial management improvement efforts has been to focus technical assistance at a particular functional area. Budgeting, which for many years has been viewed as the most important financial management area, has received significant attention. Consequently, other areas such as accounting, cash and debt management which have received little technical support have become weak in many Latin American countries.

Another disadvantage to this approach is that it is difficult or impossible to share information between the functional areas in an efficient and effective manner. A frequent result is financial systems that process the same information but report different results. These differences are often irreconcilable or it is not cost effective to perform the reconciliations. This in turn results in management and other users of the financial information losing confidence in this financial data.

Specific functional areas are stronger than others in Panama. An alternative to the IFMS approach therefore might include prioritizing the functional areas and concentrating

technical assistance in the weaker ones. However, this approach presents the clear disadvantage of potentially developing systems that do not share information and policies and procedures that are inconsistent or contradictory across functional areas. Correcting these mistakes is difficult and more costly in the long-term.

A similar alternative might focus technical assistance at only the financial management area or on government auditing. However, experience has shown that government audit effectiveness is severely limited when poor financial systems do not provide audit trails. Similarly, financial systems generally require audit review to ensure their proper functioning. Therefore, improvements in financial systems and development of a professional government audit capability need to be developed concurrently.

In regards to implementation, an alternative to the proposed solution is to provide direct, on-site technical assistance to each public sector entity. This level of TA is not feasible because of the excessive level of effort, personnel requirements, time and cost it would require. The proposed solution of direct implementation at the coordinating agency, group training sessions and implementation assistance to the other affected public institutions on a priority and-as needed basis is a more cost effective approach.

c. Computer Information System Approaches

Significant improvements can be made in the GOP financial management system utilizing existing hardware and software. However, the analysis performed during the GOP financial management assessment and preparation of this project design also indicates that opportunities exist to increase the level and degree of integration, and the efficiency and effectiveness of the IFMS through computerized information systems enhancements.

The complexity of a large integrated government financial management information system makes it particularly difficult to determine a priori the most appropriate system configuration for the government financial management system. All widely-accepted systems, analysis, and methodologies include extensive work in diagramming functional and process relationships and information flows that are necessary to define the systems configuration.

Prior to performing this systems analysis, only rough estimates can be made of the level of effort required to design and implement the systems. These estimates vary significantly based on the computerization solution chosen (commercial software package, custom software development or re-engineering).

As the required systems analysis has not been performed, the best computerization solution or approach and corresponding level of effort can not be accurately determined. Therefore, the project design includes a systems analysis component (computer information system strategic plan) but does not include the subsequent detailed design and implementation phases.

Substantial GOP financial management improvements can be implemented using existing hardware and software. The computer information system strategic plan will permit A.I.D. and the GOP to make an informed decision on the incremental benefits and costs from computer system enhancements and development of new automated systems.

The total level of effort required for preparation of the computer information systems strategic plan and acquisition of the necessary CASE (Computer Aided Software Engineering) tools will be 87 person months over one year. At the end of the preparation of the strategic plan, the GOP must make separate arrangements to obtain technical assistance to carry out the implementation phases.

The alternative considered was proceeding with the implementation of computer systems from the onset, choosing one of the following alternative approaches:

- o Implementation of the highest priority automated information systems through the use of commercially available software packages.
- o Full implementation of automated systems with custom software development and available off-the-shelf packages.

The primary benefits from selecting one of these options is increased continuity in the project and the elimination of the potential delay that may result in between completion of the strategic plan and initiation of the implementation phase. However, this risk can be reduced by building in appropriate milestones at which decisions to proceed will be made. Also, the lack of sufficient detailed analysis and accurate cost estimates with which to decide on a computerization approach before completion of the strategic plan required elimination of this alternative.

Re-engineering of existing systems was not considered as a viable alternative because of the difficulty and high cost which would result from the lack of system documentation and the unstructured programming used to develop many of the existing systems.

d. Advantages of the Project Design over Other Alternatives

The advantages of the project design compared to alternative approaches include the following:

- o The integrated financial management (IFMS) approach ensures that there is a harmonization of all standards, policies, regulations and procedures among subsystems and common interfaces between subsystems so that data is shared in an efficient and effective manner.
- o The concurrent strengthening of the GOP financial management system and government auditing ensures that the financial systems provide an adequate audit trail in order to perform external reviews and that internal control weakness, financial reporting errors and fraudulent actions are detected and acted upon in a timely manner.
- o Major financial management policy issues are resolved before beginning implementation of computer systems.
- o There is a strategic rather than an ad hoc approach to computer systems development and computer information systems development costs can be reasonably estimated.
- o There is a broad consensus among GOP financial management and information systems officials on the distribution of financial management responsibilities and the standards, policies, regulations, procedures and automated information systems that are necessary to fully carry out those responsibilities and to be accountable to the public.
- o There is an appropriate balance between practical solutions that are finely tuned to the Panamanian political, social and economic environment and conceptually desirable solutions.
- o There is a cost effective approach which will ensure significant improvements in the financial management of the public sector, public officials accountability and the public perception of the government's financial management integrity.
- o There will be a significant technology or "know-how" transfer from the contractor(s) to GOP financial managers and other personnel.

No alternative approach was identified which captures all benefits. Approaches which focus on one subsystem (such as budget) to the exclusion of others or which attempt to provide technical assistance in financial management to many agencies instead of the central regulatory agency. The Controller General's Office appear to have higher costs as well as lower probabilities of success.

It is concluded that the proposed approach is the least cost method of attacking the problem.

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ANNEX E FINANCIAL ANALYSIS

The financial analysis of the project reflects the dominant significance of U.S. and TCN technical assistance team member costs in the implementation of the project. Components of the analysis are as follows:

1. Summary Budget
2. Panamanian contribution
3. Estimates of level of effort required by function
4. U. S. and TCN consultants
5. Panamanian professional and clerical support
6. Short-term technical assistance
7. U. S. PSC project manager
8. Audit and Evaluation
9. Equipment and supplies
10. Comparison of technical consultant costs under alternative modes of contracting

The analysis begins in Table H-4 with estimates of the level of technical assistance effort expressed in person-months required to carry out the project. Because U.S. and TCN technical assistance personnel costs drive the project budget, the next set of spreadsheets (Table H-14) analyzes prices of technical assistance services at three daily rate levels delivered by four alternative sources. In Table H-14-A, the cost of a financial management consulting firm applying an estimated 100% overhead, 15% G&A, and 7.5% fee is presented. Table H-14-B estimates costs if services procured are defined as recruitment and support rather than financial management technical services as such. Table H-14-C presents the costs of contracting for all foreign technical assistance from Price-Waterhouse applying the rates the Mission is currently paying for their technical assistance services. Table H-14-D presents a dual contract configuration with a sole source to P-W for the team leader and an 8(a) contract for other foreign technical assistance team members. The figures suggest that the Table H-14-D alternative, while not the least expensive preserves the Mission's investment in the current team leader while otherwise reducing overall costs.

Tables H-9 applies the 8(a) contracting rates to three levels of daily consulting salaries. Table H-5 applies these rates to a six person foreign technical assistance team. The table distinguishes between "personnel costs", meaning salaries, allowances, and other direct costs attributable to the consultant and "contractor costs" meaning overhead, G&A, and fee. The total estimated cost is less than \$3,000,000 and thus permits negotiated 8(a) contracting.

Table H-6 shows estimated costs of local contracting of technical assistance and support services.

Table H-7 presents short-term technical assistant during the first two years of the project.

Table H-10 presents the estimated costs of the PSC contract for a project manager reporting to AID directly.

Table H-11 presents estimates of costs of audit. Table H-12 presents estimates of costs of evaluations.

Table H-3 presents estimates of GOP contribution to the project and demonstrates that the GOP will pay more than 25% of the costs of the project.

Table H-2 (a) and H-2 (b) present the project cost distribution by year and source of funding.

Table H-1 presents the summary budget.

Filename: summary
11/8/90

Annek H

Table H - 1

Summary Budget
(US Dollars)

	US	Panama	Total Project
Foreign Technical Assist. (Table H-5)	2,983,661	--	2,983,661
Local Technical Assist. & Support (Table H-6)	706,588	--	706,588
Short-term Foreign TA (Table H-7)	898,451	--	898,451
Equipment and Supply (Table H-13)	150,000	--	150,000
Audit & Evaluation (Tables H-11 & H-12)	100,025	--	100,025
GOP Contrib.: Personnel & Support (Table H-3)	--	1,844,000	1,844,000
PSC Project Manager Contract (Table H-10)	639,314	--	639,314
Subtotal	5,478,039	1,844,000	7,322,039
Inflation & Contingencies	821,961	356,000	1,177,961
TOTAL	6,300,000	2,200,000	8,500,000

1/2/90

Table H 2 (a)

Project Costs Distributed by Year and Source of Funding
(US Dollars)

Item	Year 1			Year 2			Year 3		
	AID	GOP	TOTAL	AID	GOP	TOTAL	AID	GOP	TOTAL
Short-term									
Technical Assist.	355,562	0	355,562	542,889	0	542,889	0	0	0
Foreign									
Tech. Assistance	330,472	0	330,472	766,176	0	766,176	766,176	0	766,176
Local									
Tech Assist.	88,320	0	88,320	176,640	0	176,640	176,640	0	176,640
Equip & Supplies	150,000	0	150,000	0	0	0	0	0	0
Audit & Eval.	7,700	0	7,700	7,700	0	7,700	43,370	0	43,370
GOP Personnel & Support	0	368,800	368,800	0	368,800	368,800	0	368,800	368,800
Project Officer	132,660	0	132,660	123,660	0	123,660	126,660	0	126,660
Sub-Total	1,064,714	368,800	1,433,514	1,617,065	368,800	1,985,865	1,112,846	368,800	1,481,646
Inflation/Conting.	164,392	71,200	235,592	164,392	71,200	235,592	164,392	71,200	235,592
TOTAL	1,229,106	440,000	1,669,106	1,781,457	440,000	2,221,457	1,277,238	440,000	1,717,238

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Table H - 2 (b)

Project Costs Distributed by Year and Source of Funding
(US Dollars)

Item	Year 4			Year 5 (a)			Total		
	AID	GOP	TOTAL	AID	GOP	TOTAL	AID	GOP	TOTAL
Short-term Technical Assist.	0	0	0	0	0	0	898,451	0	898,451
Foreign Tech. Assistance	766,176	0	766,176	354,661	0	354,661	2,983,661	0	2,983,661
Local Tech. Assist.	176,640	0	176,640	88,348	0	88,348	706,588	0	706,588
Equip & Supplies	0	0	0				150,000	0	150,000
Audit & Eval.	7,700	0	7,700	33,555	0	33,555	100,025	0	100,025
GOP Personnel & Support		368,800	368,800		368,800	368,800	0	1,844,000	1,844,000
Project Officer	123,660	0	123,660	132,674	0	132,674	639,314	0	639,314
Sub-Total	1,074,176	368,800	1,442,976	609,238	368,800	978,038	5,478,039	1,844,000	7,322,039
Inflation/Conting.	164,392	71,200	235,592	164,393	71,200	235,593	821,961	356,000	1,177,961
TOTAL	1,238,568	440,000	1,678,568	773,631	440,000	1,213,631	6,300,000	2,200,000	8,500,000

(a) figures in the last year has been adjusted due to rounding errors

1/2/90

 GOP Contribution: Personnel & Support
 (US Dollars)

PERSONNEL		Monthly			
Full time employees	Amount	Cost	# Mo.	Annual	Total

Director	1	1,800	60	21,600	108,000
Director Assistant	1	800	60	9,600	48,000
Secretaries	2	960	60	11,520	57,600
Janitors	1	300	60	3,600	18,000
Chauffeur	1	500	60	6,000	30,000
Professors	10	10,000	44	120,000	440,000
Subtotal		14,360		172,320	701,600
Part time employees					

Supervision fm MIPPE,MHT,CG (a)		10,000	44	120,000	440,000
TOTAL PERSONNEL		24,360		292,320	1,141,600
EQUIPMENT MAINTENANCE					
		Monthly			
Item		Cost	# Mo.	Annual	Total

Rent (b)		6,000	60	72,000	360,000
Air conditioning		2,500	60	30,000	150,000
Car		200	60	2,400	12,000
Supplies (c)		2,600	44	31,200	114,400
Audio, furniture		1,500	44	18,000	66,000
TOTAL EQUIPMENT MAINTENANCE		12,800		153,600	702,400
TOTAL GOP PERSONNEL AND SUPPORT		37,160		445,920	1,844,000

(a) supervision from the Executive Committee composed of Minister of Planning, Minister of Finance & Treasury, Comptroller General, President of the Budget Committee of the Legislative Assembly.

(b) Includes 1 floor Gusromares Bldg. & 1 floor Contraloria Bldg.

(c) computer supplies for Technical staff, materials for training at Training Center, supplies for the Auditor Office.

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Table H - 4

Estimates of Level of Effort by Function

Skill	Year 1	2	3	4	5	Total
Foreign Hire						
Leader	5	12	12	12	7	48
Treasury	4	12	12	12	4	44
Budget	4	12	12	12	4	44
Acctg	4	12	12	12	4	44
Debt	4	12	12	12	4	44
Audit	4	12	12	12	4	44
Sub-total	25	72	72	72	27	268
Short-term Hire (6 pers.)	30	46				76
Local Hire						
Administrator	6	12	12	12	6	48
IMS Specialist	6	12	12	12	6	48
Train Specialist	6	12	12	12	6	48
Secretaries (2)	12	24	24	24	12	96
Sub-total	30	60	60	60	30	240
TOTAL	85	178	132	132	57	584

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Estimated Costs of Foreign Contract for Personnel Services
Associated with Technical Assistance Staffing
(US Dollars)

Personnel	Personnel Costs							Contractor Costs					TOTAL COSTS		
	post	Salary	diff(a)	fringe(b)	allow(c)	DBA(d)	Monthly	Total	OH(e) 20.00%	G&A(f) 3.00%	Fee(g) 3.00%	Monthly		Total	
							Personnel Cost	Personnel Cost				Personnel Cost		Contractor Cost	
Team Leader	275	5,958	596	918	2,517	205	10,195	48	489,341	1,192	342	352	1,885	90,484	579,826
Treasury Adv.	250	5,417	542	835	2,517	186	9,497	44	417,852	1,083	317	327	1,728	76,017	493,869
Budget Advisor	250	5,417	542	835	2,217	186	9,197	44	404,652	1,083	308	318	1,709	75,213	479,865
Accting Advisor	220	4,767	477	735	2,217	164	8,359	44	367,800	953	279	288	1,520	66,900	434,700
Debt Advisor	220	4,767	477	735	2,217	164	8,359	44	367,800	953	279	288	1,520	66,900	434,700
Audit Advisor	220	4,767	477	735	2,217	164	8,359	44	367,800	953	279	288	1,520	66,900	434,700
Total		31,092	3,109	4,793	13,902	1,070	53,965		2,415,246	6,218	1,806	1,860	9,884	442,415	2,857,661

Freight/family: \$15,000 90,000
Travel/family: \$ 6,000 36,000

- (a) represents 10.0% on salary.
- (b) [(salary + pd) * .0765] + (salary * .07)
- (c) housing: Sr. Adv. = \$1,600; Jr. Adv. = \$1,300
school: \$917/month for 2 students
- (d) represents 3.44% on salary.
- (e) represents salary * OH rate.
- (f) represents (personnel monthly cost + OH) * G&A rate.
- (g) represents (personnel monthly cost + OH + G&A) * fee rate.

2,983,661

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Estimated Costs of Local Contract for Technical Assistance & Support Staffing
(US Dollars)

	Personnel Costs						Contractor Costs					Total Costs
	Monthly Salary	fringe(a)	Health Ins (b)	Personnel	Total	OH(c) 50.00%	G&A(d) 0.00%	Fee(e) 3.00%	Contractor	Total		
				Monthly Cost	#Mo.				Personnel Cost	Monthly Contractor Cost	Contractor Cost	
Administrator	1,800	194	29	2,023	48	97,088	900	0	88	988	47,409	144,497
Inf. Specialist	2,300	247	29	2,576	48	123,668	1,150	0	112	1,262	60,566	184,234
Training Specialist	1,500	161	29	1,690	48	81,140	750	0	73	823	39,514	120,654
Secretaries (2)	1,600	172	29	1,801	96	172,912	800	0	78	878	84,291	257,203
Total Locals	7,200	774	117		240	474,808	3,600	0	351		231,780	706,588

(a) 10.75% on salary

(b) \$350/year/person

(c) represents salary * OH rate

(d) represents personnel monthly cost * G&A rate.

(e) represents (personnel monthly cost + OH + G&A) * fee rate

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Estimated Costs of Contract for Personnel Services
Associated with Short-Term Technical Assistance Staffing
(US Dollars)

Personnel	Personnel Costs							Contractor Costs					TOTAL COSTS	
	Salary	fringe(a)	per diem (b)	DBA(c)	Monthly Personnel Cost	Monthly Personnel #Mo.	Total Personnel Cost	OH(d) 20.00%	G&A(e) 3.00%	Fee(f) 3.00%	Monthly Contractor Total	Total Contractor Cost		
System Project Cons.	295	6,392	936	3,696	220	11,244	15	168,659	1,278	376	387	2,041	30,614	199,273
Treasury Consultant	250	5,417	794	3,696	186	10,093	11	111,018	1,083	335	345	1,764	19,403	130,421
Debt Consultant	250	5,417	794	3,696	186	10,093	9	90,833	1,083	335	345	1,764	15,875	106,708
Budget Consultant	250	5,417	794	3,696	186	10,093	11	111,018	1,083	335	345	1,764	19,403	130,421
Accting Consultant	220	4,767	698	3,696	164	9,325	15	139,874	953	308	318	1,579	23,689	163,564
Auditing Consultant	220	4,767	698	3,696	164	9,325	15	139,874	953	308	318	1,579	23,689	163,564
Total		32,175	4,714	22,176	1,107	60,171		761,276	6,435	1,998	2,058	10,491	132,675	893,951

Travel/person \$750 4,500

(a) [(salary + pd) * .0765] + (salary * .07)

(b) per diem \$132. TDY's total period will not be consistent.

(c) represents 3.44% on salary.

(d) represents salary * OH rate.

(e) represents (personnel monthly cost + OH) * G&A rate.

(f) represents (personnel monthly cost + OH + G&A) * fee rate.

898,451

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Table H - 8

Annual Estimates of Project Foreign Technical Assistance
----- Staffing Cost based on Four Alternatives (a)

(US Dollars)

	# of People	Alternative A ----- Single Contract for Financial TA Services (b)	Alternative B ----- Single Contract for Personnel Services (c)	Alternative C ----- Sole Source Contract Big 6	Alternative D ----- Dual Contract Configuration Team Leader Sole Source Other TA, 8(a)
Team Leader at \$275/day	1	225,488	146,056	262,622	262,622
Senior Adv. at \$250/day	1	215,436	137,169	251,536	137,169
Junior Advisor at \$250/day	1	198,989	130,868	247,666	130,868
Expert at \$220/day	3	535,623	355,650	664,134	355,650
Total	6	1,175,536	769,743	1,425,958	886,309

- (a) Detailed analysis of each alternative in Table H-14.
 (b) TA Services refer to contracting with consulting firm for technical results.
 (c) Personnel Services refer to contracting with personnel firm solely for services of recruiting, inserting in country, payroll, in country personnel support, and extraction, i.e (8a firm).

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Contract for Personnel Services
Monthly Cost of Technical Assistance Staff by Daily Rate
(US Dollars)

Senior Advisors				Junior Advisor				Expert			
Item	Unit Cost	Exten'n	Monthly	Item	Unit Cost	Exten'n	Monthly	Item	Unit Cost	Exten'n	Monthly
Salary	\$275/day	275.00	5958.33	Salary	\$250/day	250	5416.67	Salary	\$220/day	220.00	4766.67
post differential	10%	27.50	595.83	post differential	10%	25.00	541.67	post differential	10%	22.00	476.67
fringe(.0765+.07)	14.65%	42.39	918.48	fringe(.0765+.07)	14.65%	38.54	834.98	fringe(.0765+.07)	14.65%	33.91	734.78
dba(.0344)	3.44%	9.46	204.97	dba(.0344)	3.44%	8.60	186.33	dba(.0344)	3.44%	7.57	163.97
housing/mo.	1600.00		1600.00	housing/mo.	1300.00		1300.00	housing/mo.	1300.00		1300.00
school/stu(2)	5500.00	11000.00	916.67	school/stu(2)	5500.00	11000.00	916.67	school/stu(2)	5500.00	11000.00	916.67
Total Monthly Personnel Cost			10,194	Total Monthly Personnel Cost			9,196	Total Monthly Personnel Cost			8,359
OH/X salaries	20.00%		1191.67	OH/X salaries	20.00%		1083.33	OH/X salaries	20.00%		953.33
Total OH+Direct Costs			11385.94	Total OH+Direct Costs			10279.65	Total OH+Direct Costs			9312.09
G&A/X OH+Dir. Cost	3.00%		341.58	G&A/X OH+Dir. Cost	3.00%		308.39	G&A/X OH+Dir. Cost	3.00%		279.36
Fee/X OH+Dir. Cost	3.00%		351.83	Fee/XOH+Dir.Cost+G&A	3.00%		317.64	Fee/X OH+Dir. Cost	3.00%		287.74
Total Monthly Contractor Cost			1,885	Total Monthly Contractor Cost			1,709	Total Monthly Contractor Cost			1,520
Total Monthly Price per Senior Advisor			12,079	Total Monthly price per Junior Advisor			10,906	Total Monthly Price per Expert			9,879

Table H - 10

Cost Estimate for PSC Project Manager Contract
 (US Dollars)

Item	Unit Cost	Exten'n	Monthly
Salary	\$295/day	295.00	6,391.67
post differential	10%	29.50	639.17
fringe(.0765)	7.65%	24.82	537.86
dba(.0344)	3.44%	10.15	219.87
housing/mo.	1,600.00		1,600.00
school/stu(2)	5,500.00	11,000.00	916.67
Total Monthly Cost for PSC Manager			10,305.23
PSC Manager Cost	60 months		618,314
Freight			15,000
Travel			6,000
TOTAL PSC MANAGER COST			639,314

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Table H - 11

Audit Costs
(US Dollars)

Audit for 20 days to be performed in accordance with Dire Emergency Lending Legislation			

Partner Supervision			
Item	Unit Cost	Exten'n #	Total for Period

Salary (a)	\$875/day	875	4
			3,500
Senior Auditor			

Salary (a)	\$210/day	210	20
			4,200

Total Cost for 1 year			7,700
Total Cost	5 years		38,500

(a) represents burdened daily rates for local auditors.

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Table H - 12
Evaluation Costs
(US Dollars)

Mid-term evaluation for 3 weeks by two evaluators 15 days each

Final evaluation for 4 weeks by two evaluators for 20 days each
(Team leader at \$295/day Evaluator at \$250/day)

-----					-----				
					Team Leader				
Item	Unit Cost	Exten'n	# days	Total Period	Item	Unit Cost	Exten'n	# days	Total Period
-----					-----				
Salary	\$250/day	250	30	7,500	Salary	\$295/day	295	20	5,900
Travel to/fm post	750	750		750	Travel to/fm post	750	750		750
per diem/10 days	132			3,960	per diem/20 days	132			2,640
				-----					-----
Total Personnel Cost				12,210	Total Personnel Cost				9,290
OH, G&A, Fee/% salary	75.00%			5,625	OH, G&A, Fee/% salary	75.00%			4,425
				-----					-----
Total Cost Evaluator at \$250/day				17,835	Total Cost Evaluator at \$295/day				13,715
Total Cost		2		35,670					
					Evaluator				
					Total for				
Item	Unit Cost	Exten'n	# days	Total Period	Item	Unit Cost	Exten'n	# days	Total Period
-----					-----				
Salary	\$250/day	250	20	5,000	Salary	\$250/day	250	20	5,000
Travel to/fm post	750	750		750	Travel to/fm post	750	750		750
per diem/20 days	132			2,640	per diem/20 days	132			2,640
				-----					-----
Total Personnel Cost				8,390	Total Personnel Cost				8,390
OH, G&A, Fee/% salary	75.00%			3,750	OH, G&A, Fee/% salary	75.00%			3,750
				-----					-----
Total Cost Evaluator at \$250/day				12,140	Total Cost Evaluator at \$250/day				12,140
Total Cost for two Evaluators				25,855	Total Cost for two Evaluators				25,855
					TOTAL EVALUATION BUDGET				
					61,525				
-----					-----				

1/18/90

Table H - 13

Equipment and Supplies
(US Dollars)

Equipment & Software					
Item	Unit Cost	Quantity	Cost	Shipping, Handling & Ins. 8.00%	Total Cost

Personal Computers (a)	3,000	10	30,000	2,400	32,400
Laser Jet III Printer	2,000	2	4,000	320	4,320
Printers for PCs	600	10	6,000	480	6,480
Photocopy machine	3,600	1	3,600	288	3,888
Canon 270 fax machine	1,395	1	1,395	112	1,507
Xerox typewriters Model 6016	630	4	2,520		2,520
Page Maker	505	10	5,050		5,050
Word Perfect 5.1	282	10	2,820		2,820
Lotus Release 2.2	397	10	3,970		3,970
Harvard Graphics	329	10	3,290		
Harvard Project Mgr.	479	10	4,790		
Total Equipment and Software					62,955
Supplies					

Diskettes 3.5 HD	49	50	2,450		
Diskettes 5.25 HD	49	50	2,450		
Daisy Wheels (b)	10	40	400		
Supplies/fax machine	16	90	1,440		
Supplies/photocopier (c)	132	602	21,120		
Supplies/printer (d)	279	930	26,600		
Miscellaneous & Contingency			12,665		
Total Supplies					87,045

TOTAL ESTIMATED COST FOR EQUIPMENT & SUPPLIES					150,000

(a) 10, 386 Based PC's 40 MB HD 2 MB RAM 3.5 inch disk and 5.25 inch floppy disk, VGA Color Monitor, Mouse					
(b) Xerox Daisy Wheels Prestige Elite 12 (20 wheels) and OCR 8 10 (20 wheels).					
(c) Bond Paper: 8.5 x 11, 8.5x 14: \$15, 200/yr. 60 bottles toner: \$12 ea.; 60 bottles toner: \$90 ea.					
(d) Printing paper: 9.5 x 11, 14.875 x 11: \$25, 200/yr.; 120 bottles toner: \$125 ea. 600 ribbons \$9 ea ; 10 comfort visions \$120 ea.					

Table H - 14

Detailed Analysis by Contracting Alternatives

A. Financial Management Project - Draft Budget - Single Contract on Financial Management Firm

Filename: FMBudget
10/29/9:00am

Team Leader

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total
Salary	\$275/day	275.00	5958.33	60	71500.00 357500.00
post differ.	10.00%	27.50	595.83	60	7150.00 35750.00
fringe(.0765+.07)	14.65%	42.39	918.48	60	11021.73 55108.63
dba(.0344)	3.44%	9.46	204.97	60	2459.60 12298.00
housing/mo.	1600.00		1600.00	60	19200.00 96000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00 55000.00
travel to/fm post					
travel(4 pers)	750.00	3000.00			3000.00
freight	15000.00	15000.00			15000.00
home leave					
travel(4 pers)	750.00	3000.00			3000.00
per diem	126.00				
Total Personnel Cost					122331.33 632656.63
Overhead/salaries	1.00	295.00	6391.67	60	76700.00 353500.00
G&A/% on salaries	15.00%				10725.00 53625.00
Fee/% cost+OH+G&A	7.50%				15731.72 78658.62
Total Contractor Cost					103156.72 515783.62
Total Price Team Leader					275488.05 1148440.25

B. Financial Management Project - Draft Budget - Single Contract on Personal Firm

Filename: FMBudget
10/29/9:00am

Team Leader on fully loaded contract

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total
Salary	\$275/day	275.00	5958.33	60	71500.00 357500.00
post differ.	10.00%	27.50	595.83	60	7150.00 35750.00
fringe(.0765+.07)	14.65%	42.39	918.48	60	11021.73 55108.63
dba(.0344)	3.44%	9.46	204.97	60	2459.60 12298.00
housing/mo.	1600.00		1600.00	60	19200.00 96000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00 55000.00
travel to/fm post					
travel(4 pers)	750.00	3000.00			3000.00
freight	15000.00	15000.00			15000.00
home leave					
travel(4 pers)	750.00	3000.00			3000.00
per diem	126.00				
Total Personnel Cost					122331.33 632656.63
Overhead/salaries	20.00%	59.00	1278.33	60	15340.00 76700.00
G&A/% salary + OH	3.00%				4130.14 20650.70
Fee/% cost+OH+G&A	3.00%				4254.04 21270.22
Total Contractor Cost					23724.18 118620.92
Total Price Team Leader					146055.51 751277.54

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Senior Advisors on Single Contract

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total
Salary	\$250/day	250.00	5416.67	60	65000.00 325000.00
post differ.	10.00%	25.00	541.67	60	6500.00 32500.00
fringe(.0765+.07)	14.65%	38.54	834.98	60	10019.75 50098.75
dba(.0344)	3.44%	8.60	186.33	60	2236.00 11180.00
housing/mo.	1600.00		1600.00	60	19200.00 96000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00 55000.00
travel to/fm post					
travel(4 pers)	750.00	3000.00			3000.00
freight	15000.00	15000.00			15000.00
home leave					
travel(4 pers)	750.00	3000.00			3000.00
per diem	126.00				
Total Personnel Cost					113955.75 590778.75
Overhead/salaries	1.00	295.00	6391.67	60	76700.00 383500.00
G&A/% on salaries	15.00%				9750.00 48750.00
Fee/% cost+OH+G&A	7.50%				15030.43 75152.16
Total Contractor Cost					101480.43 507402.16
Total Price per Senior Advisor					215436.18 1098180.91

Senior Advisor on dual contract

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total
Salary	\$250/day	250.00	5416.67	60	65000.00 325000.00
post differ.	10.00%	25.00	541.67	60	6500.00 32500.00
fringe(.0765+.07)	14.65%	38.54	834.98	60	10019.75 50098.75
dba(.0344)	3.44%	8.60	186.33	60	2236.00 11180.00
housing/mo.	1600.00		1600.00	60	19200.00 96000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00 55000.00
travel to/fm post					
travel(4 pers)	750.00	3000.00			3000.00
freight	15000.00	15000.00			15000.00
home leave					
travel(4 pers)	750.00	3000.00			3000.00
per diem	126.00				
Total Personnel Cost					113955.75 590778.75
Overhead/salaries	20.00%	59.00	1278.33	60	15340.00 76700.00
G&A/% salary + OH	3.00%				3878.87 19394.36
Fee/% cost+OH+G&A	3.00%				3995.24 19976.19
Total Contractor Cost					23214.11 116070.56
Total Price per Senior Advisor					137169.86 706849.31

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Expert on single fully loaded contract

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total	
Salary	\$220/day	220.00	4766.67	60	57200.00	286000.00
post differ.	10.00%	22.00	476.67	60	5720.00	28600.00
fringe(.0765+.07)	14.65%	33.91	734.78	60	8817.38	44086.90
dba(.0344)	3.44%	7.57	163.97	60	1967.68	9838.40
housing/mo.	1300.00		1300.00	60	15600.00	78000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00	55000.00
travel to/fm post						
travel(4 pers)	750.00	3000.00				3000.00
freight	15000.00	15000.00				15000.00
home leave						
travel(4 pers)	750.00	3000.00				3000.00
per diem	126.00					
Total Personnel Cost				100305.06	522525.30	
Overhead/salaries	1.00	220.00	4766.67	60	57200.00	286000.00
G&A/X on salaries	15.00%				8580.00	42900.00
Fee/X cost+OH+G&A	7.50%				12456.38	62281.90
Total Contractor Cost				78236.38	391181.90	
Total Price per Expert				178541.44	913707.20	

Expert on dual contract configuration

Item	Unit Cost	Exten'n	Monthly #Mo.	Annual	Total	
Salary	\$220/day	220.00	4766.67	60	57200.00	286000.00
post differ.	10.00%	22.00	476.67	60	5720.00	28600.00
fringe(.0765+.07)	14.65%	33.91	734.78	60	8817.38	44086.90
dha(0344)	3.44%	7.57	163.97	60	1967.68	9838.40
housing/mo.	1300.00		1300.00	60	15600.00	78000.00
school/stu(2)	5500.00	11000.00	916.67	60	11000.00	55000.00
travel to/fm post						
travel(4 pers)	750.00	3000.00				3000.00
freight	15000.00	15000.00				15000.00
home leave						
travel(4 pers)	750.00	3000.00				3000.00
per diem	126.00					
Total Personnel Cost				100305.06	522525.30	
Overhead/salaries	20.00%	44.00	953.33	60	11440.00	57200.00
G&A/X salary + OH	3.00%				3352.35	16761.76
Fee/X cost+OH+G&A	3.00%				3452.92	17264.61
Total Contractor Cost				18245.27	91226.37	
Total Price per Expert				118550.33	613751.67	

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ANNEX I. INSTITUTIONAL ANALYSIS

1. Overview of Governmental Management and Auditing

This section begins with an overview of the Government of Panama in order to identify the government agencies and offices that have financial management and control responsibilities and the related legal basis.

a. Organization of the Government of Panama

In accordance with Title 1, Article 1 of the Political Constitution of the Republic of Panama, "The Panamanian nation is organized as a sovereign and independent state, whose name is the Republic of Panama. Its government is unitary, republican, democratic, and representative."

Article 2 of the Constitution states that the supreme power is vested in the people, and exercised by them through a system of representation established in the Constitution, by means of the Legislative, Executive and Judicial branches which act limitedly and separately, but in harmonious collaboration."

The Constitution further identifies three independent organizations: the Controller General's Office of the Republic which reports to the legislative and executive branches and is responsible for controlling and overseeing public funds; the Electoral Tribunal which is in charge of guaranteeing liberty, honor and efficacy of the popular vote; and the Public Affairs Ministry which defends the interests of the State.

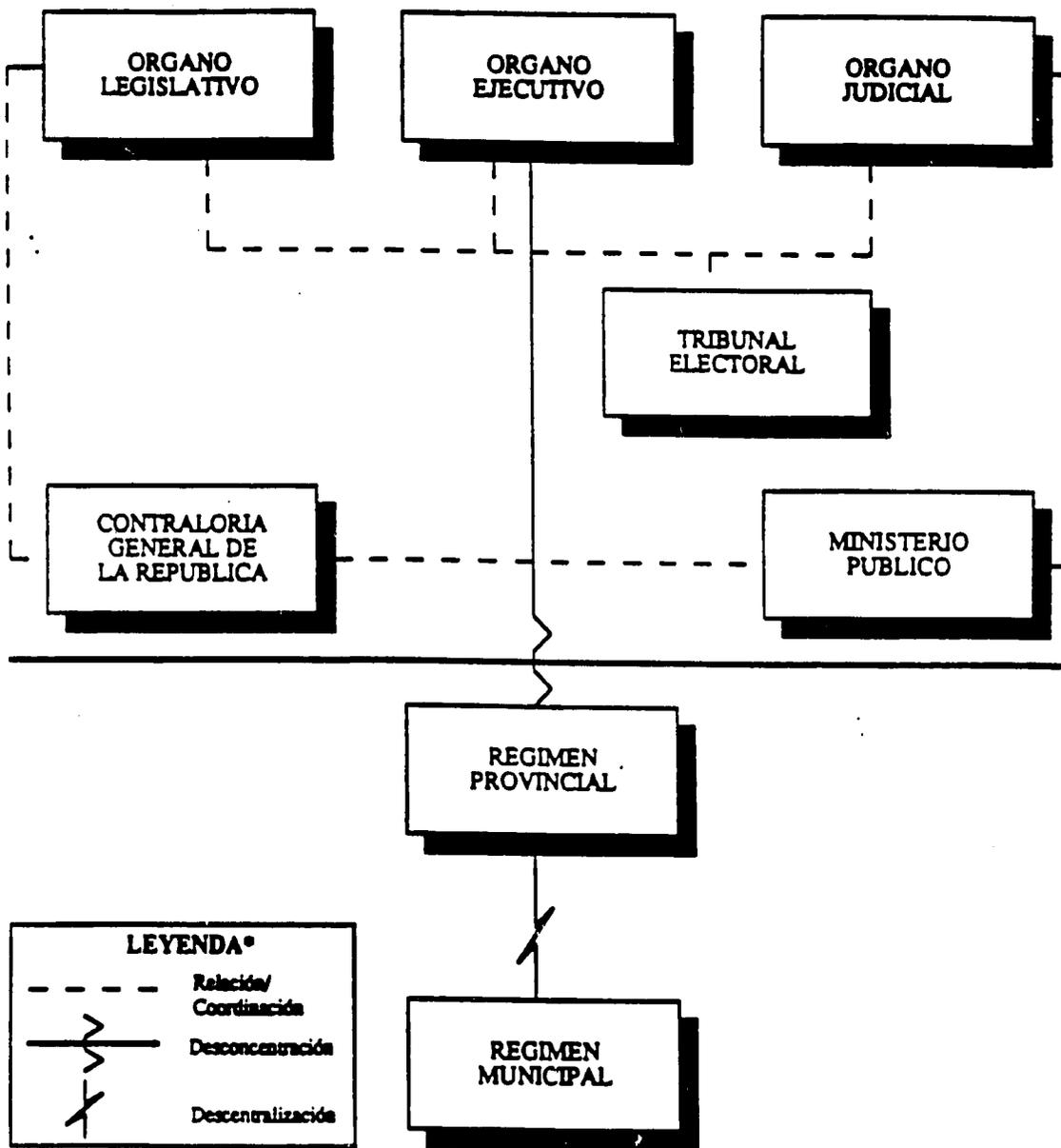
Figure 1 shows the organization of the Panamanian government and includes the decentralized organizational structure for provincial and municipal administrations.

Figures 2, 3, and 4, present the organization of the Legislative and Executive branches and of the Supreme Court of Justice, respectively.

The Executive Branch is composed of 12 ministries (central government entities) and 50 decentralized and autonomous entities. Article 238 of the Constitution establishes a mayor, a chief of municipal administration and two assistants, elected by direct popular vote, in each district. Article 238 continues to state that the law, however, can permit that in any district the mayor be named and removed by the Executive Branch. There are 65 municipalities and 9 provincial councils.

FIGURE 1

ORGANIZACION DEL GOBIERNO DE LA REPUBLICA DE PANAMA



*Esta leyenda aplica a los gráficos 1-14

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ORGANO LEGISLATIVO

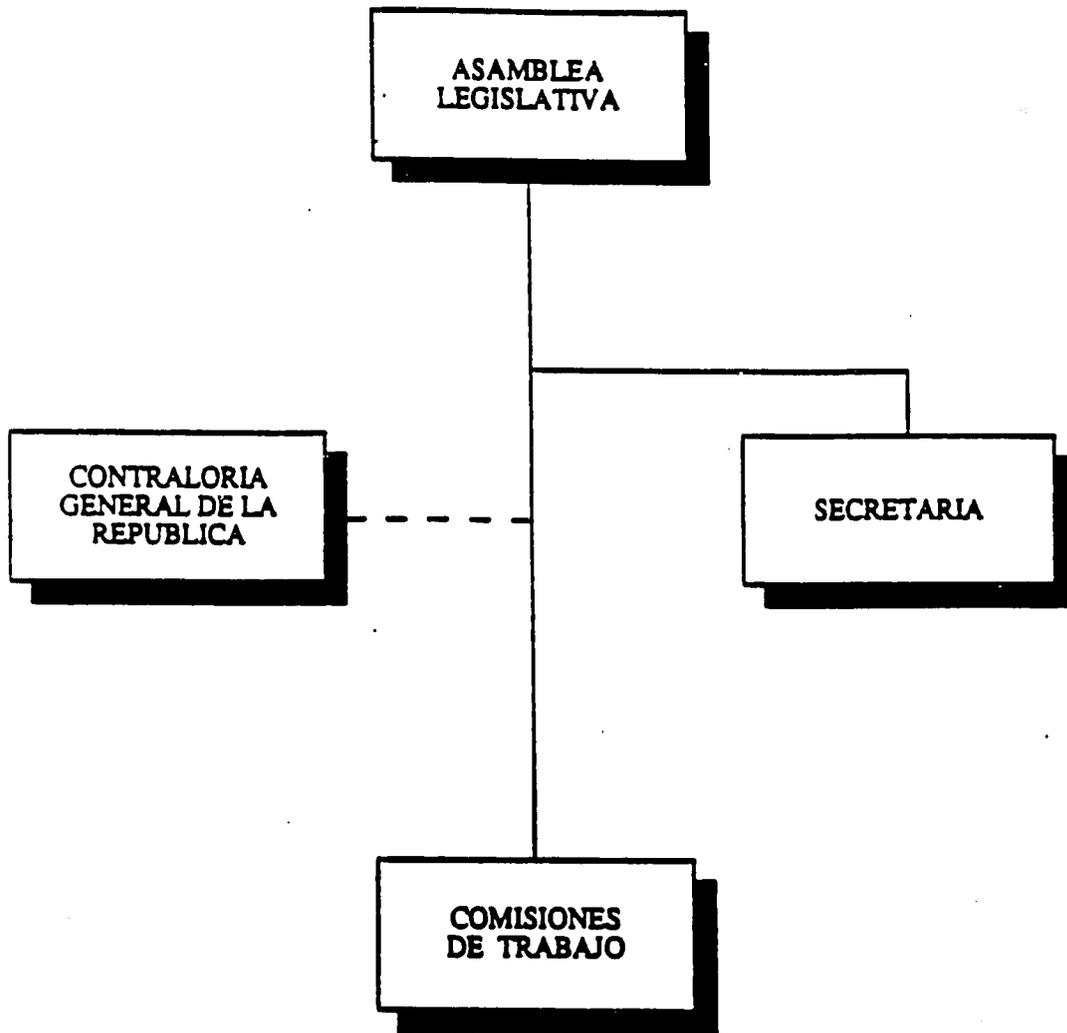


FIGURE 3

ORGANO EJECUTIVO

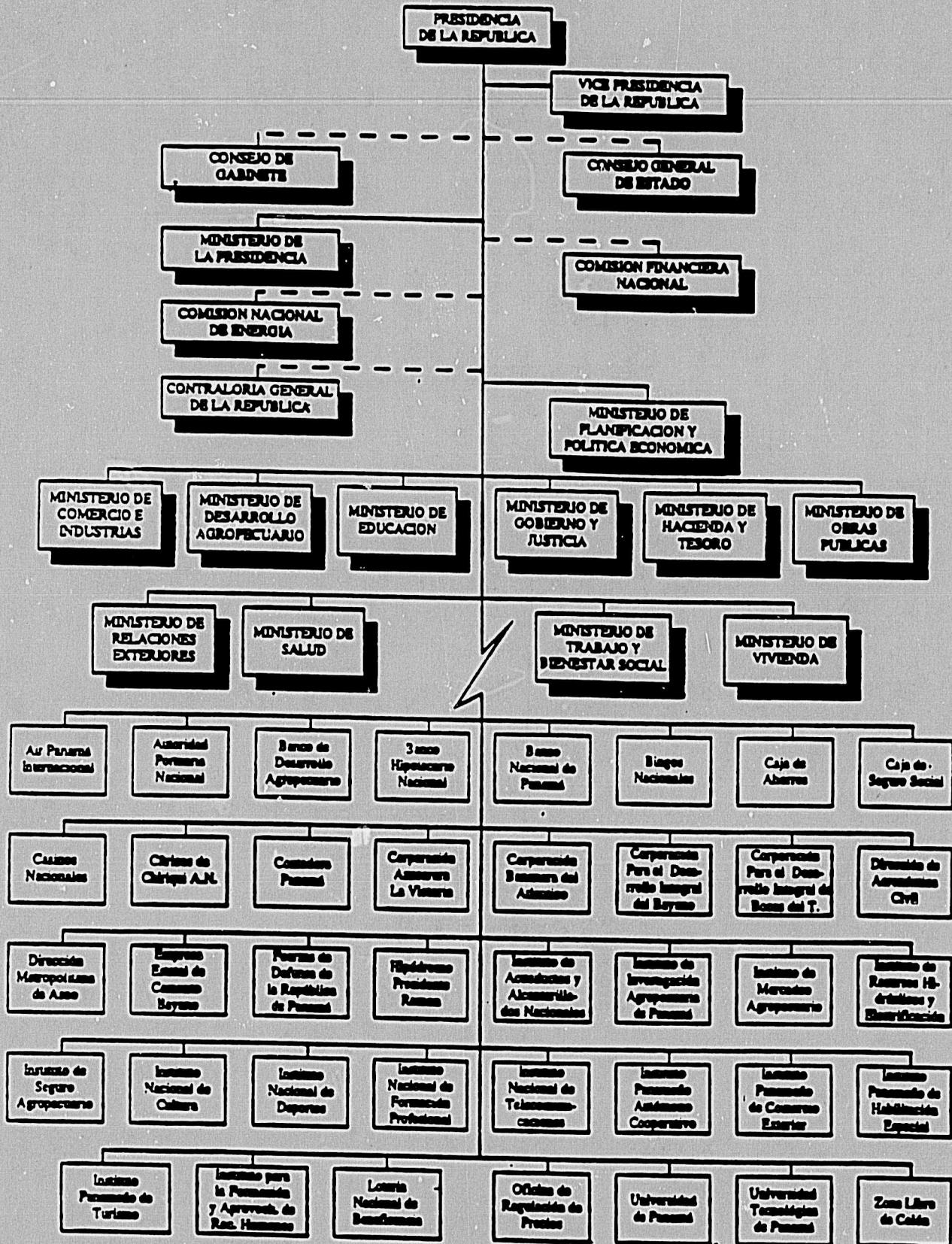
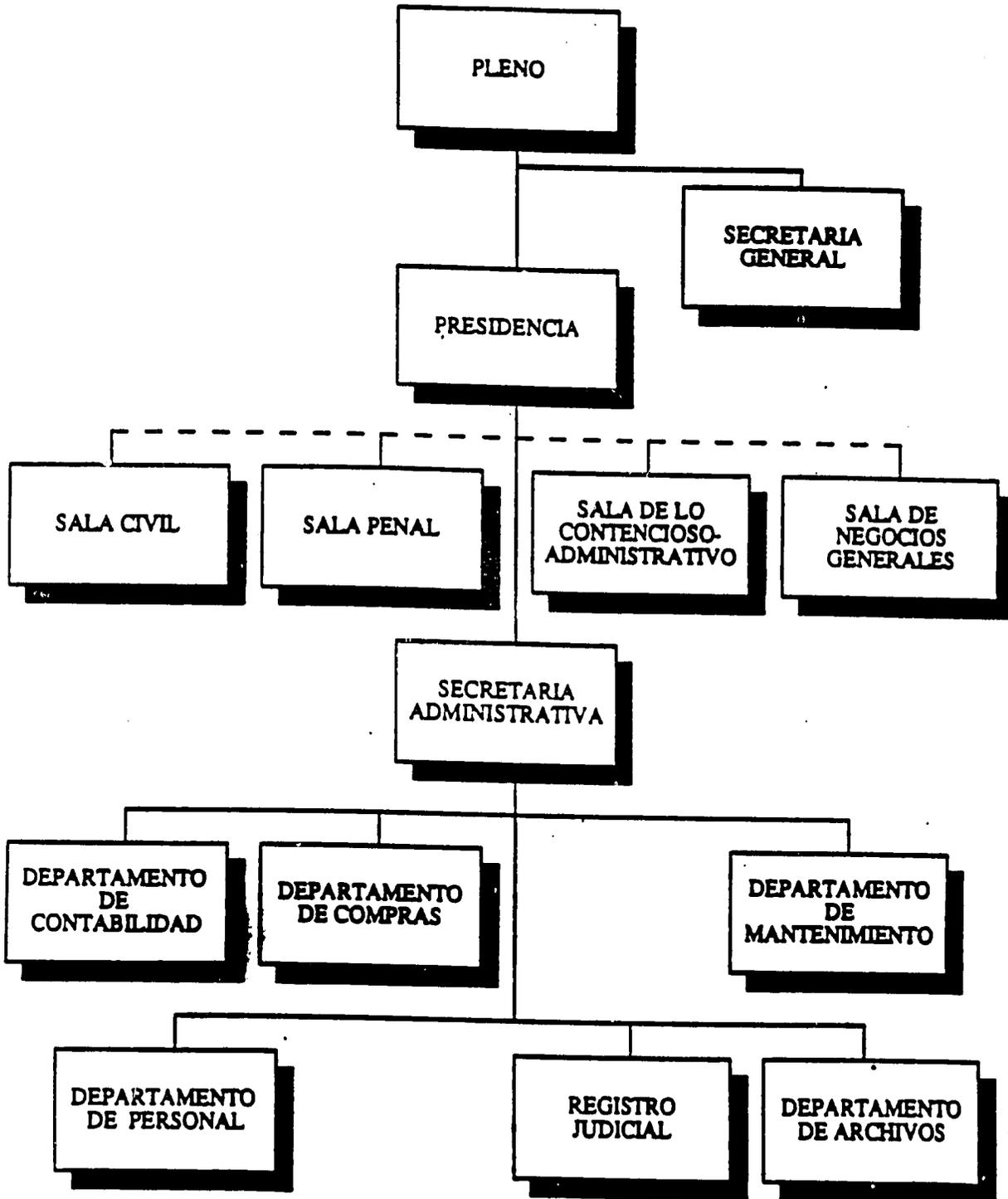


FIGURE 4

CORTE SUPREMA DE JUSTICIA



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b. **Organization and Functions of the Principal Institutions and Administrative Offices that Participate in Government Financial Management**

1. **Controller General's Office of Panama**

Article 275 of the Constitution states, "There will be an independent state organization called the Controller General's Office of the Republic, the direction of which will be the charge of a public official to be called the Controller General, assisted by a Deputy Controller, both of whom will be appointed for a term equal to that of the President of the Republic..."

Article 155, Number 5, states that one of the administrative functions of the Legislative Assembly is to name the Controller and Deputy Controller of the Republic.

The functions of the Controller General's Office are established in Article 276 of the Constitution. These are:

- To keep the national accounts, including accounts of the internal and external debts.
- To control, regulate and oversee all management of funds and other public resources, in order that they be utilized correctly and in accordance with the law. The Controller General's Office will determine those cases in which it will exercise both pre-control and post-control over management decisions, as well as cases where it will only exercise post-control.
- To examine, intervene, and close the accounts of public officials, entities or personnel that administer, manage or safeguard funds or other public resources. That which pertains to criminal responsibility falls under the jurisdiction of the ordinary courts.
- To carry out inspections and investigations to determine the correctness or incorrectness of operations which affect the public patrimony, and to present the findings.
- To collect the financial management reports of public national entities, provincial departments, municipalities, and autonomous, semiautonomous and state-owned businesses from the corresponding public officials.
- To establish and promote the adoption of the necessary measures to pay off public debts.

- o To demand the declaration of unconstitutionality, or illegality, as the case may be, of laws or acts in violation of the Constitution or of the laws that govern the national resources.
- o To establish the accounting methods of those public entities referred to in Number 5 of this article.
- o To inform the Legislative Assembly and the executive branch of the financial state of the nation and to advise them about the viability and suitability of the extension of supplementary or extraordinary credits.
- o To direct and formulate national statistics.
- o To appoint employees within the Controller's Office in accordance with the Constitution and the law.
- o To present to the Executive branch and the Legislative Assembly an annual report on its activities.
- o To provide opinions when doubts arise due to alleged irregularities by its agents and managers.

In the constitutional provisions referring to the National Budget, Article 268 states that:

"...the Legislative Assembly will not increase any of the proposed outlays in the budget projection or include a new outlay, without the approval of the Council of Ministers, nor increase estimated revenues without the approval of the Controller General of Panama..."

Article 272 establishes that:

...the Legislative Assembly will not issue laws that repeal or modify existing legislation which establishes known revenue in the budget, unless at the same time it establishes new substitute income or augments existing income without informing the Controller General's Office of Panama about the fiscal effects of those actions.

To exercise the legal powers described above, the Controller General's Office maintains (at the time of this report) the organizational structure shown in Figure 5, and relies on a staff of approximately 2,000. Of this staff, 800 employees have been assigned to the Audit Office, 435 to the Census and Statistics Office, 245 to the Accounting Office and the rest to other divisions.

The Audit Office staff is organized in the following way:

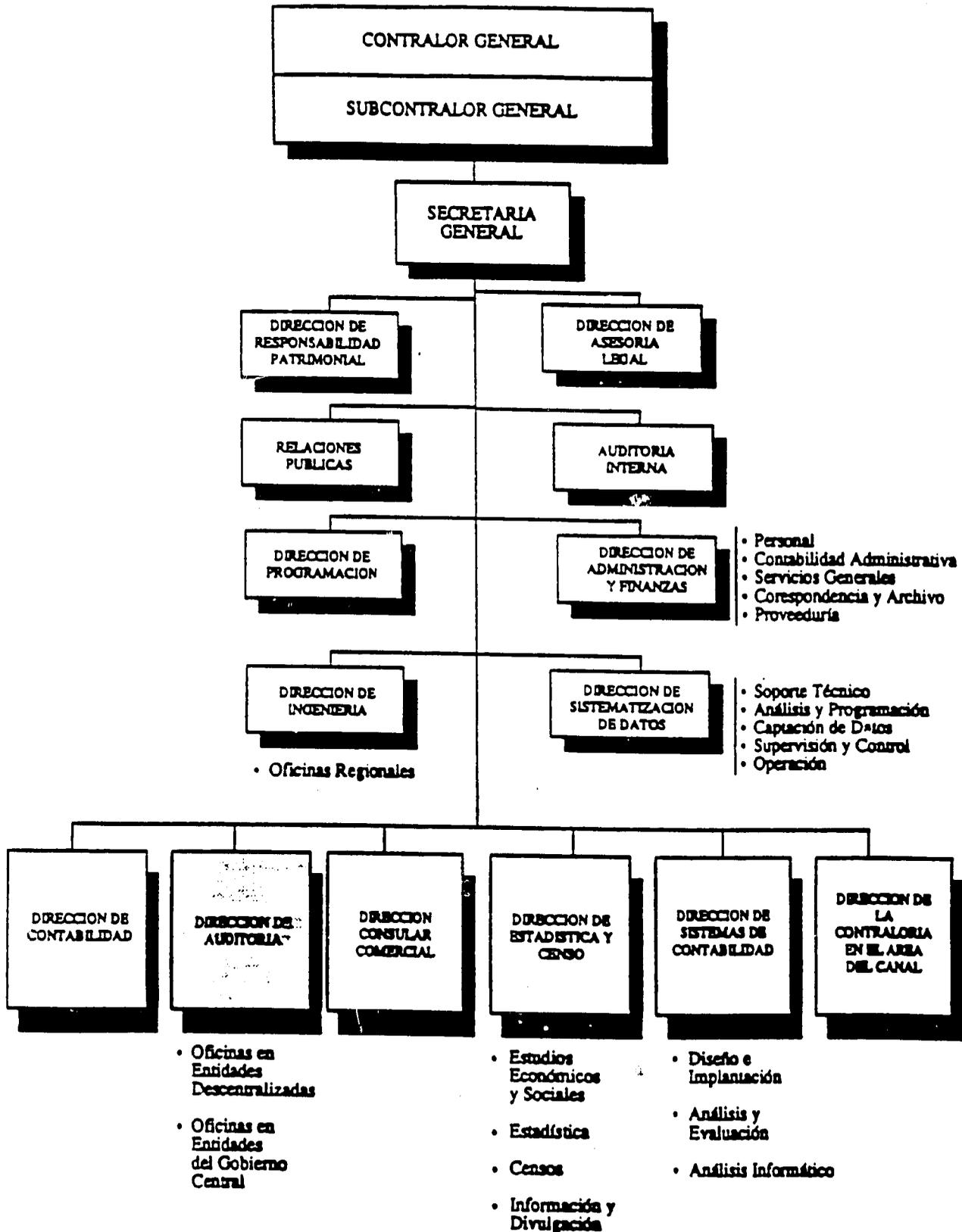
- o 550 auditors assigned to pre-control activities related principally to the review and authorization of disbursements and the signing of checks for agencies and entities of the central government, decentralized and autonomous entities, public enterprises, municipalities and provincial councils (approximately 135 institutions in total);
- o 50 auditors assigned to the payroll department and the review of accounts and credits for the Controller General's Office;
- o 38 auditors to carry out financial post-audits, some of which result in the issuance of findings;
- o 12 auditors recently assigned to special investigations for the Directorate of Investigative Services; and
- o 150 employees administrative and secretarial support staff.

It is estimated that less than 10% of the 650 professional and technical employees of the Office are dedicated solely to auditing activities. Therefore they are unable to get involved in other technical areas such as operational audits, performance audits, etc.

Budgetary and accounting activities under the jurisdiction of the Controller General's Office are the responsibility of the Accounting Office and the audit offices it has established throughout the central government and the decentralized and autonomous institutions. The internal organization of the Accounting Office is presented in Figure 6.

FIGURE 5

CONTRALORIA GENERAL DE LA REPUBLICA



DIRECCION DE CONTABILIDAD DE LA CONTRALORIA GENERAL

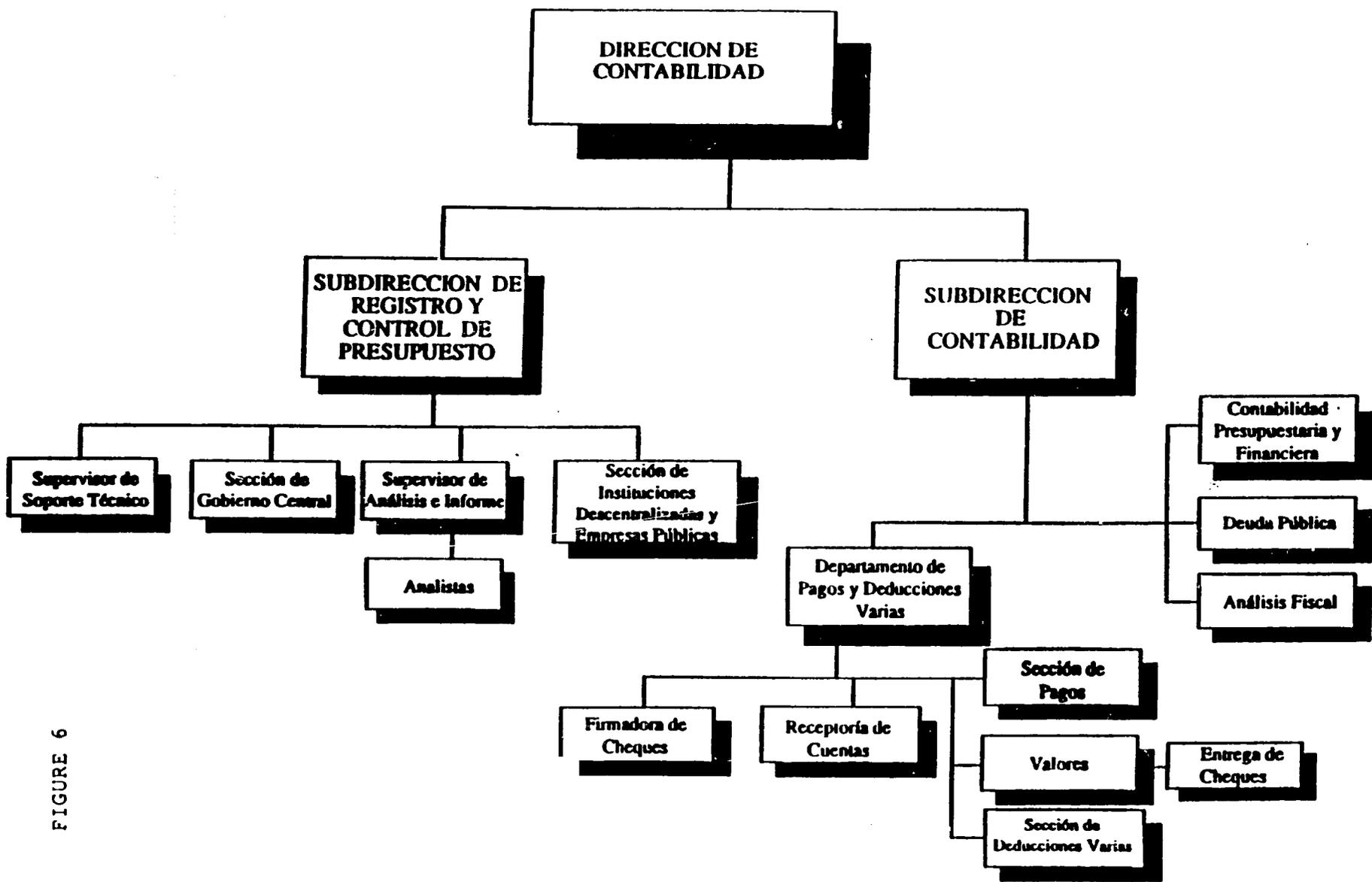


FIGURE 6

2. Ministry of Finance and Treasury

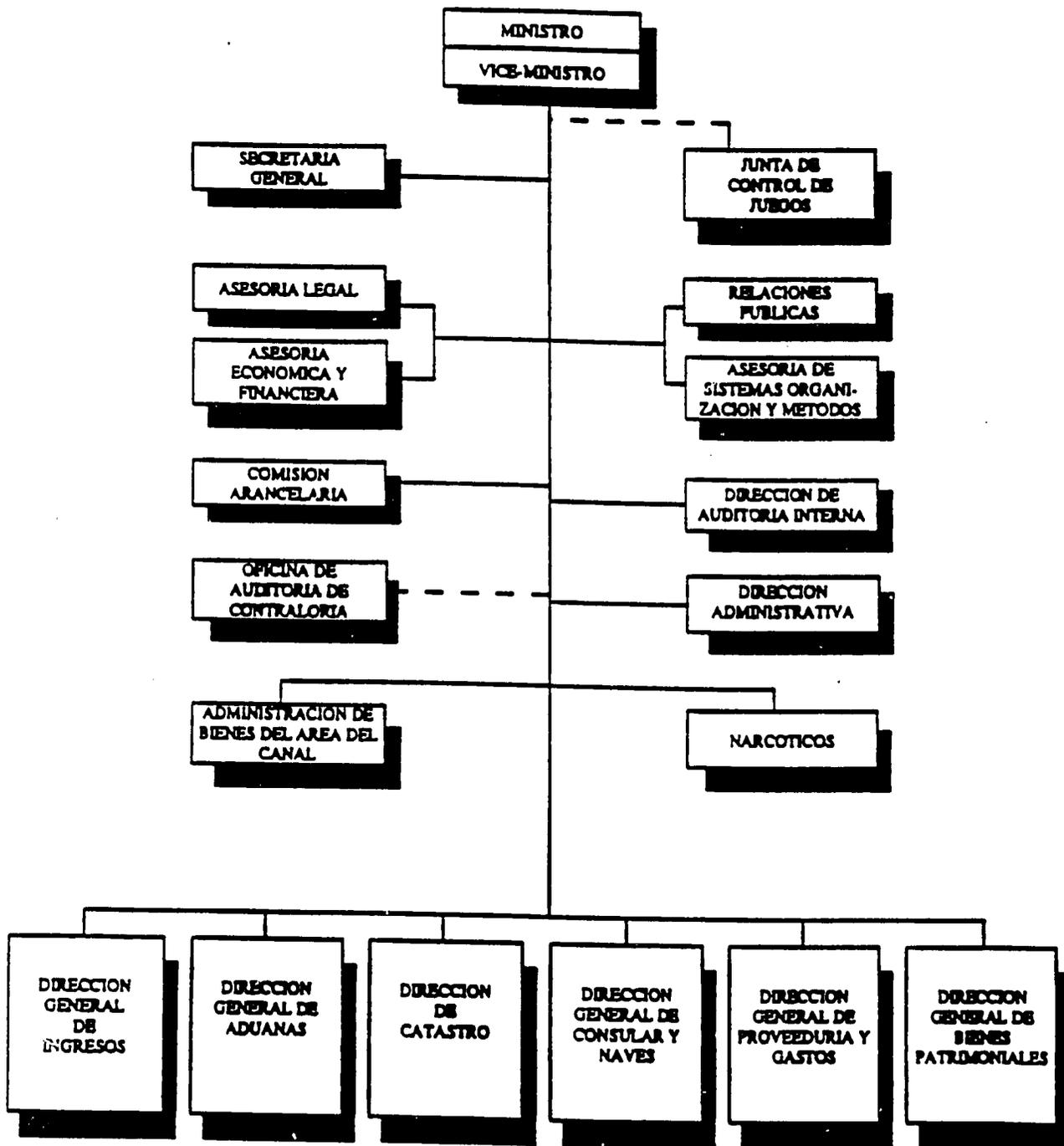
In the Organizational Manual of the Government of Panama, the principal functions of the Ministry of Finance and Treasury are summarized. They are the following:

"To identify, collect, and control the revenue from services, fees, interest, taxes, and donations as expounded in the active directive of the Treasury, including customs regulations; to safeguard national resources; to regulate the Panamanian merchant marine taxation matters; regulate games of chance and other gambling activities; to register the quality, value and ownership of properties in the Republic."

Figure 7 illustrates the organization of the Ministry of Finance and Treasury.

FIGURE 7

MINISTERIO DE HACIENDA Y TESORO



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3. Ministry of Planning and Economic Policy

The Ministry of Planning and Economic Policy performs the following basic functions:

- o Preparation of short, medium, and long term economic and social development plans;
- o Synchronization of regional and sectoral programs;
- o Participation in the formulation of economic and social policy, especially in the fields of fiscal and financial policy, international commerce, monetary and credit policy, income, prices, national production, transportation and communication;
- o Coordination of plans and programs at the national, sectorial, regional, and local levels;
- o Direction of the budgetary administration of the public sector including preparation and formulation, financial and fiscal administration, accounting and control, evaluation, coordination and liquidation of budgets and their programs;
- o Organization and execution of organizational administrative plans;
- o Direction of the administration and training of personnel;
- o Management and private negotiation of pending authorization from the President of the Republic, the external financing necessary for the administration of projects of all national agencies and internal financing when it affects the public debt;
- o Preparation, coordination, and evaluation of the external technical cooperation program;
- o Private administration of funds that the national government, other states, and international agencies assign for the completion of technical and economic feasibility studies for public sector investment projects, especially the Pre-Investment Fund;

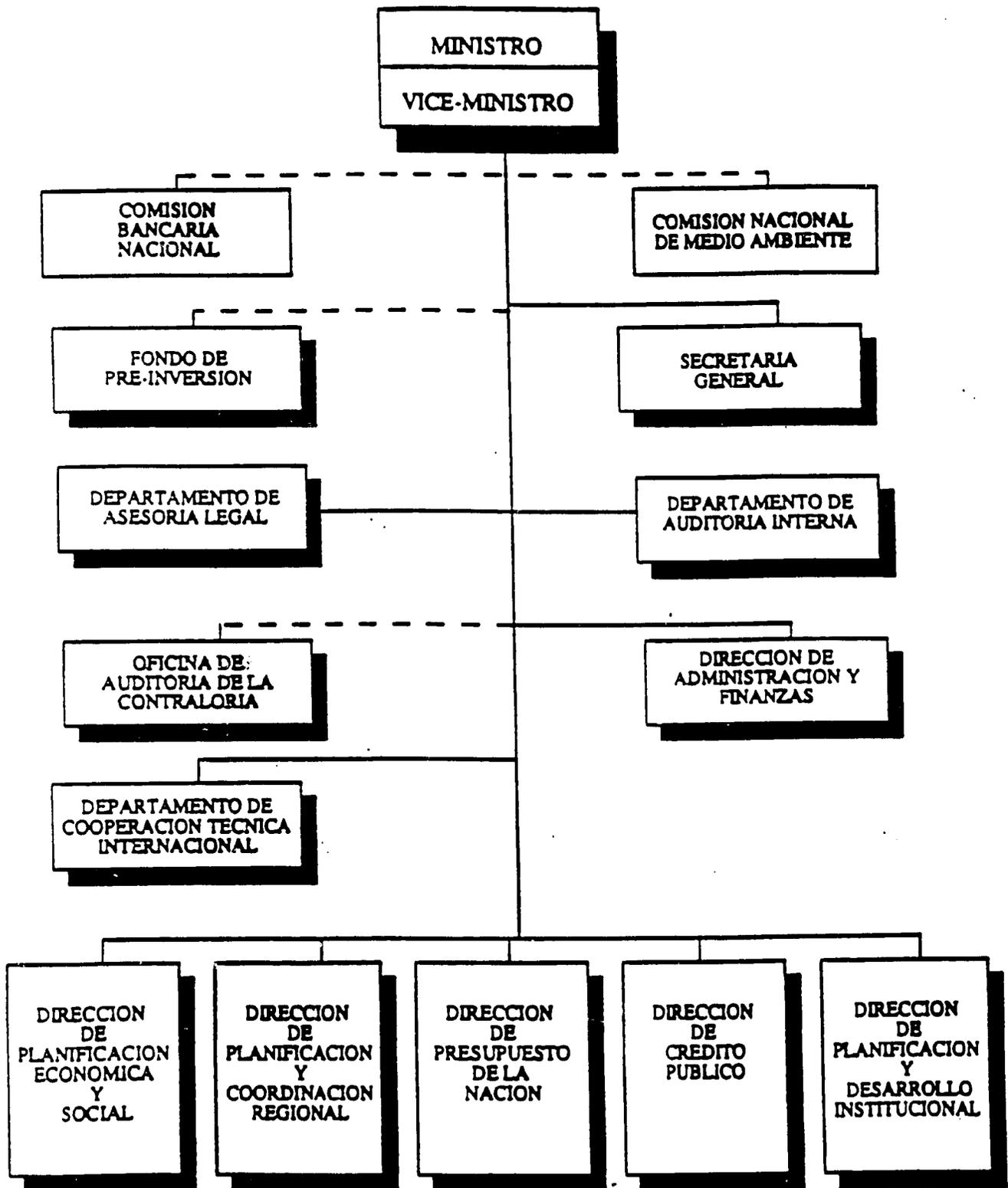
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- o Consult on the design of programs and projects and performs evaluations as a part of national planning;
- o Approval of the draft budgets of state agencies, evaluating them according to the requirements of the development plans and the availability of financial resources; and
- o Periodic examination of all plans and projects, providing information to the President on them.

Figure 8 presents the organization of the Ministry as needed to carry out its duties under the law. Further details are illustrated in Figure 9, which shows the internal organization of the Office of the National Budget.

FIGURE 8

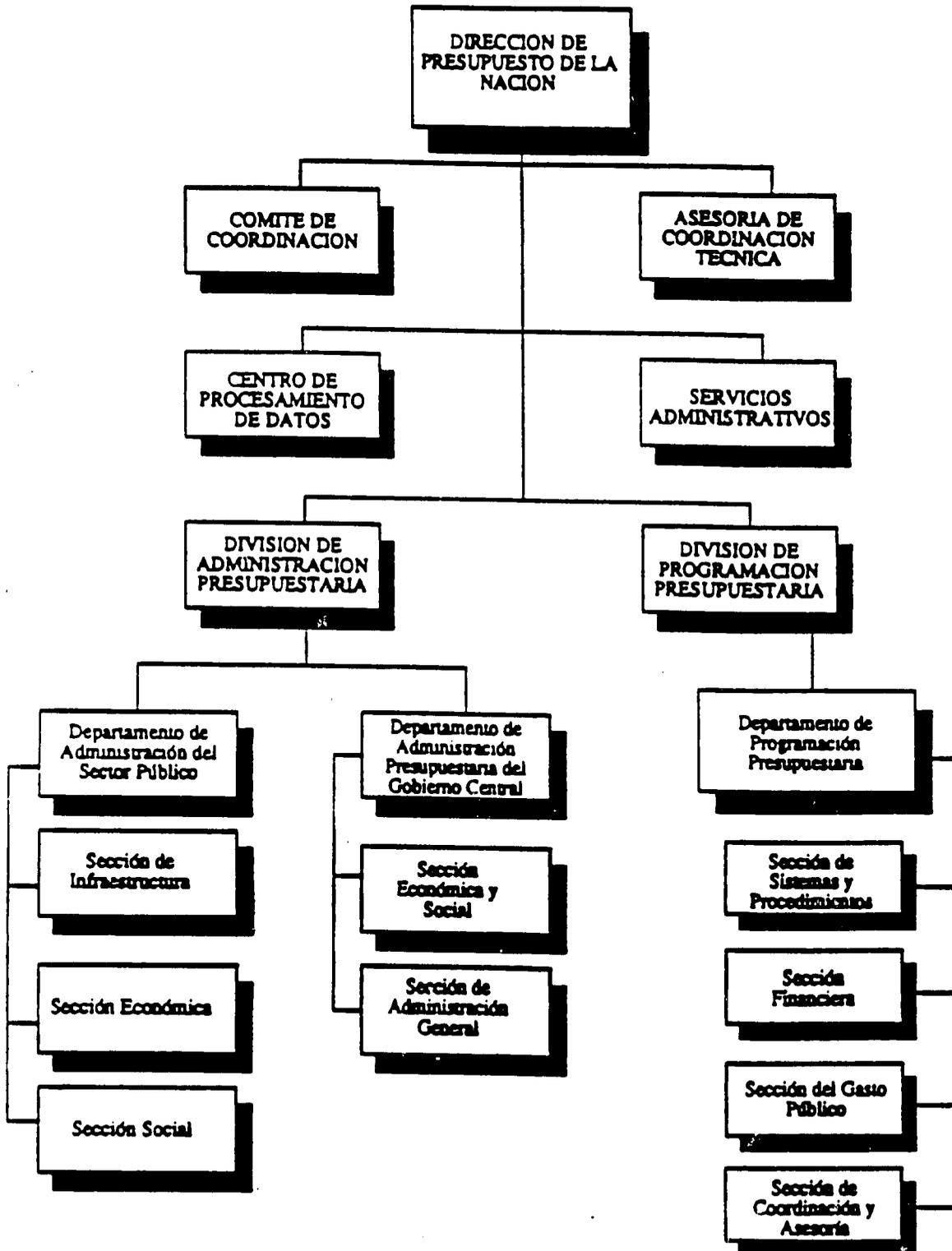
MINISTERIO DE PLANIFICACION Y POLITICA ECONOMICA



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FIGURE 9

DIRECCION DE PRESUPUESTO DEL MINISTERIO DE PLANIFICACION Y POLITICA ECONOMICA



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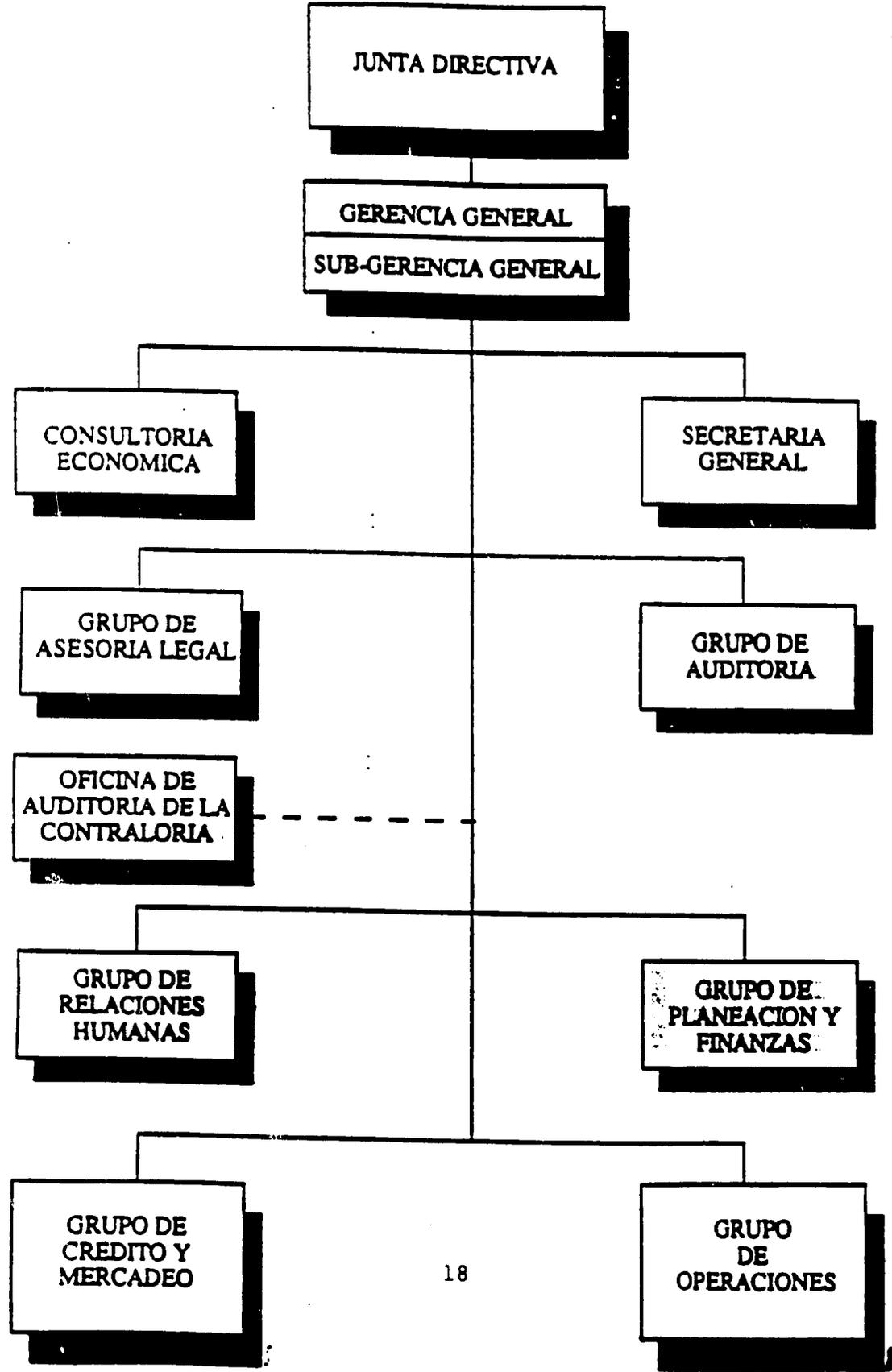
4. National Bank of Panama

As stated in the Organizational Manual of the Government of Panama, the National Bank of Panama has the following functions:

- o Execution of monetary and fiscal policy;
- o serve as the depository for all national and public entities monies;
- o administration of loans obtained from international agencies to finance development projects;
- o provision of a system of banking mechanisms for the daily exchange of negotiable documents between clearinghouse member banks;
- o contracting of obligations, acting as trustee or agent, buying and selling movable property or real estate, receipt of in-kind payments or donations of goods, granting loans and carrying out operations to safeguard and transport money and securities;
- o discounting of credits, securities, and documents;
- o receipt of money in current accounts and savings accounts;
- o safeguarding of the international monetary reserve;
- o negotiation of state bonds and foreign exchange; and
- o provision of U.S. dollars to the banking system.

Figure 10 outlines the organizational chart of the National Bank of Panama.

FIGURE 10 BANCO NACIONAL DE PANAMA



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5. Ministerial level

To illustrate financial management and audit functions at the ministerial level, the scheme of operations of the Ministry of Education are set out below.

The principal functions of the Ministry of Education, according to the Organizational Manual of the Government of Panama, are the following:

"Planning the establishment, the organization, execution and supervision of those activities related to the different educational systems of the country together with the institutions associated with that sector; assuring that the educational materials meet the policies established by the Executive branch, with the exception of those educational institutions that fall under the jurisdiction of other government agencies."

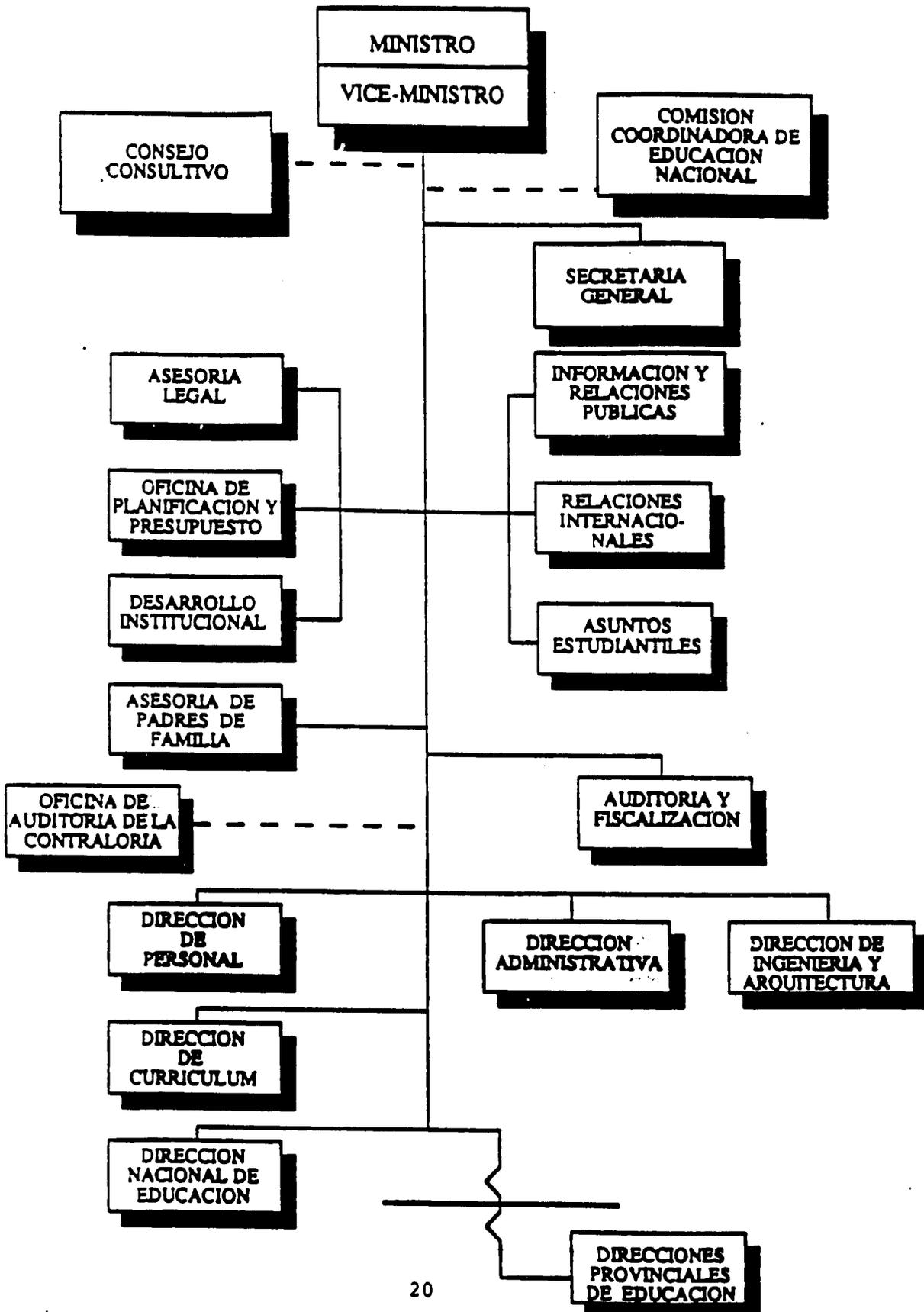
The Ministry's Office of Planning and Budget has responsibilities related to financial management. Among its administrative units are Budgetary Evaluation and Fiscal Planning, and the Administrative Office, which includes departments of Budget, Accounting and Treasury and Payments.

The Ministry's Auditing and Control Office and the Auditing Office of the Controller General's Office carry out auditing activities.

In Figure 11, the structure of the Ministry of Education is graphically depicted. The administrative offices responsible for financial management and auditing are highlighted.

FIGURE 11

MINISTERIO DE EDUCACION



6. Decentralized institutions and public enterprise entities

The National Institute of Telecommunications has been selected to exemplify the relationship of the agencies associated with financial management and auditing, specifically at the level of the decentralized agencies and state-owned businesses.

The principal functions of the National Institute of Telecommunications, according to the Organizational Manual of the Government of Panama, are the following:

"To plan, design, construct, operate, administer, and preserve the National System of Telecommunications, with respect to the objectives and goals outlined by the Telecommunication Master Plan according to the policies and directives emanating from the Executive branch and governed by the Ministry of Government and Justice."

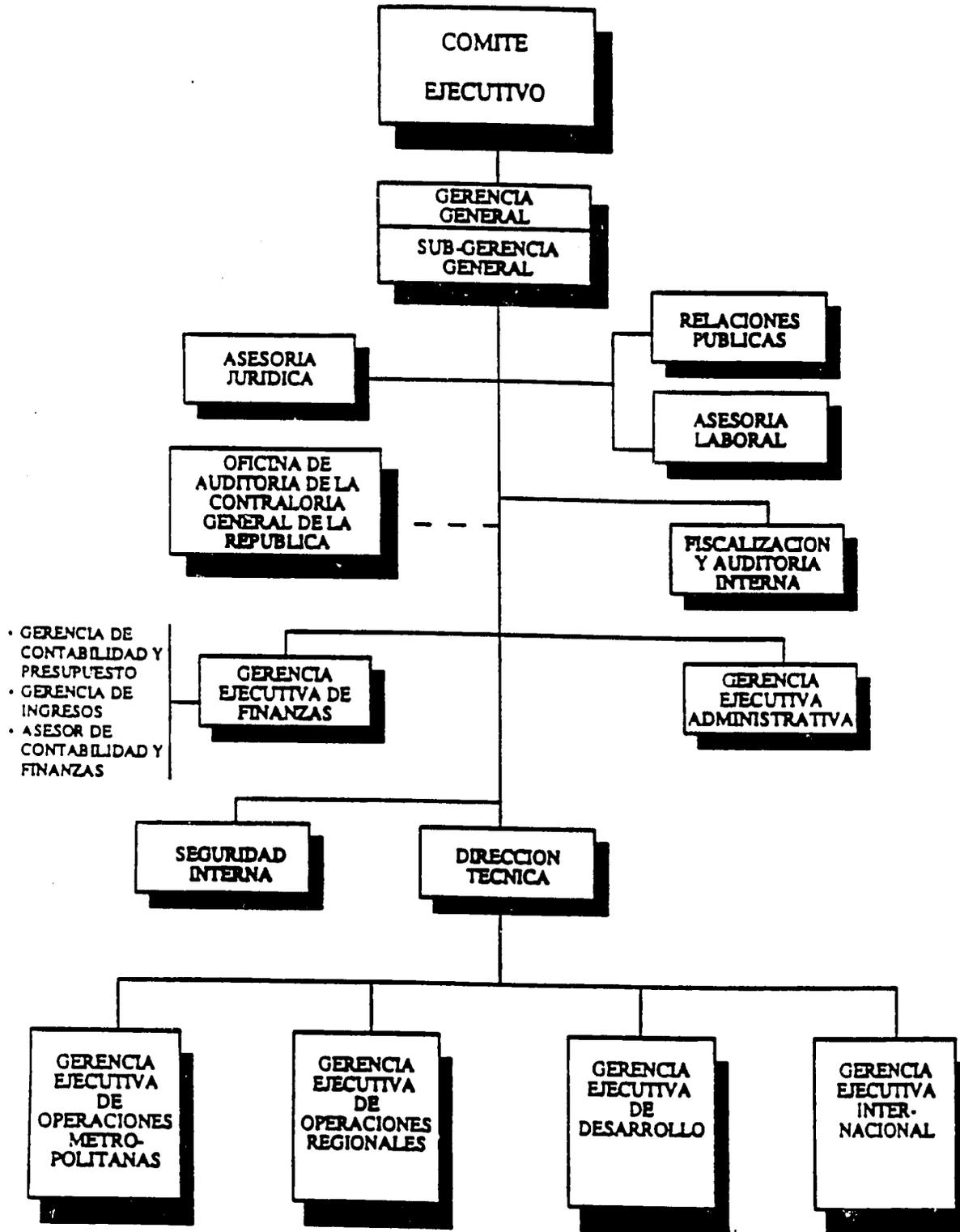
The Executive Director of Finance is in charge of providing financial services, planning and control of budgets and cash flow, and recommending policies according to the Financial Investment Plan.

Figure 12 delineates the structure of the National Institute of Telecommunications, highlighting those sections dealing with financial management.

The Internal Auditing Unit and the Controller General's Auditing Office function as the Institute's auditors.

FIGURE 12

INSTITUTO NACIONAL DE TELECOMUNICACIONES



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7. Provincial and Municipal Governments

According to Article 5 of the Constitution "the territory of the Panamanian state is politically divided into provinces, and, these in turn into districts, and the districts into jurisdictions."

There will be a governor in each province, freely appointed and removed by the Executive branch of the Republic. A provincial council will work with executives from every jurisdiction of each province. Among the functions of the council are the following: "Act as a consulting body for the Governor of the province, the provincial authorities and the national authorities in general; prepare yearly, for the consideration of the Executive branch, a public works plan of investments and services for the province and finance its execution..."

Article 229 of the Constitution states that: "The municipality is an autonomous political organization of the community established in a district. The municipal organization will be democratic and reflect the administrative character of the local government." Article 238 establishes a mayor, a chief of municipal administration and two assistants, elected by direct popular vote, in each district. Article 238 continues to state that the law, however, can permit that in any district the mayor be named and removed by the Executive Branch.

Duties of the mayor's offices include submitting approved projects, especially the budgets for revenues and expenditures; and adjusting expenditures to the budget and to accounting regulations.

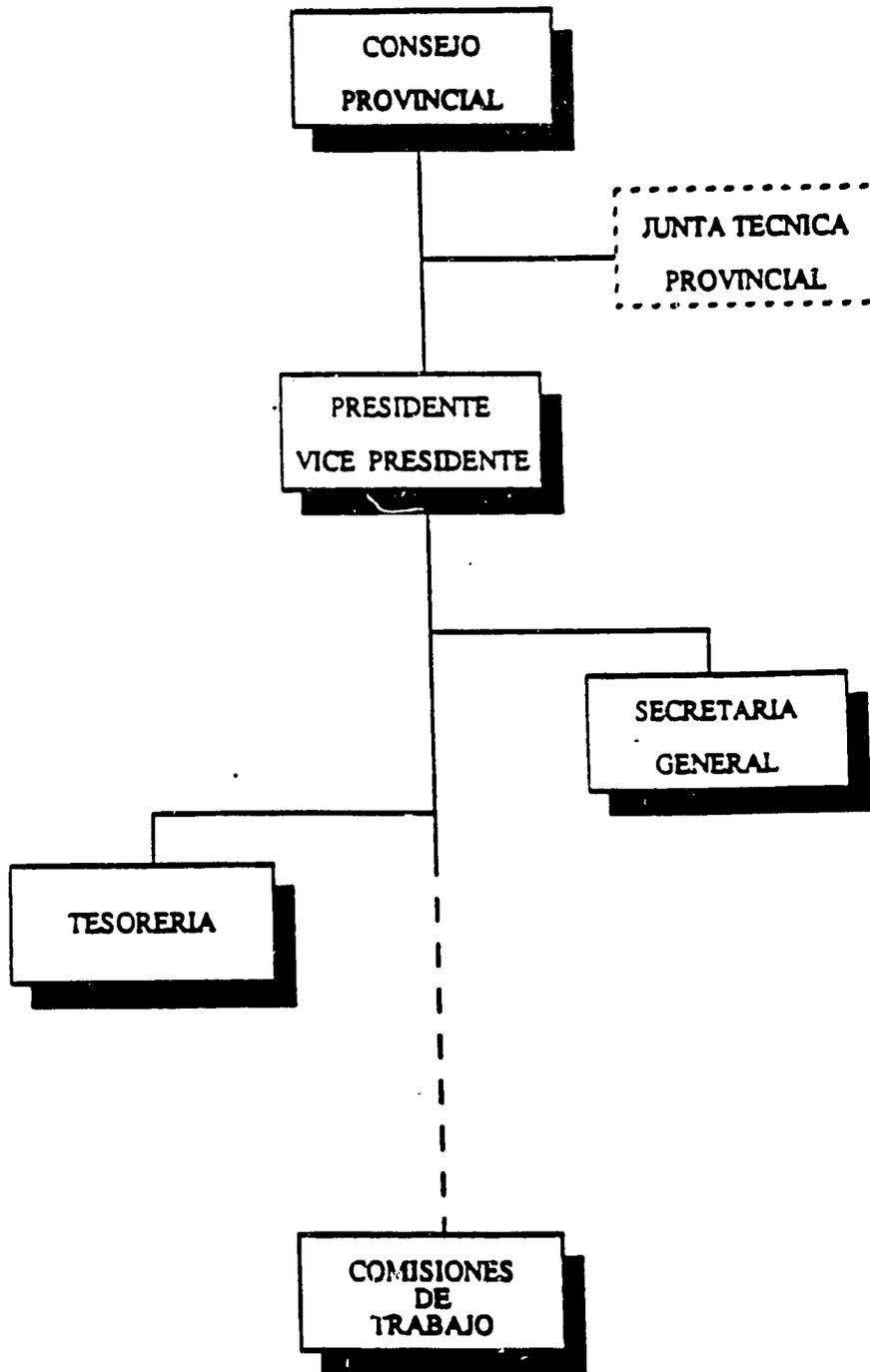
There is a municipal council in each district, including all the representatives of the jurisdictions elected within the district, from which a president and vice-president will be appointed. Figures 13 and 14 show the organizational structures of a provincial council and of the municipality of Panama, respectively.

The chart describing the municipality (Figure 14) highlights those internal units of the Office of Finance and of the Office of Planning and Budget.

The council-level municipal audit office, the Office of Internal Auditing and the Controller General's Office Auditing Office are the responsible auditing bodies.

FIGURE 13

CONSEJO PROVINCIAL COORDINACION



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MUNICIPIO DE PANAMA

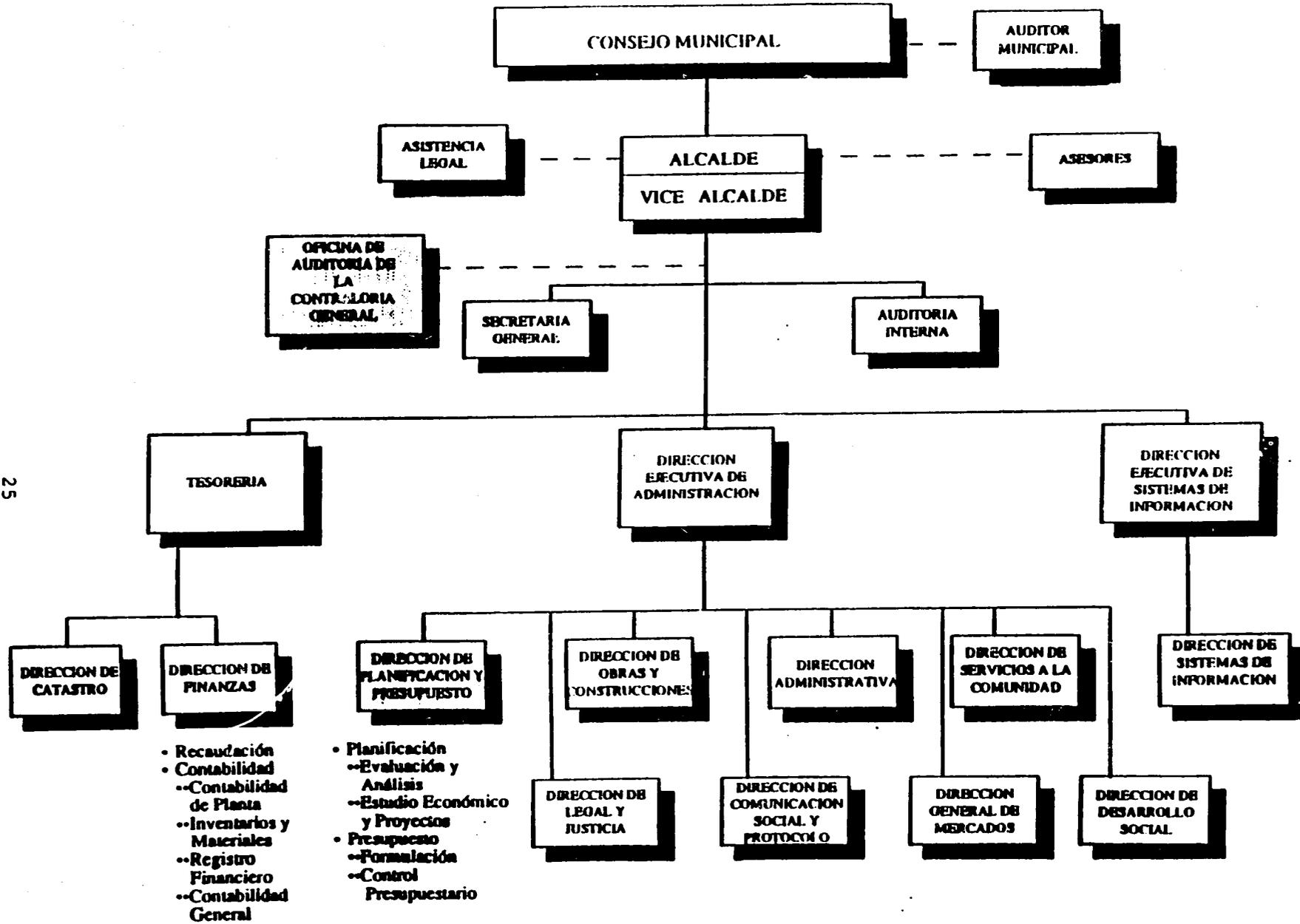


FIGURE 14

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2. Background on the GOP Information Environment

This section generally describes the information environment that prevails in Panamanian government financial management. It begins with a short introduction to the existing computer centers; continues with details about the equipment base and support programs; follows up with a review of the principal computerized financial systems and subsystems; and finally, concludes with a synthesis of the actual activities of system development.

a. Computer centers

The computer centers which support the government financial management activities of Panama are located principally in two entities: The Controller General's Office and the Ministry of Planning and Economic Policy.

The computer center of the Controller General's Office, the Data Systematization Office, is the direct responsibility of the Controller General. The Data Systematization Office is involved in the administration of systems related to governmental financial management and national statistics. The systems for budgetary administration and for personnel structuring (central government and fourteen decentralized entities) are also a part of this section.

The computer center of the Ministry of Planning and Economic Policy is called the Data Processing Center and is the responsibility of the National Budget Office. This center administers the systems of budget formulation and public debt projection.

There are also two other entities that carry out functions associated with financial management -- the Ministry of Finance and Treasury and the National Bank of Panama. However they do not have major government financial management applications. Nevertheless, they are included in the present analysis to provide a complete picture.

The computer center of the Ministry of Finance and Treasury is called the Department of Data Processing and is under the direction of the Revenue Office. Management of this computer center falls under the auspices of the tax collection unit since the systems are related.

The computer center of the National Bank of Panama is managed by the Operations Group, and is similar to those of other financial institutions. Its financial management role is to act as a state cashier and to control government accounts.

There are several computer centers within the Government of Panama which provide management support services for the various agencies. Some of these centers have more personnel and equipment than those

mentioned in this section. Examples of such centers are those at the Institute of Hydraulic Resources and Electrification, the Social Security Fund. Other agencies have computer centers with narrower focuses, such as the Institute of Agricultural Marketing and the City of Panama.

b. Systems Equipment and Support

The computer centers of the Controller General's Office of Panama, the Ministry of Finance and Treasury, and the National Bank of Panama are equipped with IBM S/370 type machines. The Ministry of Planning and Economic Policy uses AMFOS 2086.

The details of equipment and support program configurations of each of the computer centers are shown in Figures 15 and 16. In general terms, the other computer centers of the Government of Panama rely on IBM, NCR, and Wang equipment.

HARDWARE AND SUPPORT PROGRAMS

COMPTROLLER GENERAL'S OFFICE

DIVISION OF DATA SYSTEMIZATION

MINISTRY OF PLANNING AND ECONOMIC
POLICY

DATA PROCESSING CENTER

FIGURE 15

EQUIPMENT CONFIGURATION

IBM 4381-P13 (24 Mb/12 Ch) PROCESSOR
MAGNETIC TAPE DRIVES
HARD DISK DRIVES
PRINTERS
51 LOCAL TERMINALS
56 REMOTE TERMINALS

ALTOS 2086 PROCESSOR
MAGNETIC TAPE DRIVES
HARD DISK DRIVES
14 LOCAL TERMINALS

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SUPPORT SYSTEM PROGRAMS

MVS/SP OPERATING SYSTEM
(VTAM, NCP, TSO, CICS, JES2, ETC.)
ASSEMBLER/FORTRAN IV/COBOL
SUPRA/MANTIS
RACF SECURITY PROGRAM
SPSS / CENTS3 / CENTS4 / COCENTS / CONCOR /
RAPID STATISTICAL PACKAGE
SAS/EASYTRIEVE

XENIX OPERATING SYSTEM
RM/COBOL
MULITPLAN/UNIPLEX

08/1

HARDWARE AND SUPPORT PROGRAMS

MINISTRY OF FINANCE AND TREASURY

NATIONAL BANK OF PANAMA

DATA PROCESSING DEPARTMENT

COMPUTER CENTER

FIGURE 16

HARDWARE

IBM 4341 (8MB) PROCESSOR
MAGNETIC TAPE DRIVES
HARD DISK DRIVES
PRINTERS
TERMINALS

IBM 4381-P12 (16 MB/12 CH) PROCESSOR
IBM 4341 (4 MB/6CH) PROCESSOR
MAGNETIC TAPE DRIVES
HARD DISK DRIVES
PRINTERS
84 LOCAL TERMINALS
141 REMOTE TERMINALS

SUPPORT SYSTEM PROGRAMS

DOS/VSE OPERATING SYSTEM
(BTAM, CICS, ETC.)
COBOL
ADABAS/NATURAL/PREDICT
NATURAL SECURITY

MVS/SP OPERATING SYSTEM
(VTAM, NCP, TSO, CICS, ETC.)
COBOL
ADABAS/NATURAL/PREDICT
COMPLETE
NATURAL SECURITY
NATURAL CONNECTION
SAS/LOOK

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c. Principal computerized financial systems and subsystems

The principal computerized government financial management systems and subsystems are the following:

- o Expenditure budget system
- o Income system (revenue budget)
- o Personnel and payroll structure system
- o Personnel deductions subsystem
- o Public credit system

Appendix D of the "Design" report gives a short description of each system's contents, technical characteristics and functions, principal users, current state and relationship to financial management. Figure 17 shows location of these systems by host computer center, and Figure 18 shows the relationships between them.

Some of the systems mentioned above are interrelated in the transmission of data in batch files, to avoid having to collect data twice, but are not truly integrated.

The functioning of the systems demonstrates some of the deficiencies and limitations of administrative control and information security by being vulnerable to loss or alteration of data from errors in operation or fraud.

Moreover, the Government of Panama needs other important applications in the area of public financial management at the national level, namely: financial accounting, cash management, accounts payable, accounts receivable, fixed assets, inventory management and other areas.

FIGURE 17

FINANCIAL SYSTEMS AND SUBSYSTEMS

BY COMPUTER CENTERS

OFFICE OF THE COMPTROLLER GENERAL

DIVISION OF DATA SYSTEMATIZATION

BUDGET EXPENDITURES SYSTEM

REVENUE SYSTEM (REVENUE BUDGET)

PERSONNEL AND PAYROLL STRUCTURE SYSTEM

PERSONNEL DEDUCTIONS SUBSYSTEM

PUBLIC DEBT SYSTEM

MINISTRY OF PLANNING AND ECONOMIC POLICY

DATA PROCESSING CENTER

**PUBLIC SECTOR REVENUES AND EXPENDITURES BUDGET
PREPARATION SYSTEM**

PUBLIC DEBT FORECASTING SYSTEM

LINKS BETWEEN FINANCIAL SYSTEMS AND SUBSYSTEMS

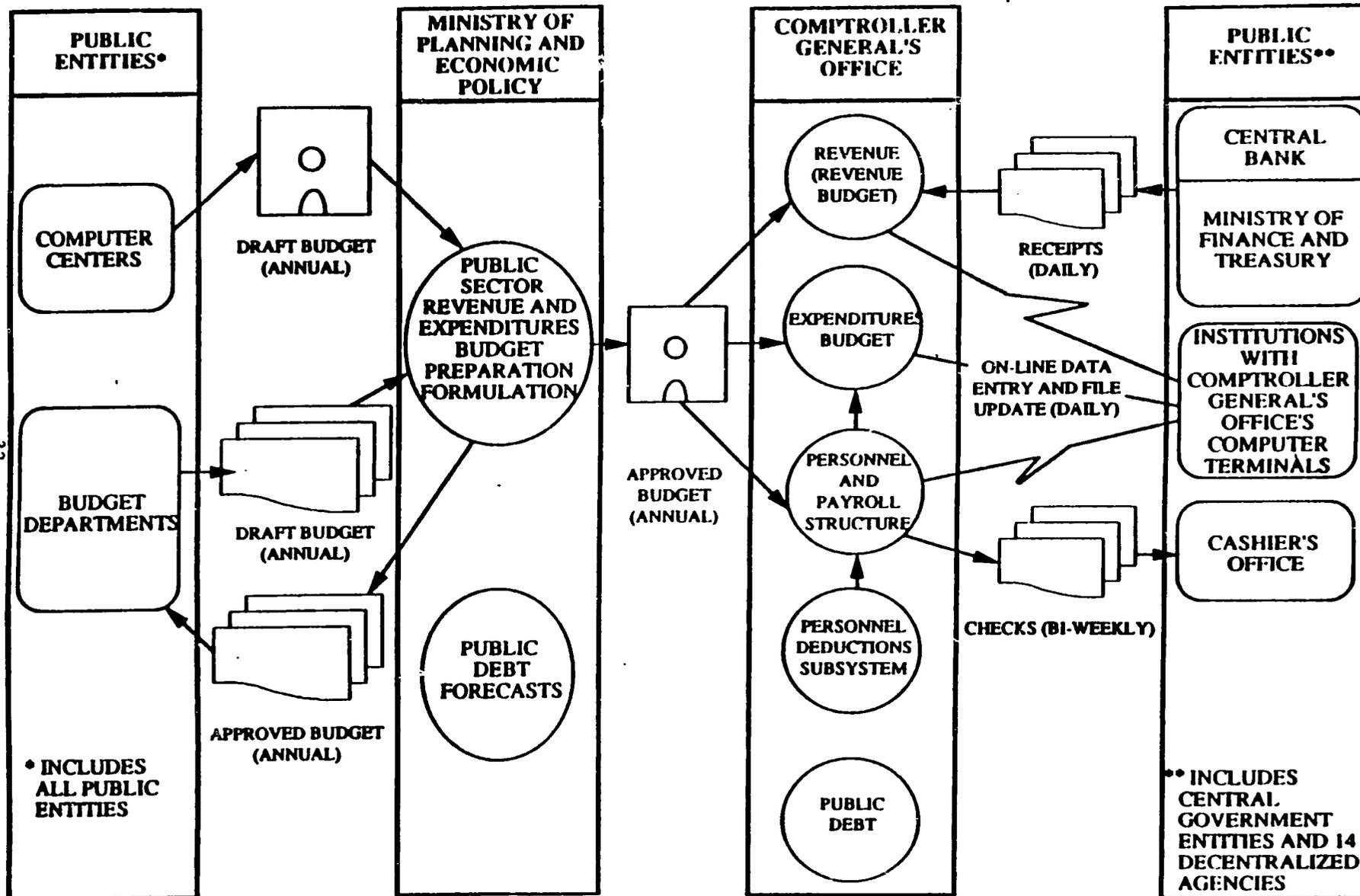


FIGURE 18

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d. Systems development activities

Efforts to develop new computerized public financial management systems are limited. This is due to the labor intensiveness of existing applications maintenance, under-staffing, and a lack of up-to-date techniques.

The computer center in the Controller General's Office of Panama is developing a new system for personnel and payroll structure administration. One of the most significant aspects of this system is found in its design which, unlike the present system, is more integrated with other systems and maintains information in a data base management system.

The computer center of the Ministry of Planning and Economic Policy is not currently developing any additional applications.

As it has been previously noted, the computer centers of the Ministry of Finance and Treasury and the National Bank of Panama do not have an impact in this area because they are not greatly involved in financial management systems development.

3. Preparation of Proposed Draft Legislation: The Legal environment

The legitimate democratic government of Panama is based on the Constitution and legislation. Those entrusted with public resources have the responsibility for efficient, effective, and proper management of those resources.

The legal environment in which the financial management system and audit process function is defined by the following laws contained in the Political Constitution of Panama:

- o Law 32 of November 8, 1984, enacting the Organic Law of the Controller General of Panama;
- o Law 16 of February 28, 1973, establishing and organizing the Ministry of Planning and Economic Policy;
- o Law 2 of April 26, 1990, approving the National Budget for Fiscal Year 1990; and,
- o Cabinet Directive No. 36 of February 10, 1990, establishing the Office of National Accountability within the Controller General's Office and adopting its procedure.

a. Constitution of the Republic of Panama

The principal constitutional provisions for financial management and auditing are based on the references of the legislative duties of the Assembly to issue general legislation on salaries proposed by the executive branch, supervise approval of the National Budget, establish taxes and collections, rents and official monopolies that support public services, and approve the organization of the entities that make up the public sector.

The administrative duties of the Legislative Assembly are to appoint the Controller General and the Deputy Controller, and, with the assistance of the Controller General's Office, examine and approve or set the limits of responsibility over the General Account of the Treasury given to it by the President.

Responsibilities assigned to the executive branch provide that the President of Panama, assisted by the appropriate ministry, should send the proposed national budget for the following fiscal year to the legislative branch. Among the responsibilities of the Cabinet are responsibilities related to public credit, the national debt, and the customs tariffs and rates.

The Constitution lays out actions needed in the process of drawing up and approving the national budget, in transferring supplementary and extraordinary debt, and establishing other general standards to maintain a balanced budget.

The Constitution dictates the organizational characteristics and duties of the Controller General's Office of Panama. In the economic arena, it also establishes government control over economic and social development planning through specialized agencies and departments with organization and responsibilities determined by law.

b. Law 32, the Organic Law of the Controller General's Office of Panama

Law 32 contains the details of the constitutional provisions. It defines the organizational features, jurisdiction, and general and special duties of the Controller General's Office.

Highlighted among the Office's special duties are those instituting accounting standards and principles and appropriate oversight; review, examine, and express opinions on the account; register and control national resources; oversee financial management activities; control guarantees; and keep national statistics.

Law 32 lays out the administrative structure and organizational criteria for the divisions that make up the institution. It also details the duties of the Controller General, the Deputy Controller and the General Secretary.

The law establishes the jurisdiction of the Court of Accounts, the appointment of its officials, the trial procedures, and other regulations on the organization and duties.

The General Regulations go into detail about some processes under the jurisdiction of the Controller General's Office--especially with reference to the budget and financial management.

c. Law 16, establishing the Ministry of Planning and Economic Policy

Law 16 defines the objective of the Ministry, the duties of the minister and vice-minister, including duties which the minister cannot delegate.

It also details duties of principal agencies such as the Office of Regional Planning and Coordination, the National Budget Office, and the Office of Institutional Planning and Development.

Similarly, under Act 58 of December 29, 1983, the Public Debt Office was established as part of MIPPE.

d. Law 2, General Budget of Panama for 1990

Law 2 is made up of the budgets of the following institutional groups: the central government, 13 decentralized institutions, 16 public enterprises, 6 financial intermediaries, and 2 development corporations and projects.

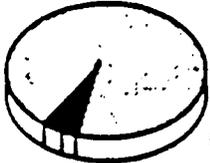
Figure 19 shows the section of the 1990 Budget Law dealing with the central government.

FIGURE 19

OPERATING BUDGET CENTRAL GOVERNMENT - 1990 \$1,108,877,700

REVENUE

CURRENT (96.6%)

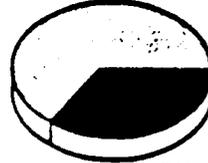


CAPITAL (1.5%)

INCORPORATED (1.9%)

EXPENDITURES

OUTLAYS BY INSTITUTION (63.9%)

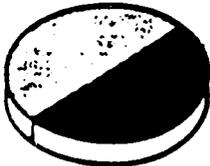


PUBLIC DEBT (36.1%)
(INTERNAL AND EXTERNAL)

INVESTMENT BUDGET CENTRAL GOVERNMENT - 1990 \$56,901,800

REVENUE

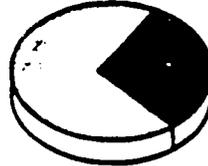
CAPITAL (51.2%)



OPERATIONS AND MAINTENANCE (48.8%)

EXPENDITURES

TRANSFERS (31.1%)



DIRECT INVESTMENT (68.9%)

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Budgets for 13 decentralized institutions are classified by detailed current revenue and revenues for capital investments. These budgets present summarized figures for operating expenditures and debt service figures, and for physical and financial capital costs. Not all institutions include revenues for capital investments and financial investments.

Budgets for 16 public enterprises are classified by budgets with revenue broken down into current revenue and revenue for capital investments. These budgets present summarized figures for operating expenditures and debt service, for equity transfers, and for investments budgets. Some public enterprises do not include revenues for capital investments, equity transfers, and capital costs.

Budgets for 6 financial intermediaries are broken down by current revenue and revenue for capital investment. These budgets present summarized figures for operating expenditures and debt service, for equity transfers, and for physical investments budgets. Some financial intermediaries do not assign resources for equity transfer, physical investment and capital costs.

Budgets for 2 development corporations are broken down into current income with summarized figures on operating expenses, debt service and equity transfers. Some of the corporations do not count equity transfers.

Articles 83 and 168 of the budget law lay out the General Standards of Budget Administration. These include descriptions and procedures for the budget process, regulations on revenue management and the management of operating and investment expenditures, budget line item transfers, and additional debt and changes to the budget. The law concludes with standards on budget financing and accountability and sanctions.

e. Fiscal code

The code contains detailed standards relating to acquisitions of assets, public competitive bidding, and insolvency proceedings; taxes and revenues; national treasury administration and supervision; revenue and expenditures budget including regulations on preparation, discussion and implementation, the restrictions on its management and additional debts.

f. Cabinet Decree No. 36, issued on February 10, 1990, establishing the Directorate of Investigative Services

The decree establishes the Directorate of Investigative Services within the Controller General's Office. As established by the decree, in its rules on procedures and organization, the directorate is managed by three judges with qualifications equal to those of Supreme Court judges.

g. Other legal provisions

A set of laws and decrees exist which contain provisions which have reformed the internal organization of the ministries. For example, Executive Decree No. 34 issued on May 9, 1985, establishes the Office of National Assets.

The legal environment includes other laws, decrees, regulations and manuals. Decree No. 72, issued on August 30, 1989, established a computerized information system for the Controller General's Office to incorporate the financial operations of the state. Law 106, enacted on October 8, 1973, determines the authority of municipal treasuries. Other pertinent publications include the Internal Regulations of the Controller General's Office of Panama, the Public Revenue Budget Classification Manual, and the Public Expenditures Budget Classification Manual.

4. Conclusions

The conclusions of the analysis and assessment are that:

1. The organizational structure, staffing, authorities, and management of participating GOP agencies is adequate to recommend undertaking the project although reforms, which are the subject of the project, will be required to establish a fully functioning financial management and audit environment in the agencies involved. An example of these reforms, is the creation of the Office of the Auditor General where a small part of the staff must be recruited from outside the CG. The GOP has agreed to undertake this recruitment.
2. There are many financial management functions of the GOP which are computerized. However, these functions should be strengthened and much better integrated. The project technical assistance team will include an information systems expert whose function will be to provide a computerization perspective on all financial management and audit systems reforms under consideration. The technical assistance team will not undertake implementation of computer operations as such.
3. A basic structure of constitution and statutes supports the objectives of the project. However, much is required to be done through a combination of new legislation and policies to create consistent and compatible financial, accounting, and auditing systems for the GOP.

The Financial Management Reform Project will operate within the existing structure and distribution of responsibilities of the Government of Panama with the exception of activities related to the creation of an independent Auditor General's Office. Within the GOP agencies involved in the project, responsibility for project implementation will be managed under the existing chain of command. Thus, for example, the budget subsystem will continue under the managerial responsibility of MIPPE in coordination with other agencies. The cash management subsystem will continue under the Ministry of Finance and Treasury in coordination as appropriate with other agencies. The Office of the Controller General will continue to perform its various functions in financial management with the exception of the functions of the Auditor General which will become independent initially within the OCG and later as a wholly independent agency. Each participating agency head will name a project manager for project activity within his agency. The Project Director in the Controller General's Office will have overall responsibility for project implementation under the Controller General's oversight. The agency project managers and the Project Director will form an interagency working group to help coordinate the project, identify interagency problems, and propose solutions to the Executive Commission composed of the agency chiefs.

The project will formulate changes in rules, standards, and procedures in the four financial management subsystems within the existing GOP organizational framework. Determination of precisely what these changes will be and implementing them will, in some cases, require careful coordination among the agencies. Once implemented, the new rules, standards, and procedures should not present unique problems of institutional managerial capacity. Indeed, if anything, the reforms introduced and the training provided will simplify management of financial management operations. In the case of the creation of the new Auditor General's Office, careful organization and training of personnel will be required. However, the organizational tasks involved are relatively straightforward and the project provides ample resources for support.

Determination of the existence of the managerial capacity to carry out the project, and therefore the institutional feasibility of the project, is based on the proposition that the organizations involved presently perform the functions to be addressed. The project will significantly improve the quality of performance through improvement in the internal procedures affecting these operations and through improvements in the coordination among the various agencies of the GOP which play a role in these subsystems. Thus the question of managerial capacity focuses upon capacity to formulate and implement change in an existing system rather than on whether it is feasible for the agencies involved to carry out financial management and audit functions as such.

In examining institutional capacity to formulate and implement procedural changes and thus carry out the project, four types technical/institutional of concerns need to be addressed:

- o the means by which necessary changes in the subsystems are identified;
- o the means by which agreement is reached concerning the rules and procedures to be implemented;
- o how agreed upon changes are formally adopted and documented; and
- o how changes are implemented in day-to-day operations of the agencies involved.

With respect to each of these types of activities, the objective is to select rules and practices which are technically sound, operationally feasible within the responsible agency, and compatible with standards, procedures, and practices in other agencies. Once the rule or practice is selected in an agency and accepted as compatible among the agencies, formal approval and documentation are required. Often, a change made in one agency necessarily will imply a coordinated change in another agency. Once selected and coordinated, the new rule or practice is implemented through on-the-job application and training.

The project contemplates the establishment of the following institutional arrangements through which the foregoing activities will be managed:

- o Within each participating agency, working groups will consider technical and operational aspects of preliminary recommendations for changes formulated by the technical assistance team. After study and revision, the working group makes its recommendations to the agency project manager.
- o Within each participating agency, a senior official or senior working group will consider working group recommendations. Where the change can be implemented without interagency coordination, the agency project manager makes a recommendation for change directly to the agency head for implementation within the agency. Where the recommendation has implications for operations in other agencies, which often will be the case, the recommendation will be submitted to an interagency working group.
- o With respect to proposals which have implications form more than one participating agency, an interagency committee at the working level will identify interagency

incompatibilities and disagreements concerning proposed changes in rules and procedures will be resolved at the interagency working group levels. After consideration with the assistance of the technical assistance team, the interagency working group makes its recommendations to the Executive Commission or reports to the EC its inability to agree on any point in question.

- o At the Ministerial Level, the Executive Commission will formulate overall policy; give formal approval to agree upon changes; and resolve disputes on rules and procedures which the interagency working group was unable to resolve.
- o The technical assistance team will be responsible for providing documentation, review, training, and on-the-job technical support throughout the process from initial identification of problems and formulation of proposed changes through implementation of changes approved by the Executive Commission.

The Mission believes that the key to the institutional feasibility of the project is the commitment of the chiefs of the key agencies involved. If the Executive Commission members clearly indicate their determination to work together to make financial management system reforms work, officials at the working level will see to it that cooperation and effective coordination takes place and that the process will not be unduly burdensome. The number of disputes raised to the level of the Executive Commission will then be relatively few. If working level managers are not persuaded that the top level officials want the process to work smoothly, there will be ample opportunity for delay and contention. Thus the working environment created by the Executive Commission will be crucial. For this reason, a condition precedent is proposed committing the key officials to support the process and actively participate on the Executive Commission.

ANNEX J - IMPLEMENTATION PLAN

1. Schedules

The proposed schedule of activities is set up in Figure 1.

2. Milestones

The following milestones are intended to suggest a practical means of determining if the project is being executed according to plan and will achieve its goal and objectives. The date of signing the project agreement is considered the beginning of the first month of the project. All other dates are designated "EOM" (end of month).

Project Start-up

a. PSC contract for Project Office - EOM 2

USAID recruits and negotiates PSC contract for Project Officer immediately after project authorization to provide day to day Mission administration and monitoring of the project. The project officer should be in country within 60 days of signing the project agreement and preferably earlier if possible.

b. GOP Satisfaction of Condition Precedents (CPs) - EOM 2

The GOP should satisfy CPs identified in preliminary project implementation letters (PILs), if any, within 60 days of signing the project agreement.

c. Formation of GOP Project Executive Committee (PEC)-EOM 3

The Project Executive Committee should be set up by EOM 2 and have conducted their first meeting addressing procedural issues by EOM 3.

Procurement of Technical Assistance and Support/Mobilization

a. Negotiation of 8(a) firm contract - EOM 3

The contract should be negotiated within three months of project authorization and initiated with authorized pre-project expense funds. Rapid negotiation will allow continuity of support, if necessary, prompt negotiation of alternative arrangements.

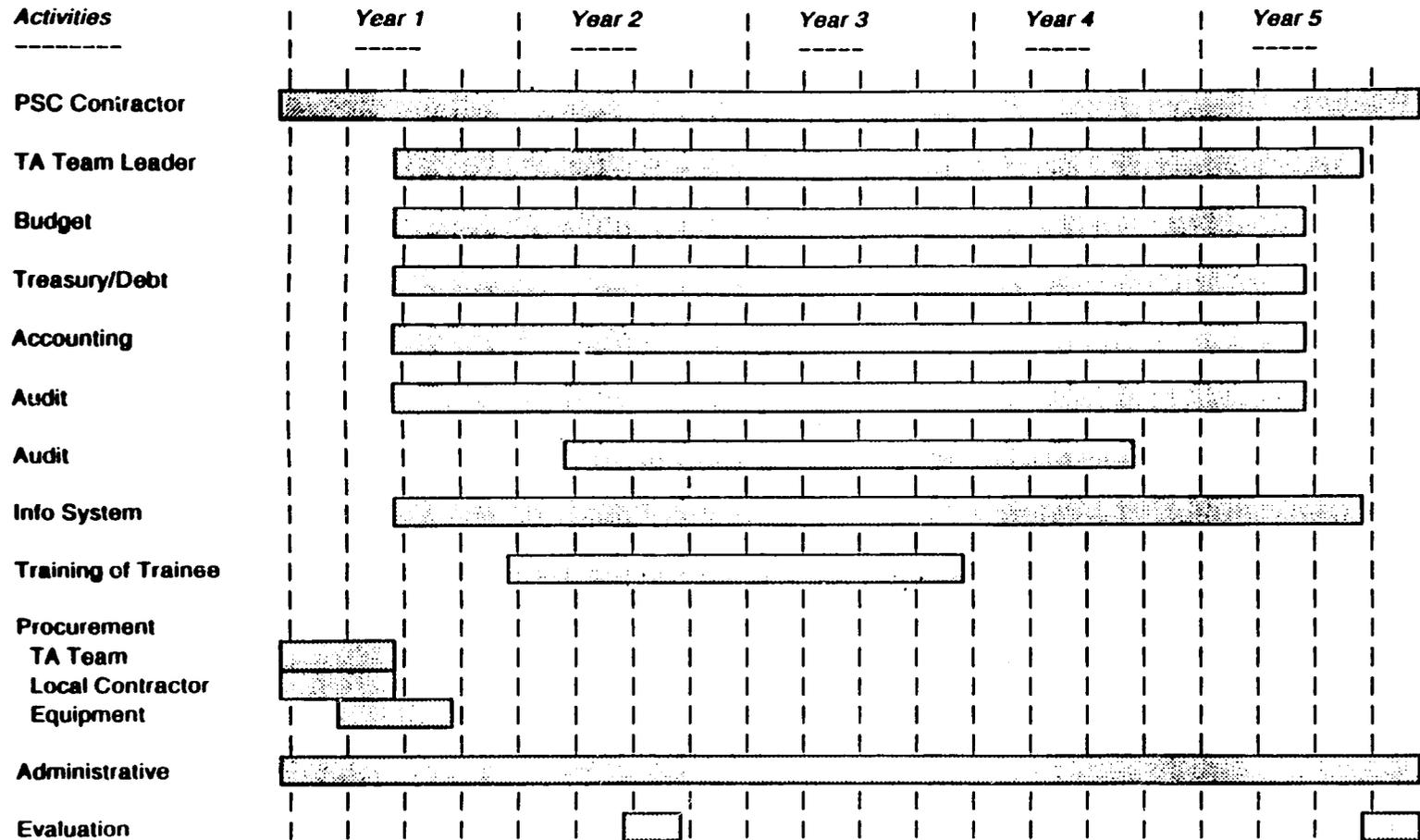
b. Negotiation of Local Support Contract - EOM 4

Negotiation and signing of the local technical assistance and support contract should be completed 30 days after selection of the technical assistance team contractor.

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Figure 1

Schedule of Activities



Project Implementation

a. Consultant Team In-country - EOM 7

Long-term technical assistance team members should begin to arrive in country by EOM 4 and all should be in country by EOM 7.

b. Detailed Project Work Plan - EOM 10

The technical assistance team should prepare a detailed project work plan for year one of the project and a more general projected life of project (LOP) activity plan ready for review by the Project Executive Committee (PEC) and AID by EOM 10.

c. Project Interface Control Committee - EOM 10

The Project Interface Control Committee should be set up and have conducted their first meeting by EOM 10.

d. Final GOP Counterpart Personnel Identification - EOM 10

All GOP counterpart personnel should be identified by EOM 10. This gives the contractor two months to familiarize themselves with HC personnel, identify appropriate candidates and reach agreement with government officials on counterpart personnel nominations.

e. Training Seminars begin - EOM 11

Training seminars should begin for counterpart personnel by EOM 11.

f. Project Executive Committee (PEC) Agreement on IFMS Conceptual Framework - EOM 12

PEC agrees to IFMS/CAP conceptual framework and distribution of financial management and audit responsibilities and functions by EOM 12.

g. Office of the Auditor General (OAG) - EOM 12

Issuance of an administrative order establishing the OAG is a condition precedent. The Office of the Auditor General should be functioning with staff and the Auditor General in place by EOM 12.

h. Training Workshops - EOM 13

Training workshops are initiated by EOM 13.

i. **Training Courses and Conferences**

Training courses and conferences are initiated by EOM 19.

j. **Preliminary Standard Government-wide General Ledger Chart of Accounts - EOM 22**

Delivery for comments of the standard, government-wide general ledger chart of accounts for both financial and budgetary accounting purposes by EOM 22.

k. **IFMS/CAP Final Manuals EOM 24**

Functional teams complete revisions of draft organizational, policy and procedure manuals by EOM 24.

l. **Approved Standard Government-wide General Ledger Chart of Accounts - EOM 26**

The standard, government-wide general ledger chart of accounts for both financial and budgetary accounting purposes should be approved by the PEC by EOM 26.

m. **Annual Cash Flow Projections Prepared**

Annual cash flow projections (by month) prepared by EOM 26.

n. **Public Debt Reporting System**

The modified national public debt reporting system will be initiated by EOM 26.

o. **Integration of National Budget, Treasury, Public Debt and Accounting Offices**

The national budget, treasury, public debt and accounting offices will have initiated the any reorganization required by EOM 28.

p. **Implementation of Payment Processing and Disbursement System**

Adoption and functioning of payment processing and disbursement system by EOM 32.

q. **Accounts Receivable Reconciliations**

Accounts receivable reconciliations prepared by EOM 36.

r. **Treasury Reporting System**

Treasury reports issued by EOM 44.

3. Consultant Functions and Qualifications

This appendix describes the general academic and experience requirements for the principal technical assistance team members.

BUDGET:

Budget Specialist

Functions:

- o Manage the analysis, design and implementation of the budget subsystem as part of the IFMS. Manage and participate as instructor in the training plan;
- o Design the budget subsystem as part of the IFMS;
- o Develop the methodology and programming and budget formulation manuals of the central government and other decentralized entities: such as the public enterprises, the development corporations, municipal development corporations and financial intermediaries;
- o Develop the budget execution control, follow-up and evaluation manuals of the budgets of the central government and other decentralized entities; the public enterprises, the development corporations, municipal development corporations and financial intermediaries.

Requirements:

- o Academic: Degree in administration, economics, or public accounting, preferably with postgraduate degree.
- o Experience: Minimum of 10 years experience in one or more of the following areas:
 - Technical assistance projects in the field of public administration or public finance, preferably in training and assessments of public sector budgets.
 - Administration of budgets and management improvement processes, with concentration in finance and public sector budgets.
 - Academic or training activities in the financial, managerial or budgeting fields.

TREASURY:

Treasury Specialist

Functions:

- o Provides leadership and technical input in the analysis, design and implementation of the Treasury subsystem;
- o Participate with the host country counterpart in the preparation of the Treasury law;
- o Assist in the design of a new organizational structure and uniform positions in the areas of Treasury in the public sector;
- o Prepare the policy and administrative procedures required to:
 - Reconcile accounts receivable with the amounts originally deducted per contributors and other debtors to the government.
 - Develop a unified program to process payments.
 - Implement policies and procedures to prioritize disbursements.
- o Develop a manual which contains the financial information requirements for treasury operations.
- o Develop a treasury training program, prepare training materials and participate in training as an instructor.

Requirements:

- o **Academic:** Degree in public administration, public accounting, economics or related field, preferably with postgraduate studies in public finance, public programming and financial analysis.
- o **Minimum 7 years experience in:**
 - Processes and techniques in planning, executing, controlling and evaluating Treasury operations.
 - Design and implementation of Treasury subsystems.
 - Training in higher education institutions on public finance, programming and financial policy.

PUBLIC SECTOR DEBT:

Public Debt Specialist

Functions:

- o Manage the analysis, design and implementation of the public debt subsystem;
- o Assist in the preparation of public debt legislation;
- o Assist in the preparation and draft of the financing plan for the national government;
- o Prepare the policy and procedures to determine the status of the public debt;
- o Develop an inventory of the aggregate credit contracts by lending institution;
- o Administer or give courses on public finance, programming and financial policy, and public debt administration.

Requirements:

- o Academic: Preferably advanced degree in economics or public administration, with specialization in public finance, programming and financial analysis of public debt;
- o Minimum seven years experience in:
 - Planning techniques and processes, recording, control and evaluation of public debt.
 - Design and implementation of public debt subsystems.
 - Administer or give courses in institutions of higher education on public finance, financial policy and programming and public debt administration.

ACCOUNTING:

Accounting Specialist

Functions:

- o Manage the implementation of the accounting subsystem as a part of the IFMS;
- o Analyze the legal and administrative regulations that regulate public sector accounting and propose improvements and modifications;
- o Develop a compendium of public sector accounting principals, policies and standards;
- o Develop an governmental accounting plan and accounting manual for application in central government agencies, decentralized agencies, development corporations and municipalities;
- o Manage the implementation of the accounting subsystem in a selected pilot agency in the central government;
- o Assist in the training of GOP accounting officials;
- o Design the process to combine financial reporting at a national level, and define the structure and content of the standard general ledger chart of accounts;
- o Supervise the activities of the analysis and design phases and the implementation of the subsystem.

Requirements:

- o Academic: Professional degree in public accounting, preferably with post-graduate studies. Licensed to practice as public accountant in home country.
- o Minimum 10 years experience in:
 - Design and implementation of accounting systems at a national central government and public sector institutional level;
 - Management of national accounting offices in the public sector and experience in the development of national government charts of accounts.
 - Preparation of annual financial statements in accordance with generally accepted accounting principles.

GOVERNMENT AUDIT:

Audit Specialist

Functions:

- o Analyze and design the CAS and assist in the creation of the Office of the Auditor General of Panama;
- o Manage and develop professional government audit standards and the procedural manuals for financial audits by units;
- o Assist in the development of an audit plan, planning, execution, report preparation and follow-up of financial audits of selected public sector entities.

Requirements:

- o Academic:
Certified Public Accountant, high level professional who has ten years practical experience in a modern supreme audit institution in Latin America.
- o Minimum 10 years experience in:
 - Planning, execution, control and report writing experience for financial audits;
 - Organization of supreme audit institutions, and internal audit units;
 - Development and implementation of standards on internal control, internal and external audit, and procedural development manuals;
 - University-level teaching in control and audit;
 - Consulting, preferably international, with multilateral institutions such as: International Development Bank, A.I.D., United Nations, World Bank, etc., on financial administration and governmental control improvement and design projects.

MANAGEMENT INFORMATION SYSTEM:

Senior Systems Analyst

Functions:

- o Responsible for front end analysis and design
- o Work closely with the end user to ensure that all requirements are properly documented and that the products of the analysis phase are completed
- o Responsible for planning the transition in the development phase and for ensuring the quality of the application
- o Train end-users and host country counterparts

Requirements:

- o Academic:
Degree in Computer Science or Computer Related discipline. Specific training in structured methodologies, analysis and design.
- o Minimum 6 years of experience in:
 - Computer related focusing on the use of structured methodologies and data base management systems (should include financial management, accounting, budget, and audit);
 - Hardware experience in IBM mainframe, microcomputers, and microcomputer LANs;
 - CASE tool analysis.

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