

PN - ABS - 175

**DESIGN FOR A TECHNICAL ASSISTANCE
PROJECT TO IMPROVE GOVERNMENT
FINANCIAL MANAGEMENT IN PANAMA**

FINAL REPORT

October 16, 1990

**Translated and adapted from the Spanish
Contract No. LAC-0302-C-00-0026-00**

Price Waterhouse

October 19, 1990

Mr. Harry Dorcus
Controller
USAID/Panamá
U.S. Embassy
Panamá City, Panamá

Dear Mr. Dorcus:

We are pleased to enclose the final project design for improved government financial management in Panamá. If you have any questions, please do not hesitate to contact Paul Lohneis, Regis Cunningham or Lynnette Asselin at (202) 296-0800 at your earliest convenience.

Very truly yours,

Price Waterhouse

**DESIGN FOR A TECHNICAL ASSISTANCE PROJECT
TO IMPROVE GOVERNMENT FINANCIAL MANAGEMENT
IN PANAMA**

INDEX

	<u>Page</u>
I. INTRODUCTION	
A. Background	2
B. Terminology	4
C. Project Design Objectives	5
D. Methodology	6
II. OVERVIEW OF GOVERNMENTAL MANAGEMENT AND AUDITING	
A. Organization of the Government of Panama	9
B. Organization and Function of Principal Institutions and Administrative Offices	15
C. Information Systems Environment	36
D. Legal Environment	43
III. GENERAL SUMMARY OF PROBLEMS AND RECOMMENDATIONS	
A. General Considerations	50
B. Legal Basis	50
C. Current Financial Management Functions in Panama	52
D. Management Information Systems	57
E. Human Resources	58
F. Other Related Areas in Financial Management	61
G. Audit	63
IV. PROJECT DESIGN	
A. Project Goal	64
B. Project Objectives	85
C. Project Approach	87
D. Project Scope	96
E. Terms of Reference	96
F. Organization of Project Development	123
G. Time Schedule	128
H. Logframe	150
I. Project Milestones	155

V.	ASSUMPTIONS AND CONDITIONS FOR PROJECT SUCCESS	
A.	Roles of Panamanian Government Agencies in the IFMS	162
B.	Creation of the Office of the Auditor General	163
C.	Scope of the Project	165
D.	Counterpart Computer Information Systems Personnel	166
E.	Timing of Financial Management and Government Auditing Improvements	167
VI.	ALTERNATIVE STRATEGIES	
A.	Summary of Project Design	168
B.	Financial Management Systems Improvement Alternatives	170
C.	Alternate CAP Approaches	171
D.	Alternate Computer Information System Approaches	173
E.	Advantages of the Project Design over Other Alternatives	174
VII.	ECONOMIC ANALYSIS OF THE PROJECT	
A.	Introduction	176
B.	Benefits	176

**DESIGN FOR A TECHNICAL ASSISTANCE PROJECT
TO IMPROVE GOVERNMENT FINANCIAL MANAGEMENT
IN PANAMA**

LIST OF APPENDICES

- APPENDIX A Assessment of Governmental Financial Management in Panama -
Executive Summary
- APPENDIX B *Your Role in the Accountability Process: Accountability, Financial
Management and Audit of A.I.D. Furnished Resources in Beneficiary
Countries*
- APPENDIX C Existing GOP Hardware/Software
- APPENDIX D Financial Systems and Subsystems
- APPENDIX E Training Needs
- APPENDIX F Experience and Specialization of Consultants and Other Project
Personnel
- APPENDIX G Computer Systems Procurement Estimated Equipment Costs



DESIGN FOR A TECHNICAL ASSISTANCE PROJECT
TO IMPROVE GOVERNMENT FINANCIAL MANAGEMENT
IN PANAMA

I. INTRODUCTION

As part of the *Immediate Recovery Project (IRP)*, the Comptroller General of Panamá (CG) requested assistance from the U.S. Agency for International Development (A.I.D.) in establishing financial management and control systems which had become inoperative and inadequate under the previous government. A preliminary assessment (Appendix A) of the government of Panamá's (GOP) needs in regards to financial management and audit was carried out under the LAC Regional Financial Management Improvement Project (LAC/RFMIP).

Based on this assessment and other evidence of the collapse of government financial management and auditing in Panamá, it was determined that a full scale effort must be made to address the real weaknesses in financial management systems and the absence of an independent and professional audit capability in the GOP. A.I.D. and the consultants that performed the assessment concurred that the best means of achieving the goal of **improving accountability and the financial management of scarce public resources, and thereby renewing public confidence in the integrity of the government**, was through the design and implementation of GOP Integrated Financial Management System (IFMS) and a Comprehensive Audit Process (CAP)¹.

1. "Sistema de auditoría integral" (SAI) has been translated into English throughout this report as "comprehensive audit process," (CAP) consistent with the AICPA SAS #55.

The Price Waterhouse Office of Government Services (PW/OGS) was contracted by A.I.D. to prepare the corresponding design of the technical assistance project and to provide interim assistance until an implementation contract can be awarded. This document is our design of a five year project to improve government financial management, audit and accountability in the government of Panama.

A. Background

In the *Report on the State of Public Finances and some aspects of the Fiscal Crisis*, presented on March 1, 1990, the Comptroller General of Panama assessed the state of deterioration into which Panamanian finances had fallen under the previous administration. In summary, the controlling institutions had neglected to fulfil 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 uncontrollable proportions; and the massive fiscal deficit was exerting severe pressure on the already dangerous state of public finances. In addressing these issues, the new government has imposed on itself strict fiscal disciplinary measures, has adjusted public expenditures and has required itself to improve administrative efficiency.

In support of these efforts, the Comptroller General of Panama requested and obtained from A.I.D. emergency technical assistance services from Price Waterhouse under the Latin American and Caribbean Regional Financial Management Improvement Project.

Services in this contract included: (1) an analysis of the government financial management capability, including an outline of a conceptual design which provides a frame of reference for the description and analysis of the current situation; and (2) recommendations expressed in terms of goals, and activities to accomplish these goals in the short, medium and long term.

The analysis covered a representative sample of public sector entities in Panama. The organizations reviewed which are directly responsible for financial management and control are the Comptroller General of Panama, the Ministry of Planning and Economic Policy (MIPPE), and the Ministry of Finance and Treasury. The Ministries of Health, Education, Housing and Public Works were also included in the assessment as representative of central government ministries. The National Bank of Panama (NBP), and the Institutes of Hydraulic Resources and Electrification, Telecommunications and Agricultural Markets were included as decentralized and autonomous institutions. The municipalities of Panama and Penonomé 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. Based on the analysis performed, conclusions and specific recommendations were made to improve each functional area and the integration between the areas. Additionally, the assessment included conclusions and recommendations on legal and human resources matters which were common to all the functional areas reviewed.

The assessment summary report was presented at the beginning of July for the review and comments of the Comptroller General and his principal assistants. The Comptroller General and his staff demonstrated a great openness in discussing the financial management and audit weaknesses in the public sector and acceptance of the recommendations to improve financial management through the implementation of an integrated financial management system and the development of a modern, professional government audit capability.

The project design describes the long term technical assistance activities, based on the conclusions drawn from the analysis performed during the assessment of public sector financial management in Panama.

B. Terminology

This report uses the term **"integrated financial management system"** in a very specific sense.

A **system**, in its broadest sense, entails a certain order in which animate and inanimate items are arranged and the existence of a purpose is implied. The **systems** concept may be applied to all scientific fields, including the social sciences. Using the systemic approach, government financial management is commonly considered to be a system consisting of the budget, treasury, public debt and accounting functions.

These government financial management functions cannot be considered separately. Because of their unique objectives, they are linked together to form an indivisible conceptual whole. Any problems arising in one or more of the components will affect government financial management in its entirety and, at the same time, changes in government policy will affect each component.

The term **"implementation"** is used to mean the execution of specific activities in order to produce concrete output or achieve the desired objective or goal.

C. Project Design Objectives

The design of the long term technical assistance project is based on technical and institutional characteristics proposed by the Government of Panama and A.I.D. These characteristics are introduced through the IFMS and the CAP. The project design includes the goal, objectives, approach and terms of reference. Technical assistance activities are programmed in the medium and long term in order to assure the effectiveness of the IFMS and the CAP.

The reforms introduced throughout this project design are the minimum necessary for solid financial management. In addition, they meet the guidelines indicated by A.I.D.

in its booklet *Your Role in the Accountability Process: Accountability, Financial Management, and Audit of A.I.D. Furnished Resources in Beneficiary Countries* (see Appendix B).

The IFMS and the CAP can be implemented in a manual or partially automated environment, such as that which currently exists in Panama. However, opportunities exist to improve existing computer systems that will enable a more efficient sharing of data and a better integration of financial management systems. The project design includes a **computer information systems strategic plan** to analyze and prioritize these opportunities, taking into consideration design and implementation costs and benefits.

Financial management systems can also be strengthened through the establishment of a modern review process for measuring the fairness of financial reporting and the efficiency and effectiveness of financial management and other government operations. The project design therefore includes an important component to develop a **modern and independent government audit capability**.

Equally important to the strengthening of financial management systems and the establishment of an independent audit organization is the **development of a high level of professionalism and integrity in GOP financial management and audit personnel**. The project addresses this important issue by providing a significant level of classroom and on-the-job technical training in financial management and government audit as well as seminars that promote awareness in government personnel of their professional and ethical responsibilities in the management of scarce public resources. Strengthening the government training capability will help ensure the sustainability of the IFMS and CAP by maintaining a high level of trained professionals in the government.

D. Methodology

The design was built on a conceptual scheme that conceives of financial management as a system made up of budget, treasury, public debt and accounting subsystems and their corresponding internal controls. The audit process is characterized by a governing body that provides independent and professional audits of other government institutions. Furthermore, this audit process includes the participation of modern internal auditing entities and private auditing firms.

The descriptions of each of the subsystems include related internal and external controls, the legal and regulatory aspects, organization, principal technical policies and processes, work procedures, human resource requirements and information flow.

A comparison of the conceptual scheme and the actual situation facilitated the analysis and permitted principal problems and their possible causes to be identified, and conclusions to be drawn. Subsequently, recommendations were modified into goals of the project design.

After the execution of a coherent plan of action in the short, medium and long terms, the final goal is the systematic establishment of a fully functional system of financial management and government auditing. The short and medium term is considered to be the first two years of the project, and the long term the final three years of the project.

Policy initiatives of the principal officials of the Panamanian government were interpreted so as to accomplish the minimal necessary reforms with the least economic, social and political cost. These conditions were taken into consideration in designing the long term technical assistance project.

This report contains seven chapters with their corresponding appendices. Following this introductory chapter, Chapter II, entitled "Overview of Government Financial

Management and Auditing," begins with a short reference to the organization of the Republic of Panama, the Comptroller General's Office and the following agencies of the Executive Branch: the Ministry of Finance and Treasury, the Ministry of Planning and Economic Policy, the National Bank of Panama, as well as general ministerial administration, decentralized and autonomous entities, public enterprises and municipalities.

Following that is a description of the existing computer information systems in Panama. The chapter ends with a description of the constitutional and legal norms directly and indirectly related to current Panamanian financial management.

Chapter III, entitled "General Summary of Problems and Recommendations for their Solution," begins with some general considerations. It presents a summary of the principal problems. Recommendations and actions that were proposed in the assessment are also presented in summary form.

Chapter IV, entitled "Project Design," presents the conceptual design of IFMS and CAP. This chapter includes: the definition of the goal and objectives of the project; the conceptual design of IFMS and CAP, applied to the actual situation in Panama, the overall approach for the technical assistance activities; the terms of reference; a description of the organizational structure for the project with an estimate of personnel and level of effort required by the contractor and host government counterpart; the schedule of activities; and the methodology for project evaluation.

Chapter V, entitled "Assumptions and Conditions for the Success of the Project," describes potential difficulties that could have an impact on the project's implementation and suggests ways to reduce this effect. This chapter also outlines the important assumptions made about conditions necessary for project success.

Chapter VI, entitled "Alternative Strategies" describes the alternative approaches considered in designing the project and the primary reasons for their rejection.

Chapter VII, entitled "Economic Analysis of the Project," quantifies in economic terms the potential benefits of the project. Non-quantifiable benefits are also identified.

Appendices to the project include:

- o The Executive Summary of the Assessment of Governmental Financial Management in Panama prepared by Price Waterhouse (Appendix A)
- o A.I.D. guidelines on administration of resources from *Your Role in the Accountability Process* (Appendix B)
- o A detailed description of the existing hardware and software platforms at the main computer centers that process financial management applications in Panama (Appendix C)
- o Detailed description of existing automated financial systems and subsystems (Appendix D)
- o An assessment of the training in financial management and government auditing to be carried out under the project (Appendix E)
- o A description of functions and requirements of the consultants involved in the project (Appendix F)
- o An estimation of the cost of computer hardware and software for the consultants and counterpart personnel working in the IFMS, CAP and computer information systems strategic plan areas (Appendix G).

II. 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 Comptroller General's Office of the Republic which reports to the legislative branch 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.

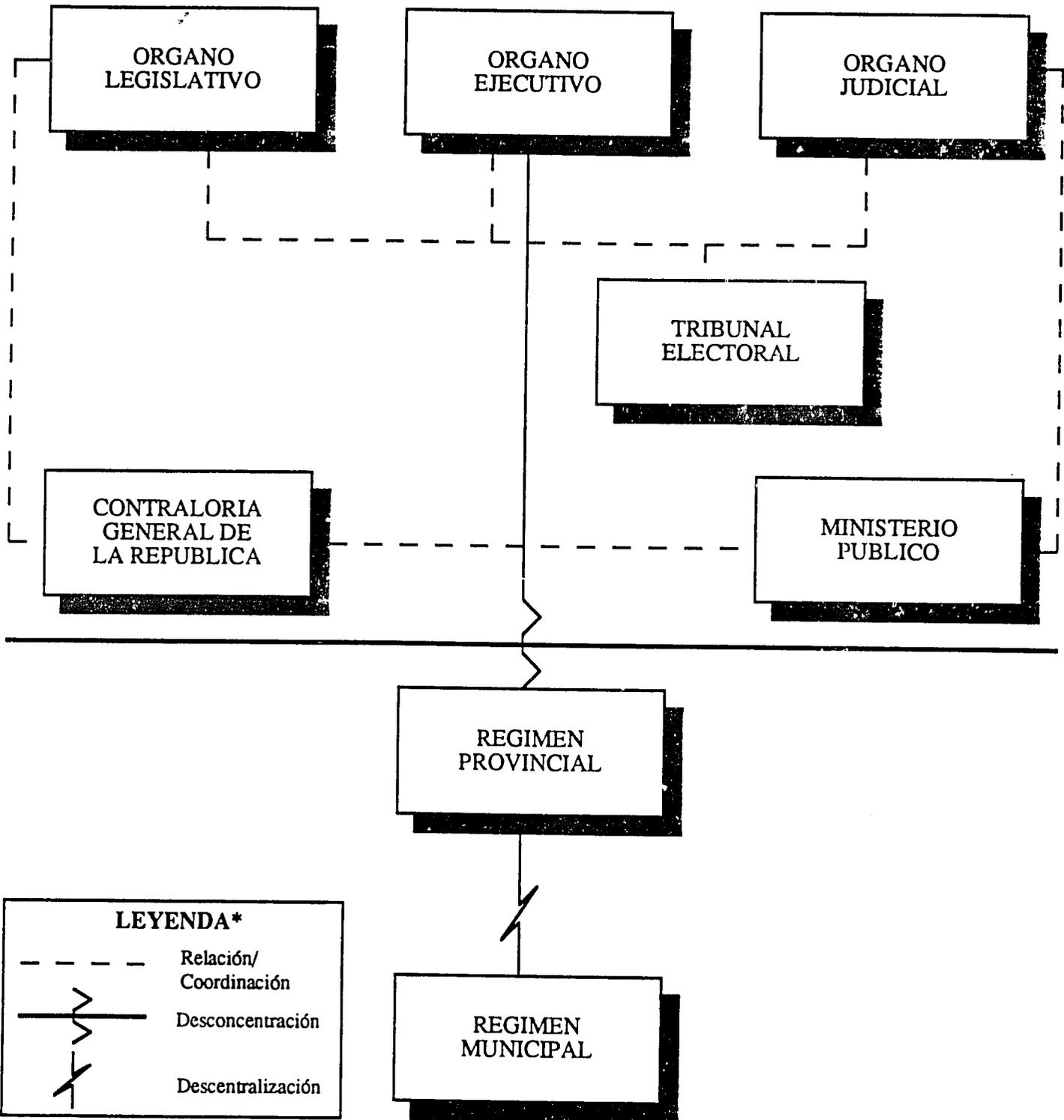
Figure 1 shows the organization of the Panamanian government and includes the decentralized organizational structure for provincial and municipal administrations.

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

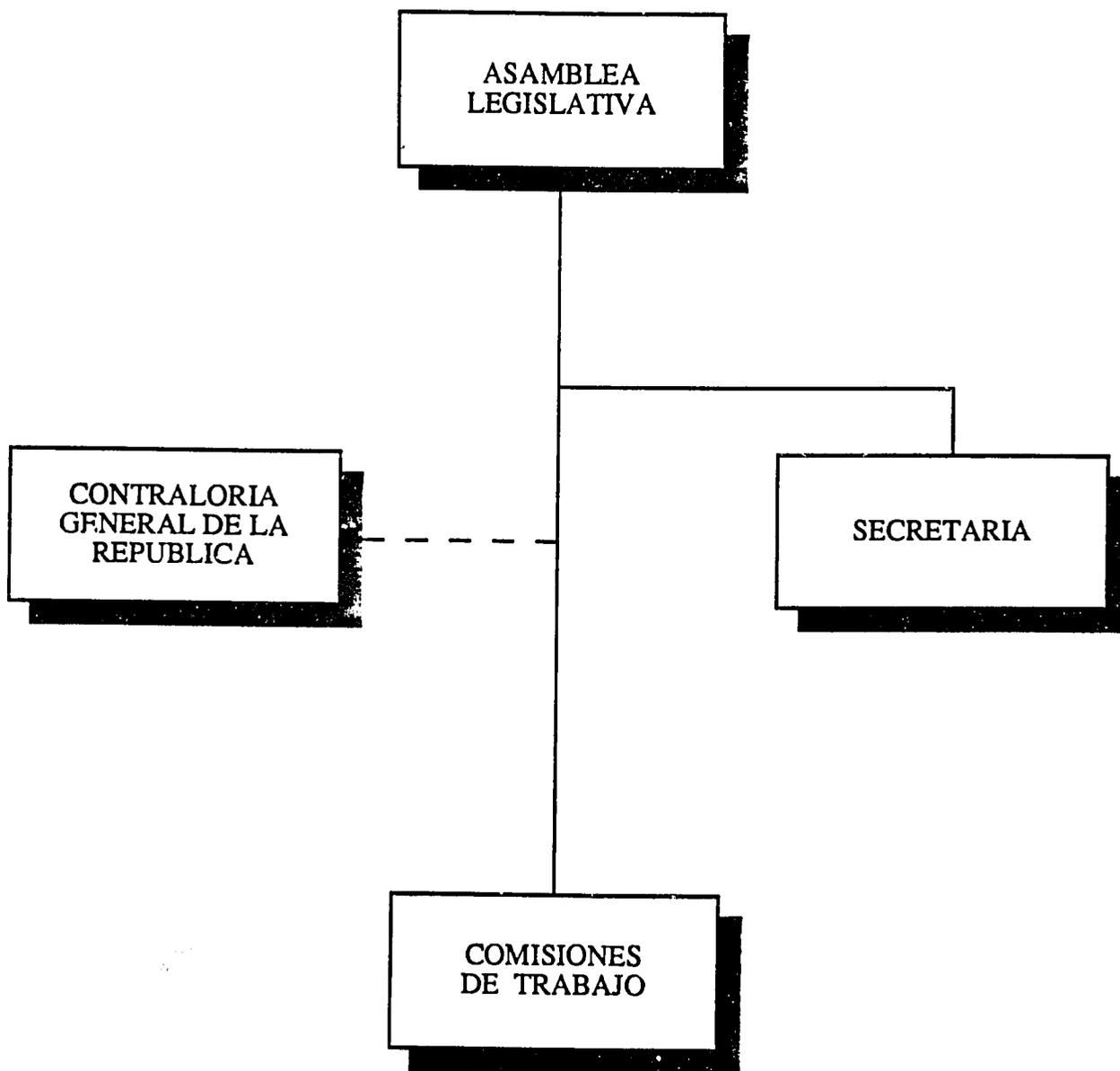
50 decentralized and autonomous entities. Article 238 of the Constitution establishes a mayor, a chief of municipal administration and two assistants, elected by direct popular vote, in each district. Article 238 continues to state that the law, however, can permit that in any district the mayor be named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

ORGANIZACION DEL GOBIERNO DE LA REPUBLICA DE PANAMA



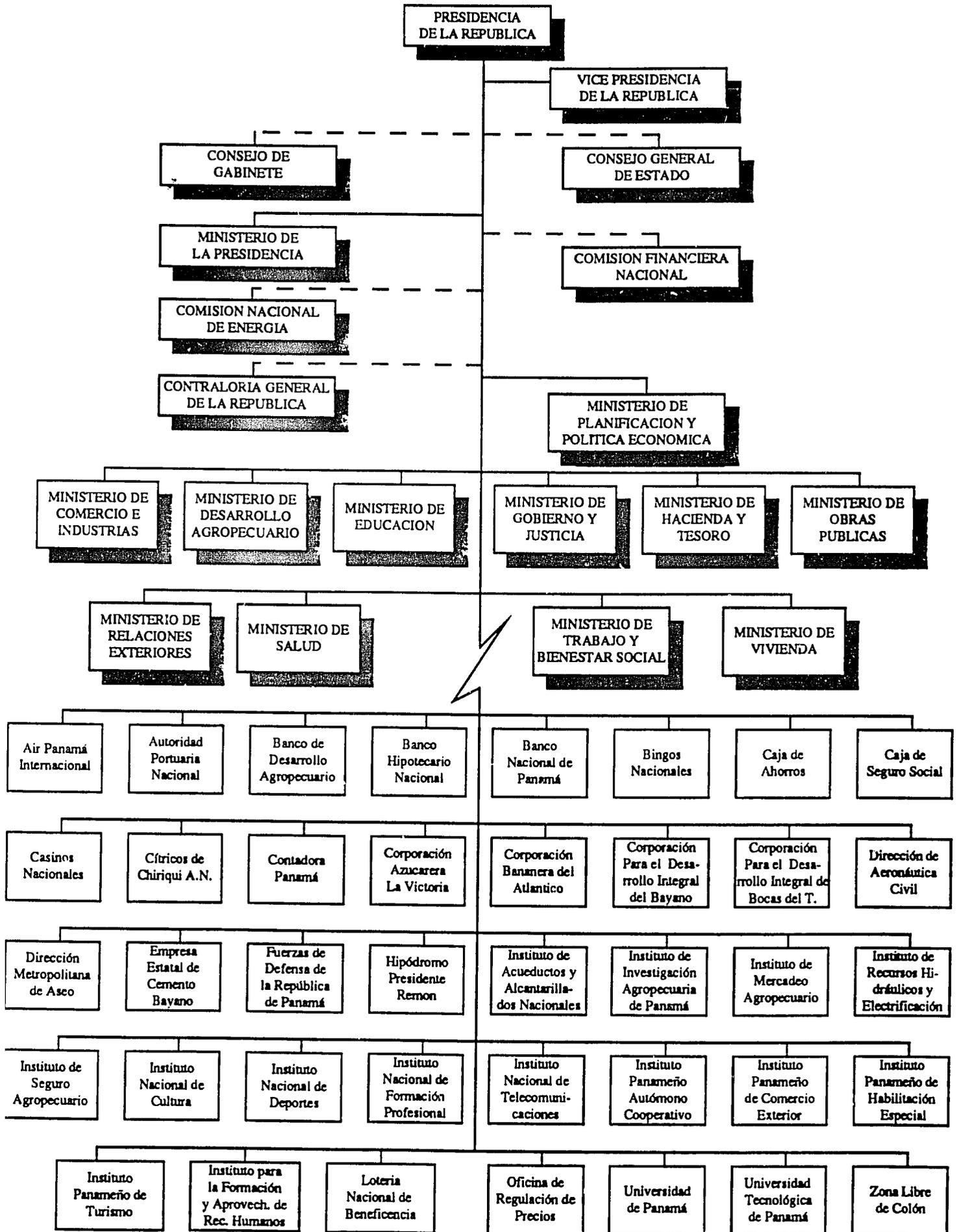
*Esta leyenda aplica a los gráficos 1-14

ORGANO LEGISLATIVO

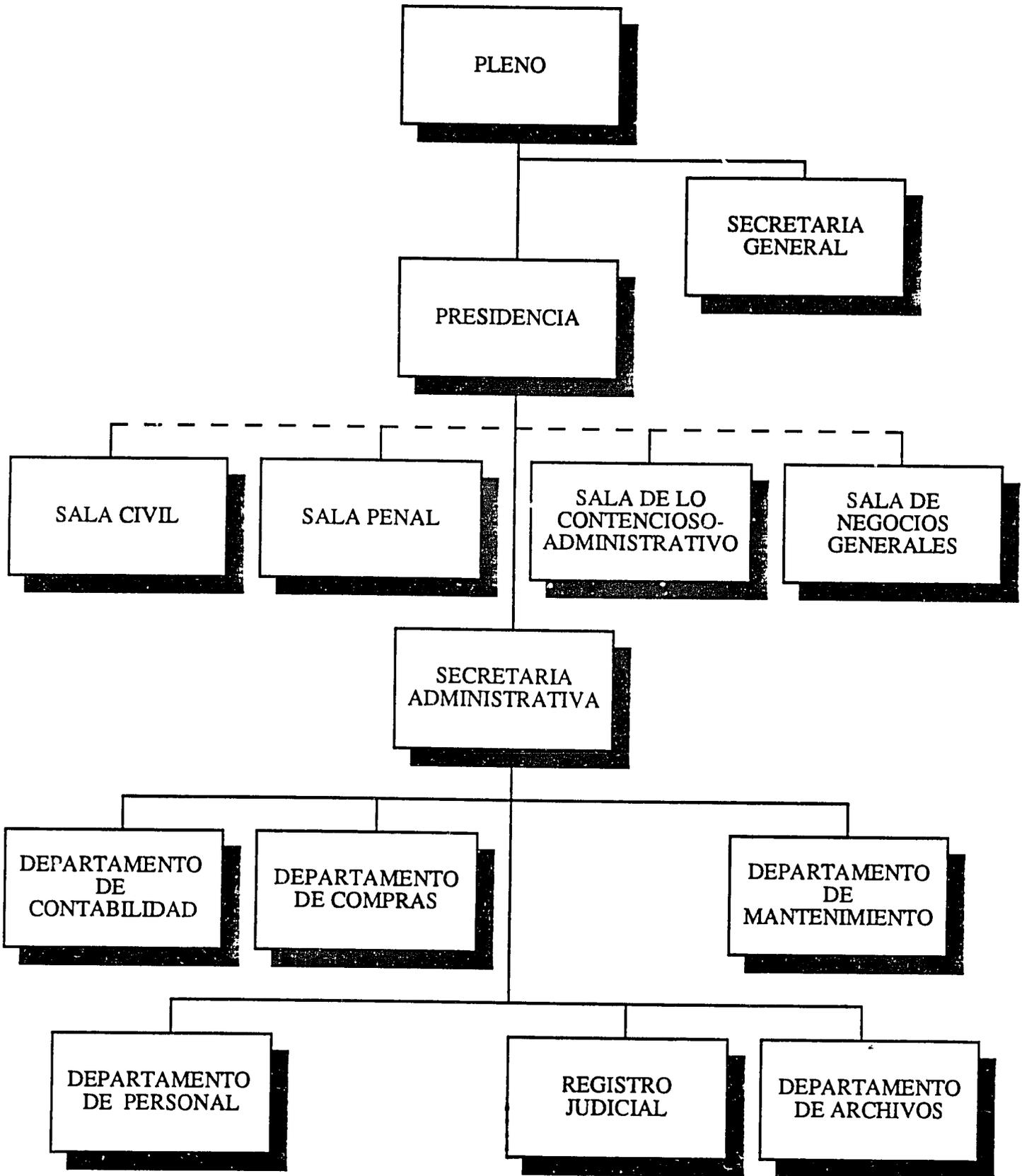


ORGANO EJECUTIVO

GRAFICO NO. 3



CORTE SUPREMA DE JUSTICIA



B. Organization and Function of the Principal Institutions and Administrative Offices that Participate in Government Financial Management

1. Comptroller General's Office of Panama

Conforming to Article 275 of the Constitution, "There will be an independent state organ called the Comptroller General's Office of the Republic, the direction of which will be the charge of a public official to be called the Comptroller General, assisted by a Deputy Comptroller, 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 Comptroller and Deputy Comptroller of the Republic.

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

- o **To keep the national accounts, including accounts of the internal and external debts.**
- o **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 Comptroller 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.**
- o To examine, intervene and close the accounts of public officials, entities or personnel that administer, manage or safeguard funds or other public resource. That which pertains to criminal responsibility falls under the jurisdiction the ordinary courts.
- o To carry out inspections and investigations to determine the correctness or incorrectness of operations which affect the public patrimony, and to present the findings.
- o 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.

- o **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 Comptroller'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 Comptroller 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 Comptroller General's Office of Panama about the fiscal effects of those actions.

To exercise the legal powers described above, the Comptroller 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.

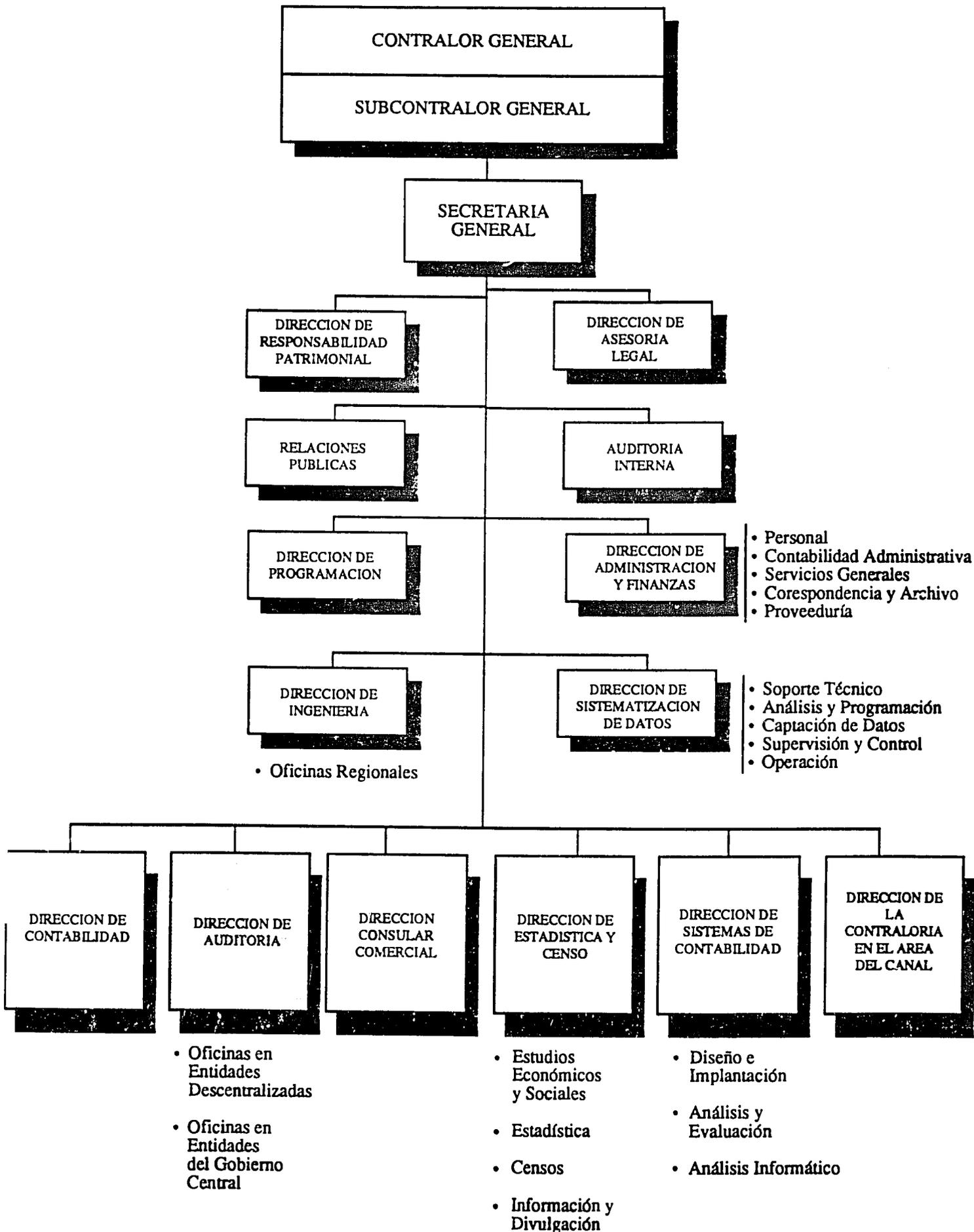
The Audit Office staff is organized in the following way:

- 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 Comptroller 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.

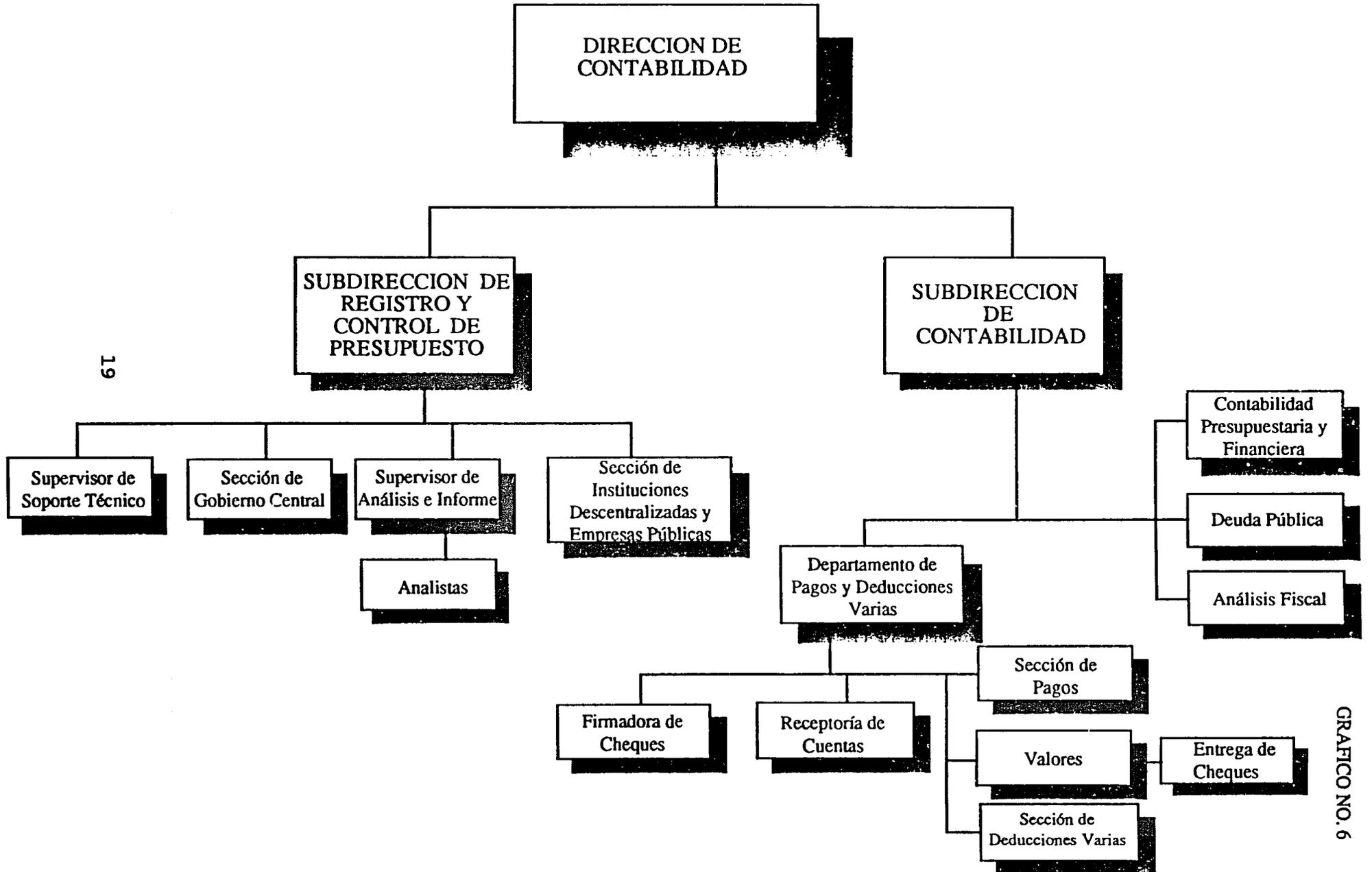
It is estimated that less than 10% of the 650 professional and technical employees of the Office are dedicated solely to performing auditing activities. Therefore they are unable to get involved in other technical areas such as operational audits, performance audits, etc.

Budgetary and accounting activities under the jurisdiction of the Comptroller 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.

CONTRALORIA GENERAL DE LA REPUBLICA



DIRECCION DE CONTABILIDAD DE LA CONTRALORIA GENERAL



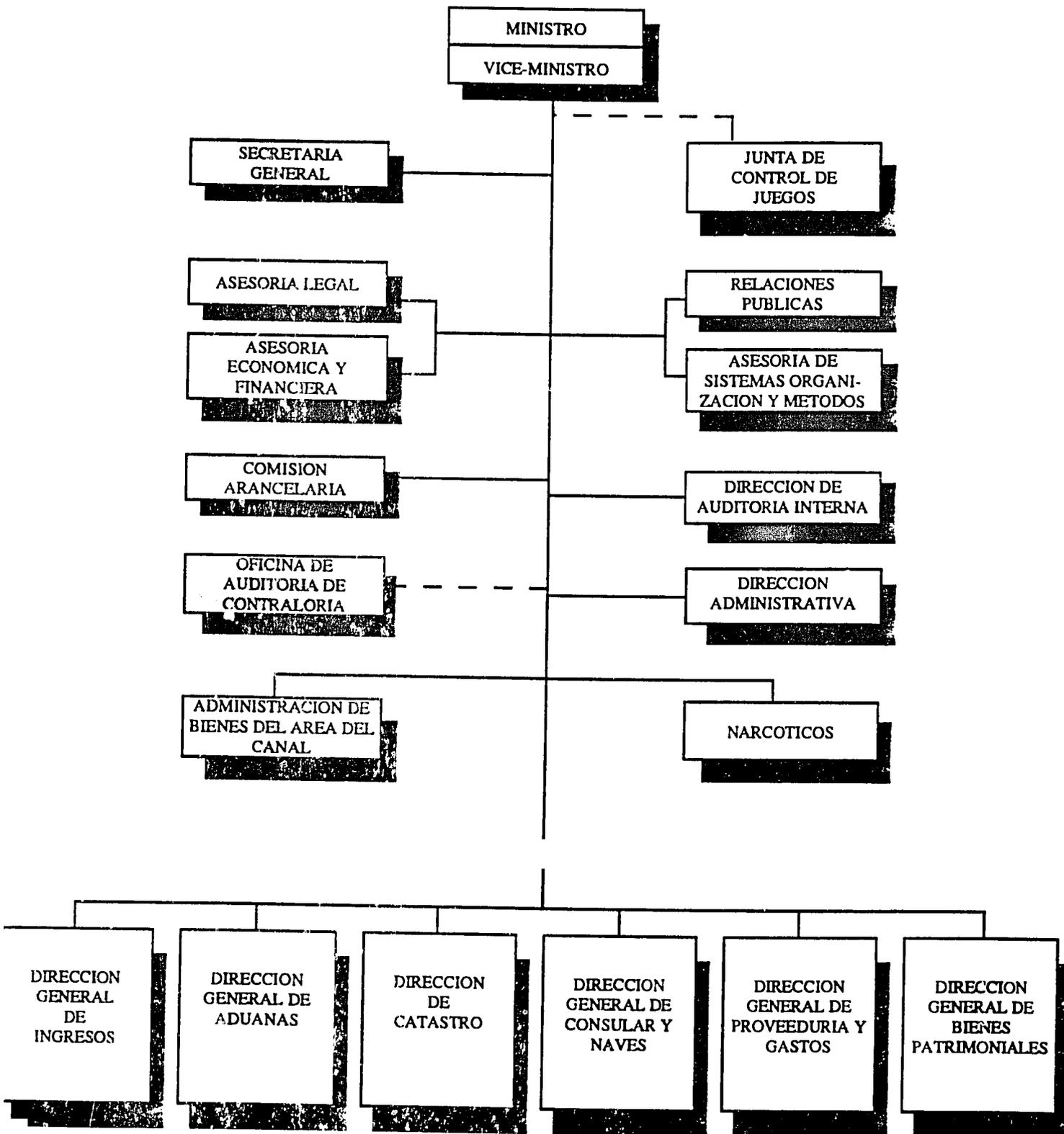
2. Ministry of Finance and Treasury

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.

MINISTERIO DE HACIENDA Y TESORO



3. Ministry of Planning and Economic Policy

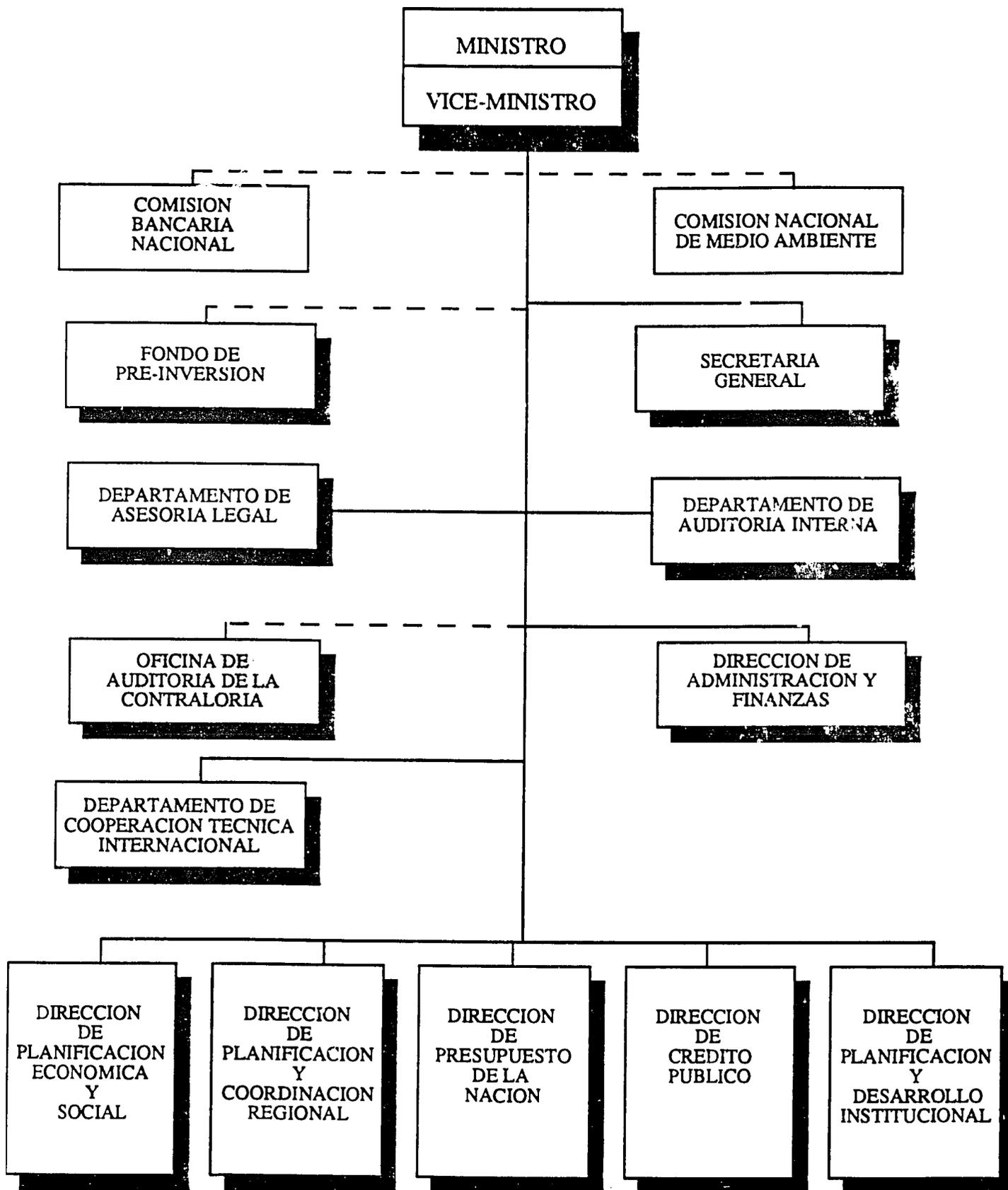
According to legislation, the Ministry of Planning and Economic Policy performs the following basic functions:

- 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;

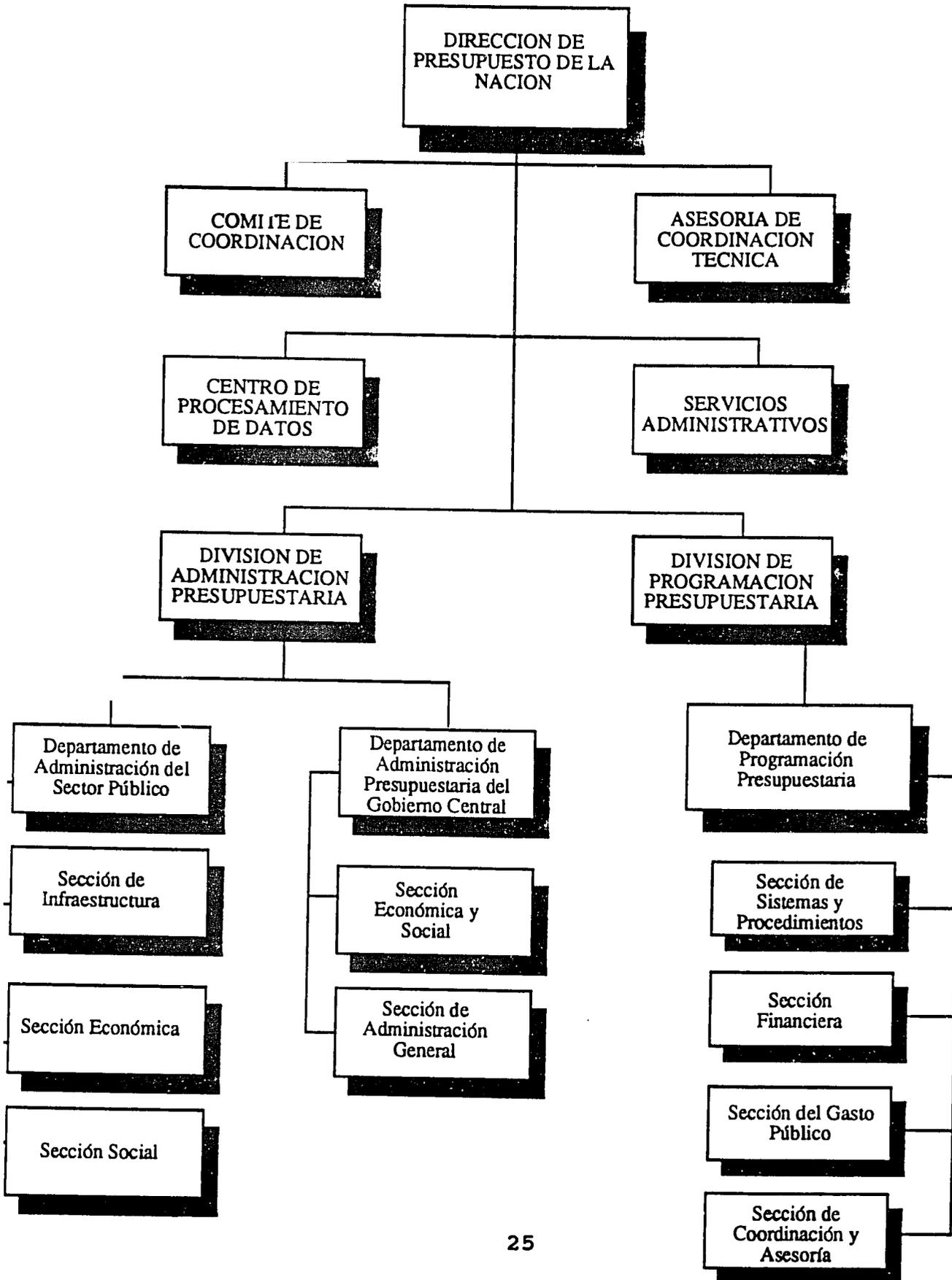
- o Consult on the design of programs and projects and perform evaluations as a part of national planning;
- o Approval of the draft budgets of state agencies, evaluating them according to the requirements of the development plans and the availability of financial resources; and
- o Periodic examination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

MINISTERIO DE PLANIFICACION Y POLITICA ECONOMICA



DIRECCION DE PRESUPUESTO DEL MINISTERIO DE PLANIFICACION Y POLITICA ECONOMICA



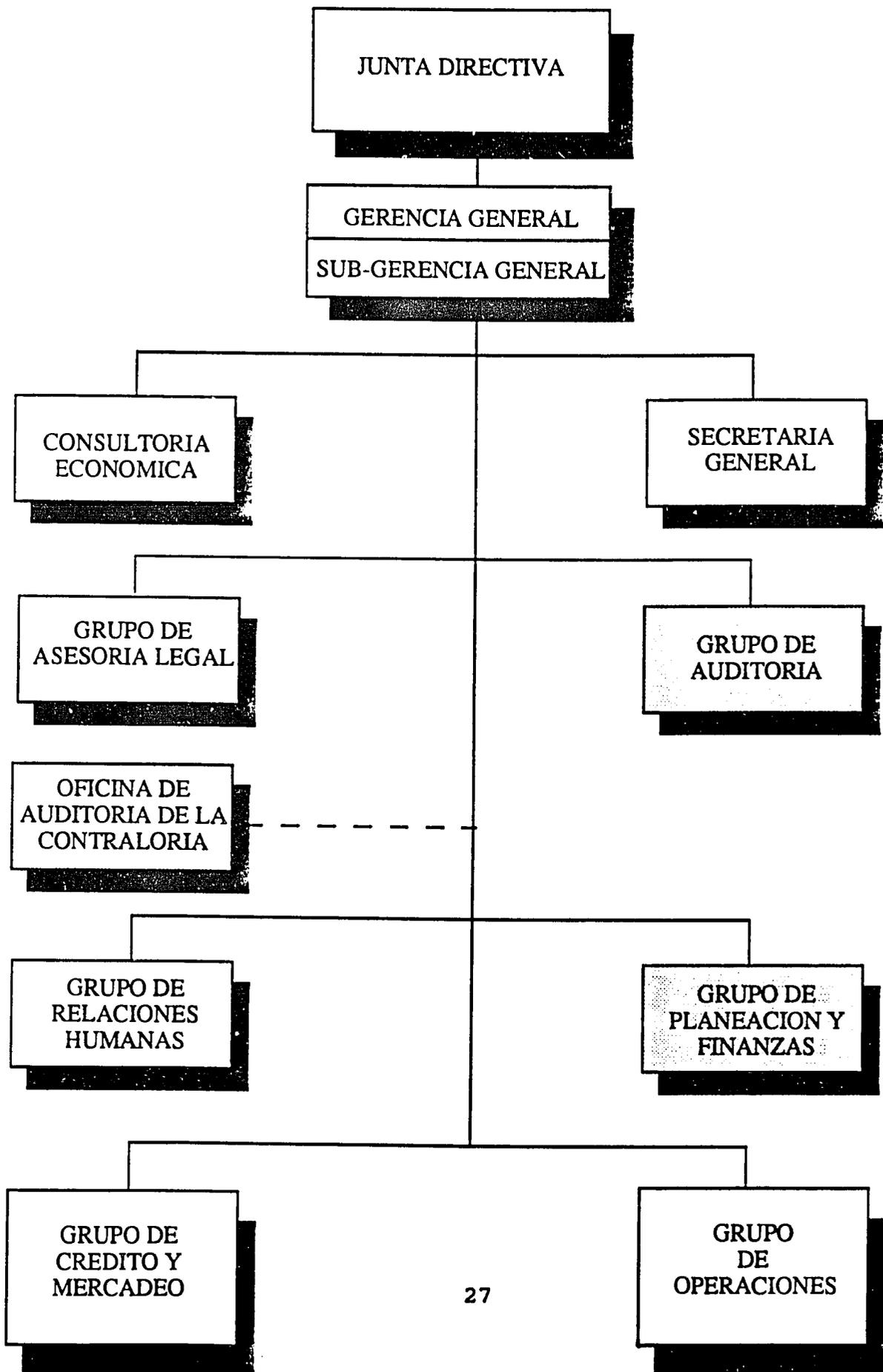
4. National Bank of Panama

In accordance with 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.

BANCO NACIONAL DE PANAMA



5. Ministerial level

The operations of the Ministry of Education are provided as an example of financial management and auditing functions at the ministerial level.

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

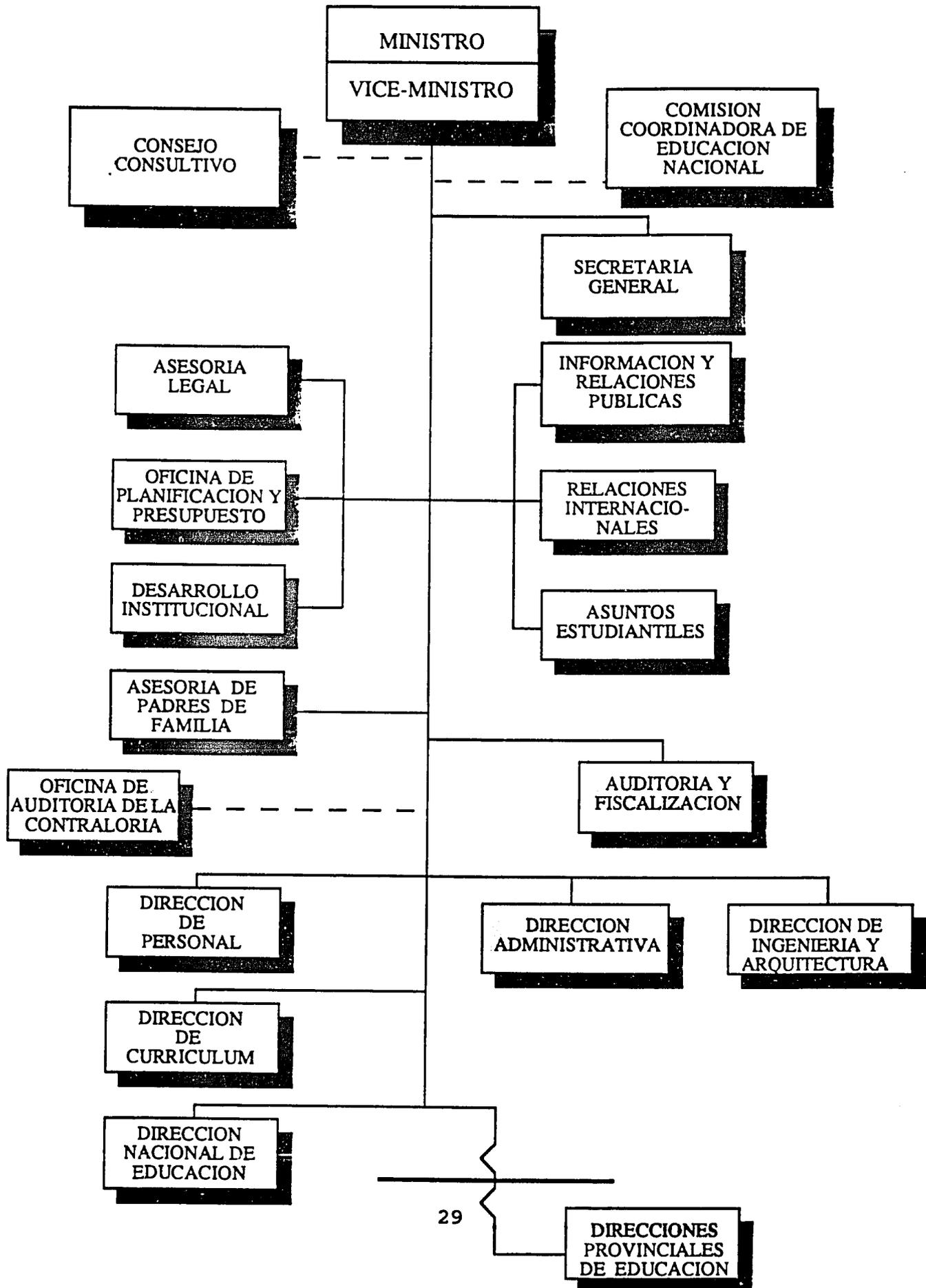
"Planning the establishment, organization, execution and supervision of those activities related to the different educational systems of the country together with the institutions associated with that sector; assuring that the educational materials meet the policies established by the executive branch,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

The 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 Auditing and Control Office and the Auditing Office of the Comptroller 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.

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:

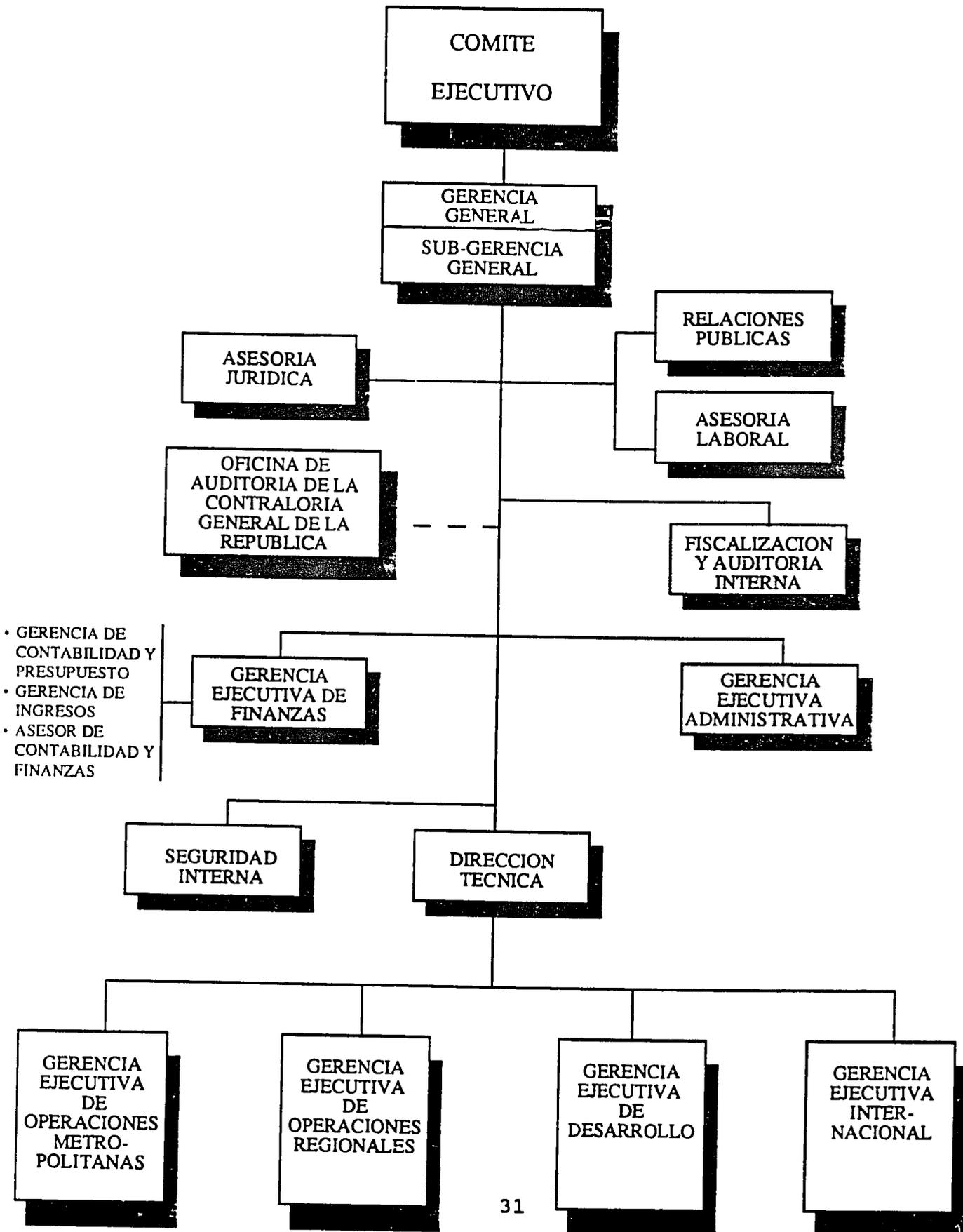
"To plan, design, construct, operate, administer and preserve the National System of Telecommunications, with respect to the objectives and goals outlined by the Telecommunication Master Plan according to the policies and directives emanating from the executive branch and governed by the Ministry of 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 Comptroller General's Auditing Office function as the Institute's auditors.

INSTITUTO NACIONAL DE TELECOMUNICACIONES



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 determines 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.

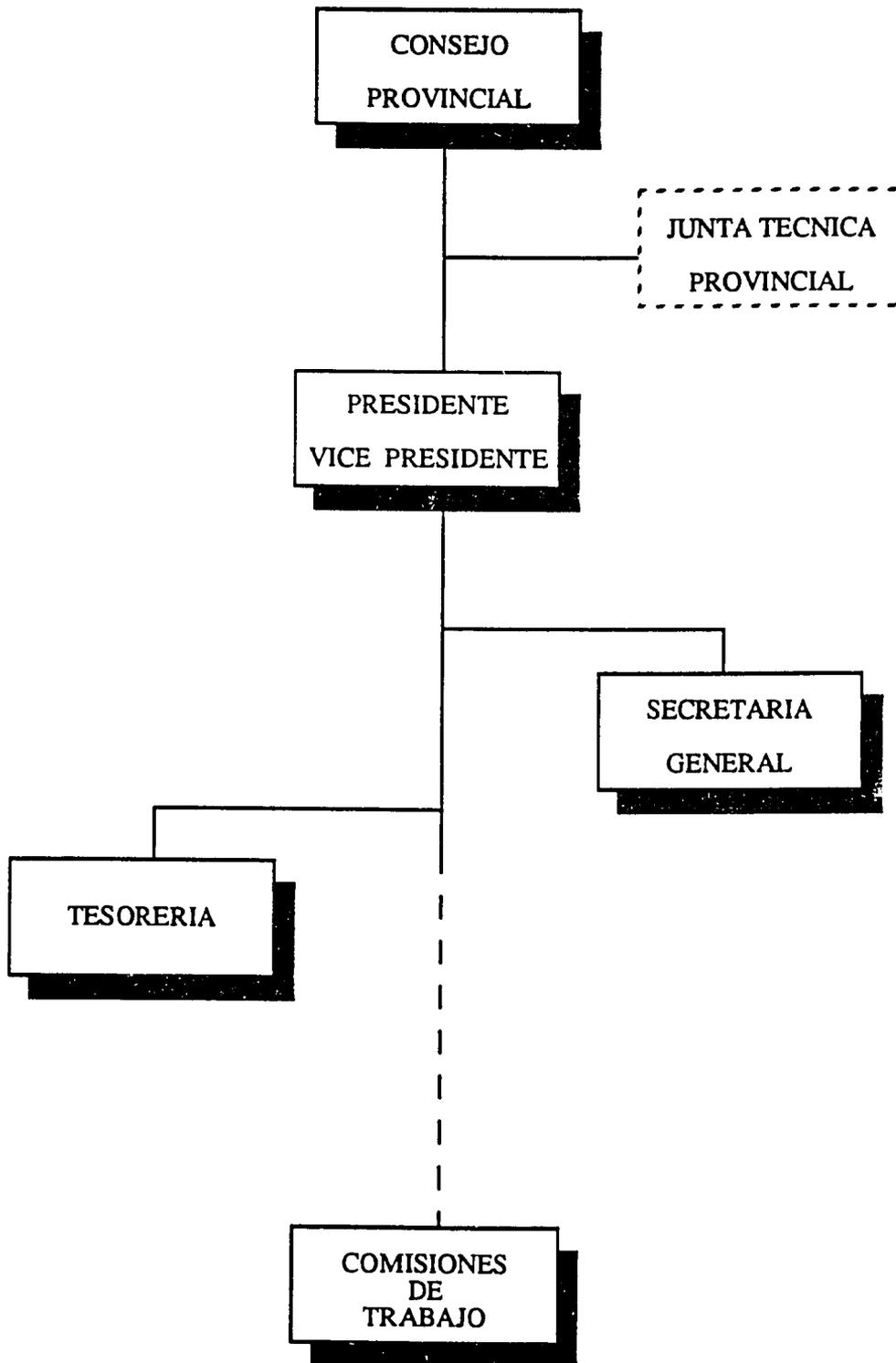
There is a municipal council in each district, including all the representatives of the jurisdictions elected within the district, from which a president and vice-president will be appointed.

Figures 13 and 14 show the organizational structures of a provincial council and of the municipality of Panama, respectively.

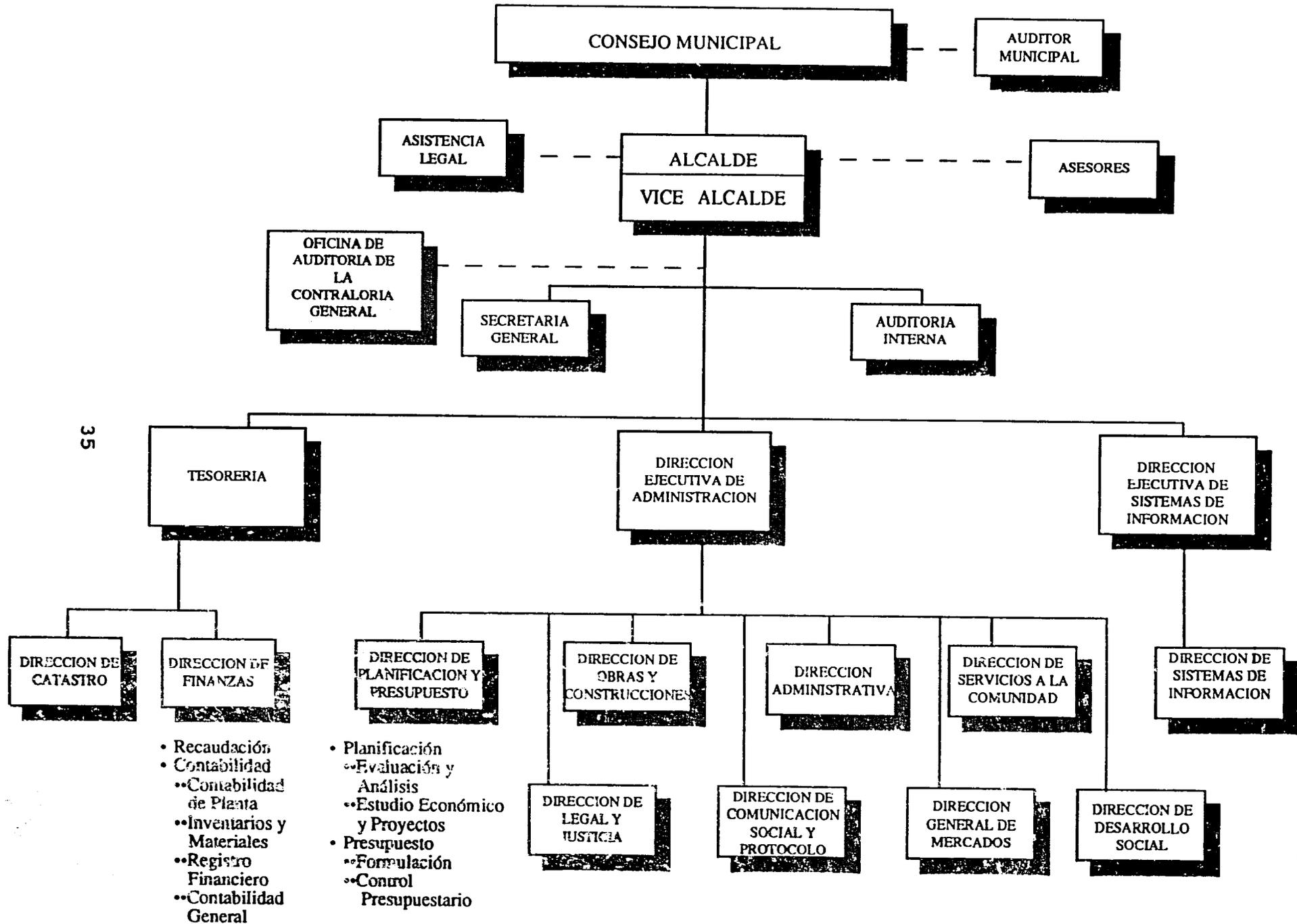
The chart describing the municipality (Figure 14) highlights those internal units of the Office of Finance and of the Office of Planning and Budget.

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

CONSEJO PROVINCIAL COORDINACION



MUNICIPIO DE PANAMA



35

C. Information Systems 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.

1. Computer centers

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

The computer center of the Comptroller General's Office, the Data Systematization Office, is the direct responsibility of the Comptroller 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, and the Social Security Fund. Other agencies have computer centers with narrower focuses, such as the Institute of Agricultural Marketing and the City of Panama.

2. Systems equipment and support

The computer centers of the Comptroller 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 ALTOS 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

MINISTRY OF PLANNING AND ECONOMIC
POLICY

DIVISION OF DATA SYSTEMIZATION

DATA PROCESSING CENTER

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

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
MULTIPLAN/UNIPLEX

FIGURE 15

60
-20-

HARDWARE AND SUPPORT PROGRAMS

MINISTRY OF FINANCE AND TREASURY

NATIONAL BANK OF PANAMA

DATA PROCESSING DEPARTMENT

COMPUTER CENTER

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

3. 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 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 could benefit from 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.

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

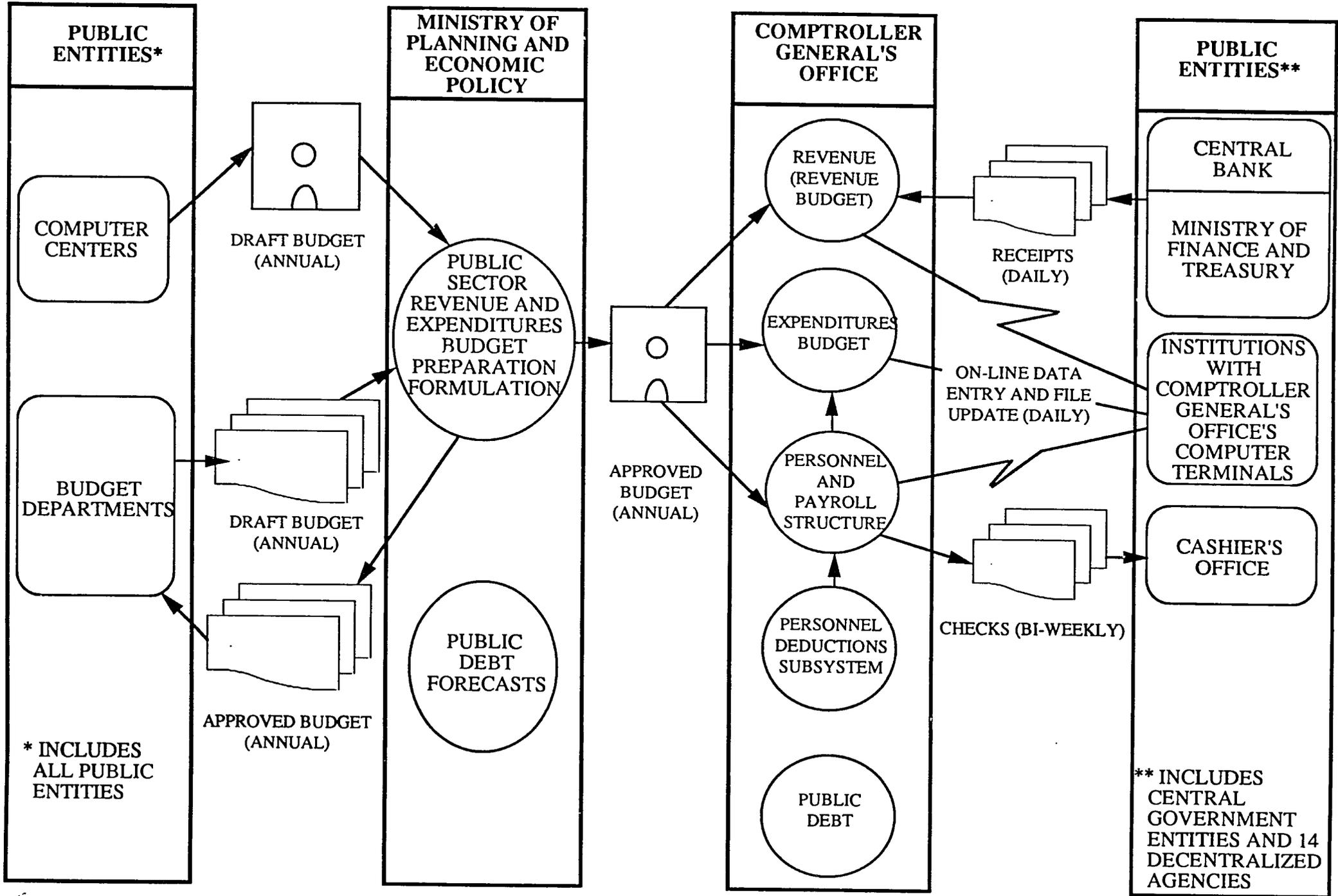
DATA PROCESSING CENTER

PUBLIC SECTOR REVENUES AND EXPENDITURES BUDGET
PREPARATION SYSTEM

PUBLIC DEBT FORECASTING SYSTEM

LINKS BETWEEN FINANCIAL SYSTEMS AND SUBSYSTEMS

FIGURE 18



22

4. 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, understaffing, and a lack of up-to-date techniques.

The computer center in the Comptroller 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.

D. Legal environment

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

The legal basis for the financial management system and audit process functions is found in the political constitution and the following laws of Panama:

- o Law 32 of November 8, 1984, enacting the Organic Law of the Comptroller 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 Directorate for Investigative Services within the Comptroller General's Office.

1. Constitution of the Republic of Panama

The primary legal basis for financial management and audit of the government is found in the Constitution.

The Constitution provides that the legislative duties of the Assembly include the responsibility of issuing general legislation on salaries proposed by the executive branch, supervision of the approval process of the National Budget, establishment of taxes, collections, rents and official monopolies that support public services and the approval for the organization of the entities that make up the public sector.

The administrative duties of the Assembly include the appointment of the Comptroller General and the Deputy Comptroller, and with the assistance of the Comptroller General's Office, examination and approval of the limits of responsibility over the General Account of the Treasury.

Responsibility in the financial management area assigned to the executive branch include the preparation of the proposed national budget, which should be sent to the legislative branch for each succeeding fiscal year. The President's Cabinet is also charged with the responsibilities related to public credit, the national debt, and the customs tariffs and rates.

The Constitution also sets out the actions needed in the budget formulation and approval process, 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 Comptroller General's Office of Panama. It also establishes government control over economic and social development planning through various specialized agencies and departments whose organization and responsibilities are determined by law.

2. Law 32, the Organic Law of the Comptroller General's Office of Panama

Law 32 contains the details of the organizational features, jurisdiction, and general and special duties of the Comptroller General's Office.

Among the Office's special duties are those instituting accounting standards and principles and appropriate oversight; review, examination and expression of an opinion on the general account; recording and control of national resources; oversight of financial management activities; control guarantees; and maintenance of national statistics.

Law 32 lays out the organizational structure and administrative procedures for the divisions that make up the institution. It also details the duties of the Comptroller General, the Deputy Comptroller 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 concerning its organization and duties.

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

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

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

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

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

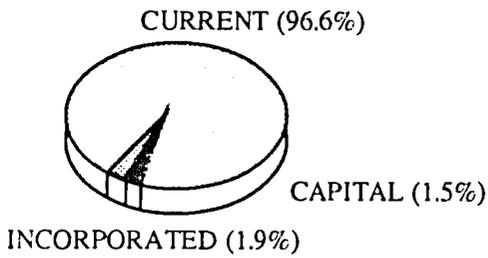
4. Law 2, National Budget of Panama for 1990

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.

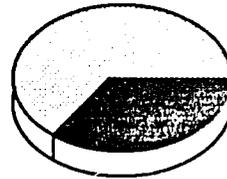
OPERATING BUDGET CENTRAL GOVERNMENT - 1990 \$1,108,877,700

REVENUE



EXPENDITURES

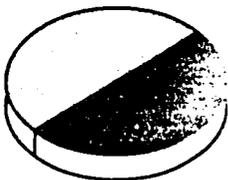
OUTLAYS BY INSTITUTION (63.9%)



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

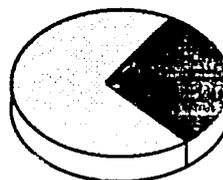
REVENUE

CAPITAL (51.2%)



EXPENDITURES

TRANSFERS (31.1%)



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 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.

5. 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 expenditure budgets, including regulations on preparation, discussion and implementation, the restrictions on its management and additional debt.

6. 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 Comptroller General's Office. As established by the decree, in its rules on procedures and organization, the directorate is managed by three magistrates with powers equal to those of Supreme Court justices.

7. 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 Comptroller 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 Comptroller General's Office of Panama, the Public Revenue Budget Classification Manual, and the Public Expenditures Budget Classification Manual.

III. GENERAL SUMMARY OF PROBLEMS AND RECOMMENDATIONS

A. General Considerations

The assessment of the Government of Panama's general operating procedures and its government financial management and auditing capability identified areas for improvement.

The identification of the functional areas and related issues has resulted in recognition of those areas which need further analyses and action in the future. This provides the basis of the technical assistance project design proposed in Chapter IV.

The following provides a summary of the principal problems classified according to the different areas of governmental financial management and auditing. Recommendations are also presented in summarized form.

B. Legal Basis

In the legal area, it was determined that prevailing legislation for the responsibility of government financial management (found primarily in the Constitution and under the Organic Law of the Comptroller General's Office, the Organic Budget Law, the Fiscal Code, and the Municipal Organization Law) and the respective regulations are not consistent, harmonic or compatible. This incompatibility results in administrative overlap and duplicative oversight efforts among the financial management regulatory agencies.

Recommendation

An analysis of all legal provisions and regulations is needed in order to create a financial, accounting and auditing administrative 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 the new doctrine and principles. The application of this code should be obligatory.

C. Current Financial Management Functions in Panama

General

The lack of up-to-date procedures, regulations, principles, technical standards and specific procedural manuals create deficiencies in budget, treasury, public debt, accounting, contract administration, and project management. These deficiencies are evident from the duplication of efforts, out-of-date information, and lack of control over national resources.

Similarly, external and internal auditing are not characterized by professionalism and generally accepted government auditing standards necessary for an effective review function.

Recommendation

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 comprehensive audit process. 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.

1. Budget

Various institutions participate in the budget administration and control process which should not be involved in this area of government financial management.

Recommendation

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, the participation of the legislative branch through the Budget Commission, and the Comptroller General's Office.

Programming, preparation, and approval of the budget have not been discussed fully with the appropriate agencies.

Recommendation

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.

2. Accounting

Generally, a 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 revision and approval process. Furthermore, it increases paperwork, office equipment needed and administrative support.

Recommendation

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.

Financial reports produced in the public sector vary widely in frequency of publication, document type, classification system of current and extraordinary revenues obtained through financing, the accounts that compose basic financial statements, and in the availability of data on the costs of goods and services, of estimates and the attached certified documents.

Accounting in the central government consists of record keeping of budget operations, especially expenditures. However, the records on appropriations, quarterly allowances, appropriations, obligations and payments are so widely dispersed within the Comptroller 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.

Recommendation

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 national resources. The revision should eliminate scattered records and create a reliable and timely financial information system. Aids to financial decision-making, such as analysis and auditing of information from all government operations, should be expressed in basic financial statements.

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 oversight. Warehouses and storage facilities are in charge of maintaining individual cost inventories for every item.

Recommendation

A study of the available alternatives for the responsible management of storage facilities is needed. The study should present criteria and procedures for adequate oversight by the responsible offices.

3. Treasury

Responsibility for cash management is distributed among many government institutions and policies and procedures do not exist. There is no single organizational unit assigned to program, consolidate or regulate cash flows.

Recommendation

It is necessary to provide an organizational and functional structure in order to implement the new conceptual design which will convert the Office of the State Financial Administrator into a national supervisory body that will interact with other elements of government financial management and with the decentralized, autonomous and territorial entities.

No national level programming of government cash flows is being undertaken, nor are they incorporated into the macroeconomic program of the government.

Recommendation

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.

The offices of the Comptroller General and the Treasury lack the ability to project expected tax revenues, estimated income, payments and cash reserves. Summaries of the estimates submitted by nonfinancial ministries and public sector entities are not available.

Recommendation

A compliance procedure is needed which insures that the Ministry of Finance and the Comptroller General adequately fulfill their revenue collection duties in such a way that it is possible to reconcile the amounts collected with the amounts posted in treasury accounts.

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

Recommendation

It is more efficient to transfer the responsibility for 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.

The revenue collection system is inadequate. It is carried out directly through offices in the Ministry of Finance and the Treasury (eleven offices of the Revenue Service and six of the Customs Service). The procedures used when depositing money in the Treasury account in the National Bank of Panama and in accounting and reconciliation do not guarantee the efficient and honest management of public funds. Furthermore, the physical transfer of monies is extremely risky.

Recommendation

It is necessary to make improvements in administrative procedures for efficient collection, control, assignment and reconciliation of revenues. Exact and prompt knowledge of accounts receivable is necessary in order to adopt measures to incur debt when necessary.

4. Public Debt

There are many types of expenditures which are not included in the budget. As a result, limits authorized by the Legislative Assembly are exceeded.

Recommendation

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.

The procedures utilized for public debt management do not provide assurance that all contracted and pending internal and external debt is recognized, approved and recorded, and reported in the financial statements. These amounts and the amounts

required for future debt servicing and amortization, adjusted for exchange rate variation, should also be included in the government's financial reporting.

Recommendation

Develop procedures 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.

D. Management Information Systems

The lack of a supervisory or regulatory body and the absence of operational standardization in information systems material at a national level results in a lack of cooperation between the different data processing offices of the government.

Recommendation

The creation of a National Information Systems Commission is needed to coordinate the individual efforts of the different data processing offices. This will improve the opportunity to integrate information nationally and to exploit available resources.

There are no "user committees" in the public institutions. This results in data processing offices assigning priorities in the development of information systems.

Recommendation

Establish user committees 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.

The lack of a prioritized master plan for systems development impedes the quantification and evaluation of the systems development process in public institutions.

Recommendation

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.

A lack of investment resources prevents the replacement and modernization of the computer equipment in government entities. This results in an inability to take advantage of new technologies.

Recommendation

Investment in equipment to modernize the government information systems must be budgeted.

Existing information systems are poorly documented and little integration exists between systems. This results in difficult and costly maintenance, data redundancy and duplicate information processing. Reports from different government offices that have processed the same information show different results which are not reconcilable or excessively time consuming to reconcile.

Recommendation

A strategic information systems plan should be developed to analyze alternatives to better integrate the government's automated information systems.

E. Human Resources

1. Personnel

The lack of specialized personnel in the Comptroller General's Office and the other public entities results in a lack of efficiency and effectiveness in financial management and government auditing.

Recommendation

Design a plan for the selection and relocation of personnel, so that a group of trained professionals is available in government financial management as well as in the field of financial and performance auditing in order to meet the control requirements of the government.

A lack of technical and administrative training in the Comptroller General's Office and the other public sector institutions limits the effective use of the government's human resources. Current training is very general and does not provide public officials with the specialized skills they need to effectively perform their assigned tasks.

Recommendation

The Comptroller General's Office should initiate training in financial management and government accounting. The training should be coordinated with necessary institutions and professional schools. It should emphasize practical training and it should also provide training for instructors.

The selection and contracting of personnel is not carried out according to well-defined policies or appropriate procedures that would insure competency. For example, in the Comptroller General's Office there are approximately 160 certified public accountants who make up only 21% of the employees in the Auditing Division.

The salary scale is inadequate. 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 valuable professionals.

Recommendation

Technical criteria and universal personnel administration principles are needed for personnel selection and contracting. Based on specific requirements, such as development, evaluation, promotions, and other incentives, it will bring professional status to the public sector.

2. Payroll

Payroll is currently processed by the Comptroller General's Office Auditing Division and duplicate processing exists between the Office of the Comptroller General and other public institutions. Single entry accounting is used to record payroll expenditures.

Recommendation

An overhaul of the personnel offices and the Payroll Office in the Comptroller General's Office is needed to eliminate duplicative efforts in payroll processing. The control and authorization of the payroll should not be an Auditing Division function. The budget accounting register should use double entry accounting.

F. Other Related Areas in Financial Management

1. Contract Administration

The government contract guarantee regulations, especially bonds, do not protect the interests of the government. Such bonds are required in excessive amounts and for extended periods. These costs are added to the contractors proposals. As a result, project costs are increased.

Recommendation

Alternative methods of providing guarantees to the government are needed to avoid unnecessary costs.

The organizational structures of some of the largest project implementing agencies do not allow adequate coordination among the offices responsible for project planning, programming, implementation and control.

The law does not include fundamental issues such as: the process for authorizing eligible bidders, qualifications of bidder, consultant contracting, price adjustment for automated and manual systems, rules which require bidders to present unit prices.

Recommendation

It is necessary to provide a general guide to government agencies so that they may establish their own procedural instructions. This guide would serve to standardize procedures in contract administration and achieve efficient and effective planning, execution and control of projects.

2. Inventories

Excessively formal procedures and controls cause significant purchasing delays, increased costs and inventory stock-outs that result in severe operating problems.

Recommendation

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.

3. Fixed Assets

The General Division of National Resources of the State, a unit of the Ministry of Finance and Treasury, stopped functioning on December 20, 1989. While still in existence, they put together the "Manual of Administrative Standards, Procedures and Standard Forms for the Recording and Control of Resources of the State." This document was never made official.

The Comptroller General's Office through the Office of Systems and Procedures, has prepared "Procedures for the Recording and Control of Fixed Assets," but it has not been published and is, therefore, still a draft document.

Recommendation

General guidelines should be provided to government agencies to standardize the preparation of procedures for the control of fixed assets.

Adequate control of fixed assets in the Panamanian public sector does not exist. Although attempts have been made to establish some type of register, it is difficult to establish specific information on location, physical condition, depreciation, etc. For the same reason physical counts of fixed assets have never been taken.

Recommendation

Fixed assets policy and procedures should be improved. These should cover the safeguarding, recording, inventorying and proper use of fixed assets.

G. Audit

Law No. 32 assigns to the Controller General's Office financial management functions that are incompatible with its external audit role.

Recommendation

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 is the responsibility of the management of each institution.

The pre-control (pre-audit) practiced by the Comptroller General's Office has resulted in the assignment 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 has resulted in a breakdown in communication between audit managers assigned to public institutions and the Audit Director.

Recommendation

An institutional restructuring plan should be developed to modernize the Comptroller 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 organization function. This would facilitate the verification of efficiency, economy and effectiveness in government management.

Control activities are not based on generally accepted government auditing standards. They are not governed by specific procedures included in auditing manuals for planning, execution, control and reporting.

Recommendation

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.

The supervisory function is weak and ineffective. Field work is not reviewed. Regional work schedules are neither coordinated nor evaluated. These practices do not promote high quality results.

Recommendation

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.

Even though most internal auditing offices 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.

Recommendation

Analyze and reorient the internal audit function in order to change it into a management tool for evaluating systems that operate within the institution.

In addition to the identification of problems and areas open to improvement in the areas of financial management and comprehensive audit covered in the assessment, there are other problems such as the lack of coordination, interrelationships and communication among the various components of the government responsible for financial management. The proposed solution to this general lack of integration is analyzed in detail in the following sections of this report.

IV. PROJECT DESIGN

The preceding chapters serve as a general framework for the project design. This chapter describes the project design and technical assistance activities oriented at improving the Government of Panama's (GOP) financial management effectiveness through the establishment of an Integrated Financial Management System (IFMS) and Comprehensive Audit Process (CAP).

The chapter is divided into the following sections:

- o Project goal, benefits, and description of the IFMS and CAP
- o Project objectives
- o IFMS and the CAP implementation approach
- o Terms of reference
- o Project organization
- o Time schedule
- o Logframe and milestones for evaluating project progress

A. Project Goal

The primary project goal is to improve GOP financial management of scarce public resources and its **accountability** to the public and others for the use of these resources. Implicit in this goal is the promotion of an awareness in all public servants of their responsibility to provide honest and efficient management of public resources, and the creation of mechanisms and standards that will support this responsibility.

The primary **benefits** to be derived from the project consist of:

- o more effective financial management of scarce public resources
- o improved delivery of government services
- o greater public confidence in the government financial administration of public resources
- o greater economic and political stability in Panama

The overall approach of the project design for improving GOP financial management and accountability is to establish an Integrated Financial Management System (IFMS) and Comprehensive Auditing Process (CAP) within the government of Panama. The IFMS and CAP, as used in this document, are described below.

1. Integrated Financial Management System (IFMS) Concept

As generally understood, a "system" is defined as "a set of elements or parts (**subsystems**) that are interrelated, interactive and interdependent, and which are capable of carrying out a pre-established objective when operating within a logical and harmonious whole (the system)." The elements of a system are the **inputs** which supply it; a **processing** action which acts on it and transforms the inputs; the **output** or consequence resulting from the process; a **regulator** which coordinates, guides and controls the system; and a mechanism for **feedback** from all of the components responsible for controlling and evaluating the operation of the entire system.

The characteristics of a system are as follows:

- o The components of a system are divisible into smaller elements and, in turn, the system itself can be a component of a larger system. Therefore, it is natural to refer to macrosystems, systems, subsystems and microsystems.

- o The whole has synergetic qualities. In other words, the capabilities of the system as a whole are different from (greater than) the sum of the capabilities of the individual components.
- o Every component performs specific specialized tasks (functional specialization), without interfering with the fields of action of the other components.
- o None of its parts exercises supremacy over the others, since all of them are equally important in order to achieve a harmonious whole.
- o Any flaw or failure in the functioning of any one of the elements of the system reduces the efficiency of the system as a whole.

Applying the system concept to government financial management, government financial management may be defined as an integrated system, whose core components include budgeting, cash and debt management and accounting, and whose purpose is the effective and efficient use of the financial resources of the government.

The components of governmental financial management are linked within an indivisible conceptual unit by virtue of a common purpose. This purpose is to administer scarce public resources in an efficient and effective manner thereby enabling organizations to better provide products and services to the public. Furthermore, the components should provide accountability for the use of all public resources.

Deficiencies in one or more elements or components affect the entire government financial management system. Consequently, the impact on the entire government financial management system should be considered when implementing policy changes or corrective measures in one or more of the system's components.

Governments have institutional frameworks for managing their financial resources. On the national level, financial accountability should fall upon the Chief Executive and the Chief Financial Officer (Finance Minister or equivalent position). On the

institutional level, this responsibility rests with the entity's Chief Executive Officer or equivalent position.

Control should also be recognized as a structure or process that supports administrative and managerial activities. The control process or structure has three elements or components: internal control and internal and external audit.

In the public sector, the responsible **external audit** organization is the supreme audit institution (SAI) of the country (Comptroller General or Court of Accounts). The SAI is an instrument by which the Legislative Branch receives **feedback** on whether the Executive Branch's use of funds was in accordance with the Legislative Branch's authorizations.

Internal audit is an instrument by which management of each public entity receives **feedback** on its operations and the resources for which it is responsible. Internal Audit units are guided by standards which may be prepared by the SAI or Chief Financial Officer of the country. **Internal control** is similarly the responsibility of the management of each entity.

The following narrative description and charts apply the IFMS concept to government financial management in terms of the system or subsystems objective, description, components and operating environment and organization.

2. Integrated Financial Management System (IFMS)

IFMS Objective: Receive, assign and utilize efficiently the financial resources of the government and adequately report on the component subsystems which should operate under a single supervisory unit.

Description: The objective of the IFMS is achieved through its administration as a whole and through the administration of its component subsystems. Consequently, the IFMS is the planning, organization, direction, coordination and control of all financial resources in accordance with the aims of the government.

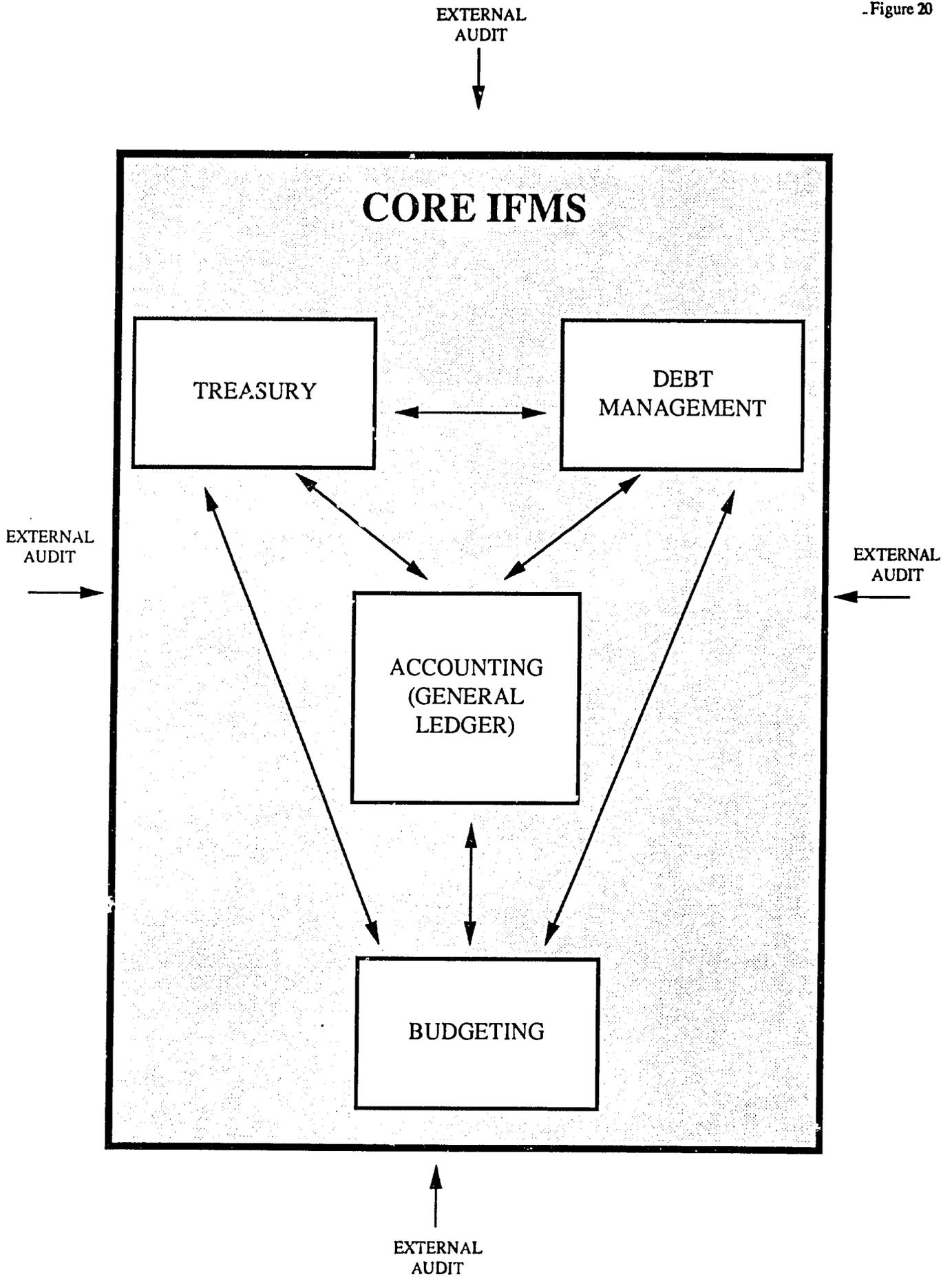
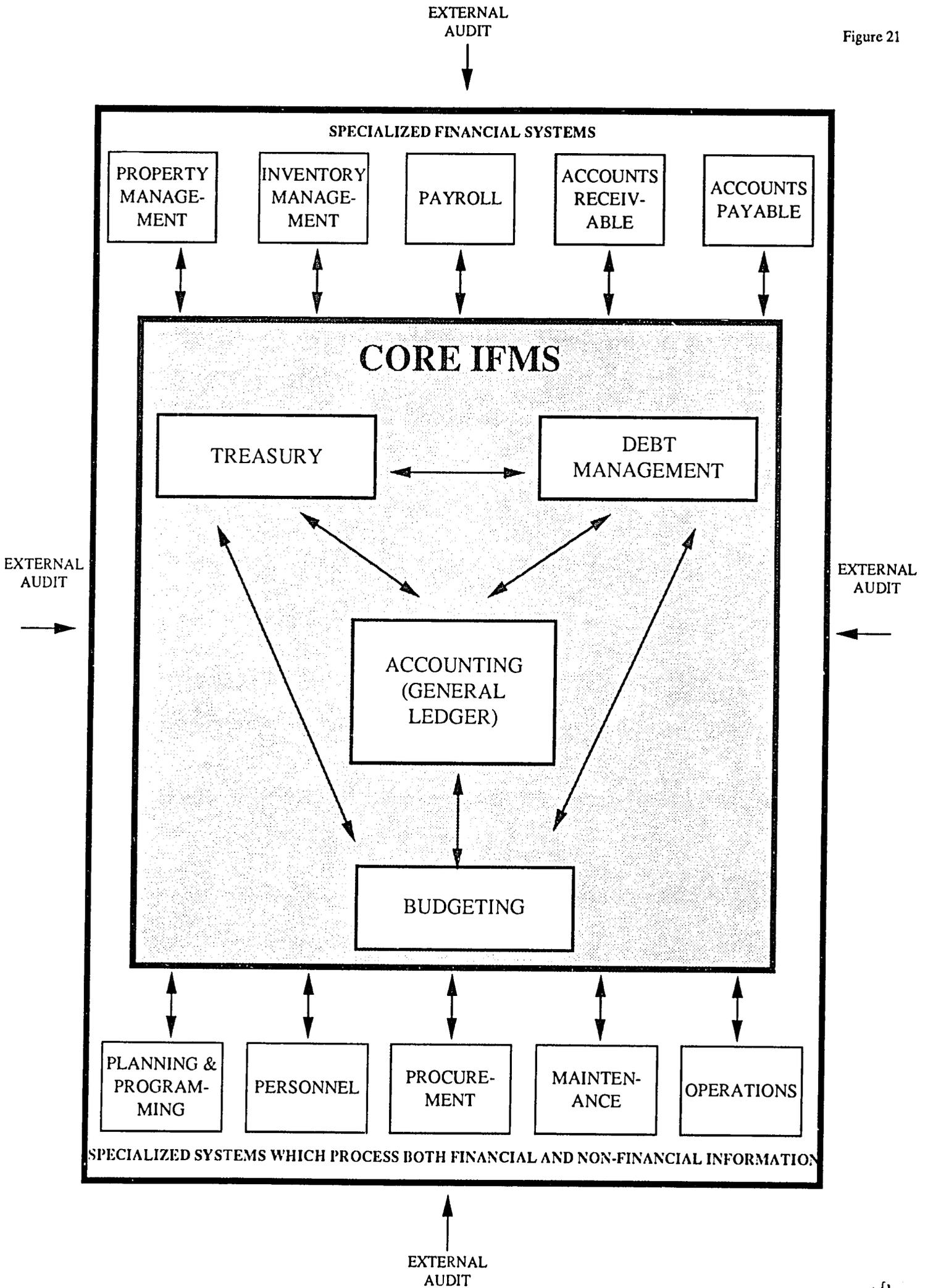


Figure 21



3. Budget Subsystem

Functional Obj: Serves as a mechanism for estimating the cost of carrying out the activities which have been planned in order to achieve the objectives and goals of the government, and determining the sources of funds to finance the expenditure authorizations for an annual period. It is also an instrument to control the expenditure of government funds.

Description: The objective of the budgetary subsystem is achieved through the programming and formulation of the draft budget based on the "National Strategy for Development and Economic Policy Modernization for Recovery, Sustained Growth, and Job Creation"; the financial plan and the investment plan incorporating priority projects and their respective financing; discussion and approval by the executive and legislative branches; execution in all parts of the government including changes and readjustments; follow-up and evaluation with respective feedback; and, liquidation of the budget.

Components: Program modules, formulation, discussion and approval of the draft budget, execution, follow-up and evaluation, and liquidation of the budget.

Oper. Environment: The government sector budget should record all current revenue and capital holdings, operating expenses and investments using classifications by program, institution, purpose, sector and region.

The budget subsystem is implemented by a regulatory agency, program agencies and other public sector institutions.

Figure No. 22 shows some of the primary interfaces and data flows between the budget, other core IFMS subsystems and related public entities. Figure No. 23 shows the primary responsibilities and functions of the regulatory, program and other public entities in relation to the budget subsystem.

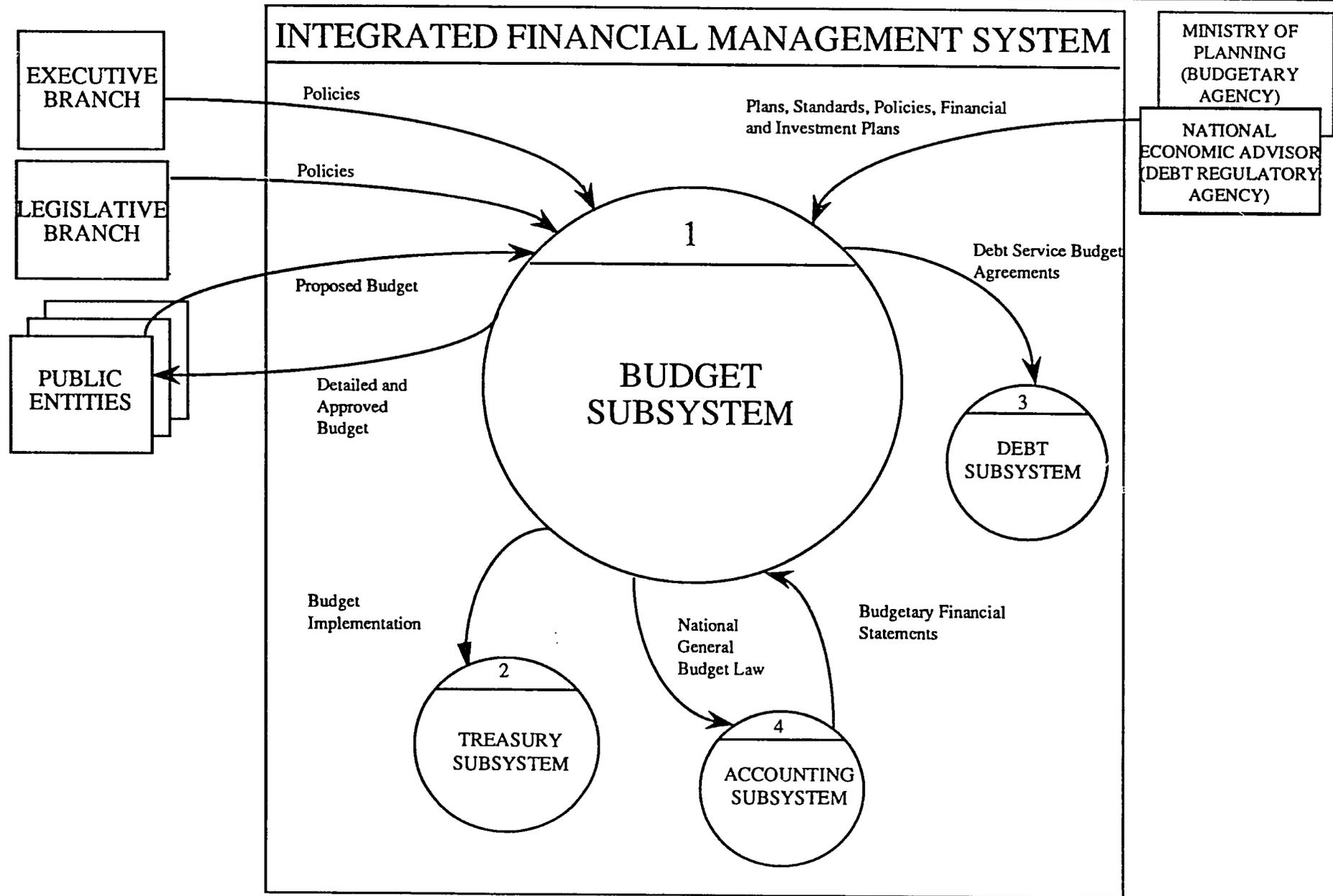


FIGURE 22

REGULATORY AGENCY

- FORMULATE POLICIES, STANDARDS AND PROCEDURES
- PREPARE NATIONAL BUDGET
- PREPARE BUDGET IMPLEMENTATION PLAN

ENTITY RESPONSIBLE FOR THE GOVERNMENT PROGRAM

- ESTABLISH POLICIES
- DRAFT PROPOSED BUDGET
- PREPARE BUDGET IMPLEMENTATION PLAN

GOVERNMENT ENTITY

DRAFT PROPOSED BUDGET



IMPLEMENT, CONTROL AND EVALUATE THE BUDGET



MAKE BUDGET IMPLEMENTATION ADJUSTMENTS



PREPARE BUDGET IMPLEMENTATION REPORT



COMMUNICATE BUDGET IMPLEMENTATION RESULTS



PREPARE BUDGET IMPLEMENTATION REPORT



REPORT ON EFFECTS OF BUDGET IMPLEMENTATION



PREPARE IMPLEMENTATION AND BUDGET LIQUIDATION REPORT

13

4. Treasury Subsystem

Functional Obj: Receive income and insure that the payments conform to the provisions of budgetary law; and receive, safeguard and negotiate securities such as bonds, promissory notes and treasury securities.

Description: The objective of the treasury subsystem is accomplished through the formulation, execution, and control of the annual cash flow (by month) forecast and through the administration of the treasury accounts within the national banking system.

Oper. Environment: The Treasury System includes all the revenues and expenditures of the government and secures a reasonable equilibrium in the execution of the budget through, among other mechanisms, transfers between the deficit and surplus accounts of the central government, decentralized institutions, public enterprises, financial intermediaries, corporations, development projects and provinces and municipalities (standards only).

The treasury subsystem consists of a central regulatory agency, program agencies and other public sector institutions which function closely with the taxation and revenue collection systems and uses the national banking system.

Figure No. 24 shows some of the primary interfaces and data flows between the treasury, other core IFMS subsystems and related public entities. Figure No. 25 shows the primary responsibilities and functions of the regulatory, program and other public entities in relation to the treasury subsystem.



INTEGRATED FINANCIAL MANAGEMENT SYSTEM

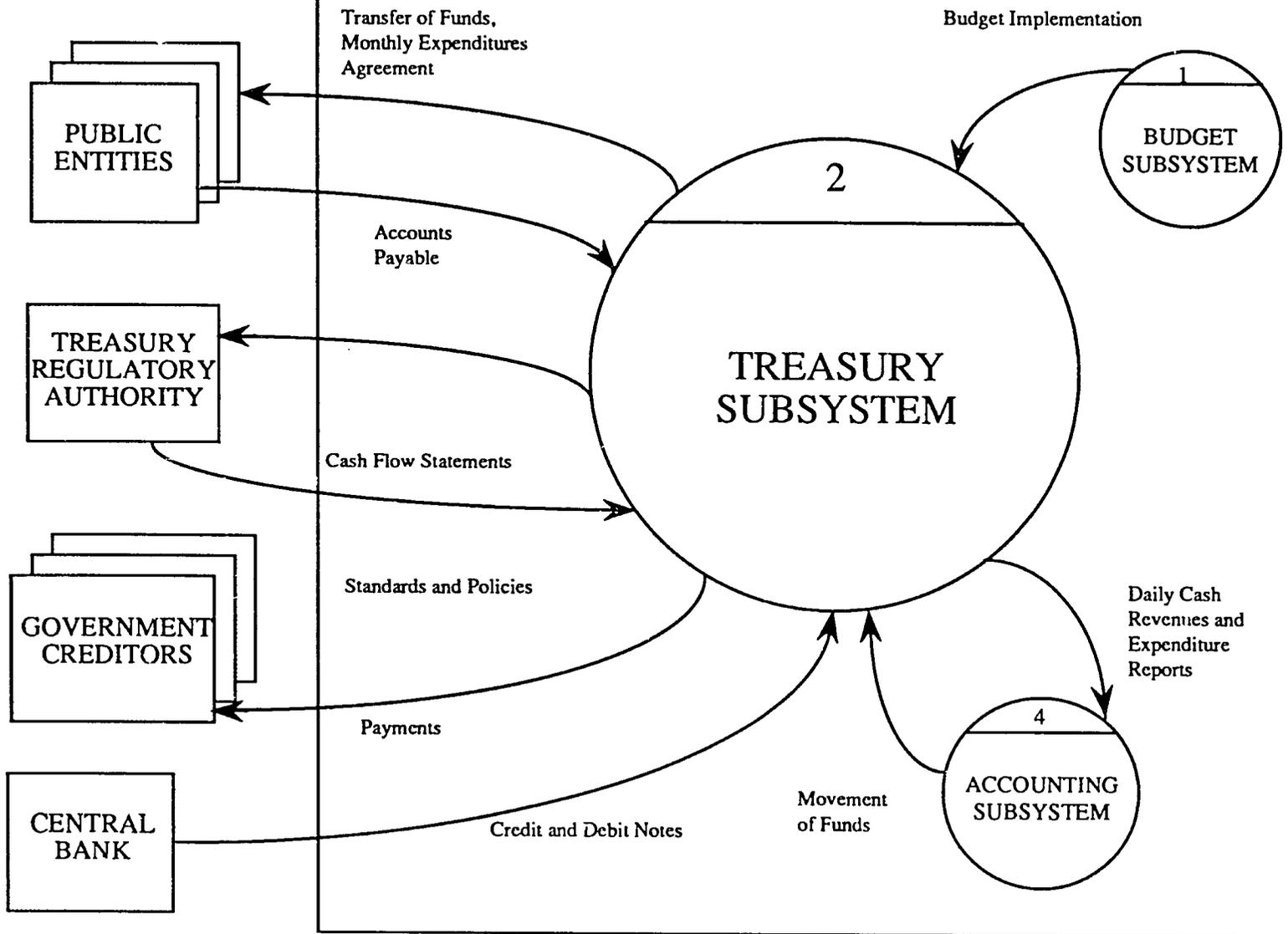


FIGURE 24

REGULATORY AGENCY

- ESTABLISH STANDARDS TO REGULATE THE TREASURY SUBSYSTEM AND PREPARE TREASURY MANUALS
- APPROVE, AMEND AND CONSOLIDATE ACF AND MER
- FUND POSITION

REGULATORY AGENCY

- COORDINATE INVESTMENT PROJECTS PROGRAMMING
- TRANSFER RESOURCES TO PUBLIC ENTITIES
- PROCESS EXPENDITURES

GOVERNMENT ENTITY

ANNUAL CASH FLOW, BY MONTH
(ACF)



REQUISITONS



RESERVE APPROPRIATION



OBLIGATION



MONTHLY EXPENDITURE RECONCILIATION (MER)



COMMITMENT



PAYMENT



FUNDS CLOSING



CONTROL AND CONSOLIDATION IMPLEMENTING ENTITIES



CONTROL AND CONSOLIDATION OF PUBLIC SECTOR

5. Public Debt Subsystem

Functional Obj: Cover deficiencies in financing based on pre-feasibility studies, feasibility and execution of investment projects in the public sector by providing resources in national and foreign currency with payment terms of greater than one year.

Description: The objective of the public debt subsystem is achieved through an internal and external financing policy that is supported by financial, investment and budgetary plans; through the negotiation, contracting and administration of disbursements arising from external debts and debt servicing; and through the issuing and investing of government bonds and realization of payments on internal public debts.

Components: Internal and external public debt modules.

Oper. Environment: The public debt encompasses aggregate 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.

The subsystem requires organizational leadership by a central regulatory agency. The use of the public resources received via public debt operations is managed by the individual public sector institutions.

Figure No. 26 shows some of the primary interfaces and data flows between the public debt, other core IFMS subsystems and related public entities. Figure No. 27 shows the primary responsibilities and functions of the regulatory, program and other public entities in relation to the public debt subsystem.

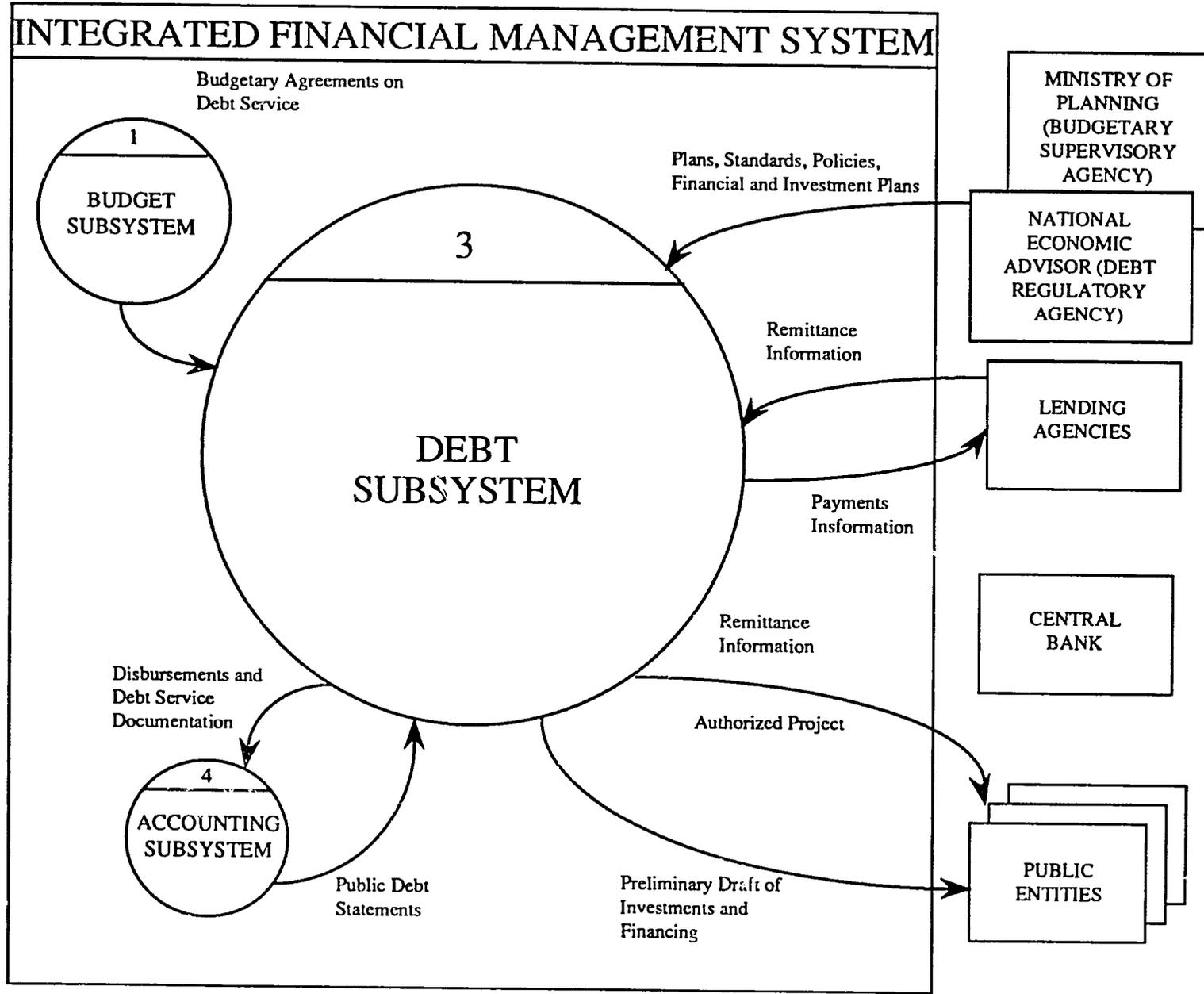


FIGURE 26

REGULATORY AGENCY

- DRAFT STANDARDS FOR REGULATING CREDIT AND PUBLIC DEBT AND PREPARE POLICY AND PROCEDURE MANUALS
- LOAN NEGOTIATION AND DISBURSEMENT REQUESTS
- CONTROL OF DEBT, DEBT SERVICE, AND AMORTIZATION

GOVERNMENT ENTITIY

LOAN DISBURSEMENT PROGRAMMING



RECEIPT OF SPECIAL ACCOUNT DISBURSEMENTS



INVESTMENT PROJECTS IMPLEMENTATION



SPECIAL ACCOUNT ALLOCATIONS



DEBT SERVICE PAYMENTS AND AMORTIZATIONS



CLOSING



CONSOLIDATE PUBLIC DEBT STATEMENT



CONSOLIDATE PLANNED DEBT SERVICE AND AMORTIZATION REQUIREMENTS

6. Accounting Subsystem

Functional Obj: Classify, record, analyze and report on a timely basis all financial transactions to management and other users of the financial data in a format that is useful and which supports users' information needs for decision making purposes.

Description: The objective of the accounting subsystem is achieved by applying generally accepted principles, policies, technical standards, practices and procedures to recording and reporting the government's financial transactions.

Components: Financial and budgetary (obligation) accounting modules.

Oper. Environment: Government accounting consists of general ledger control over all the financial transactions of the central government, decentralized entities, public enterprises, financial intermediaries, development corporations, provinces and municipalities.

The accounting subsystem consists of a central regulatory agency responsible for preparing the combined financial statements for the government and the accounting units of the other public sector institutions comprising the reporting entity of the government.

Figure No. 28 shows some of the primary interfaces and data flows between the accounting, other core IFMS subsystems and related public entities. Figures No. 29 and 30 show the primary responsibilities and functions of the regulatory, program and other public entities in relation to the financial and budgetary accounting subsystem.

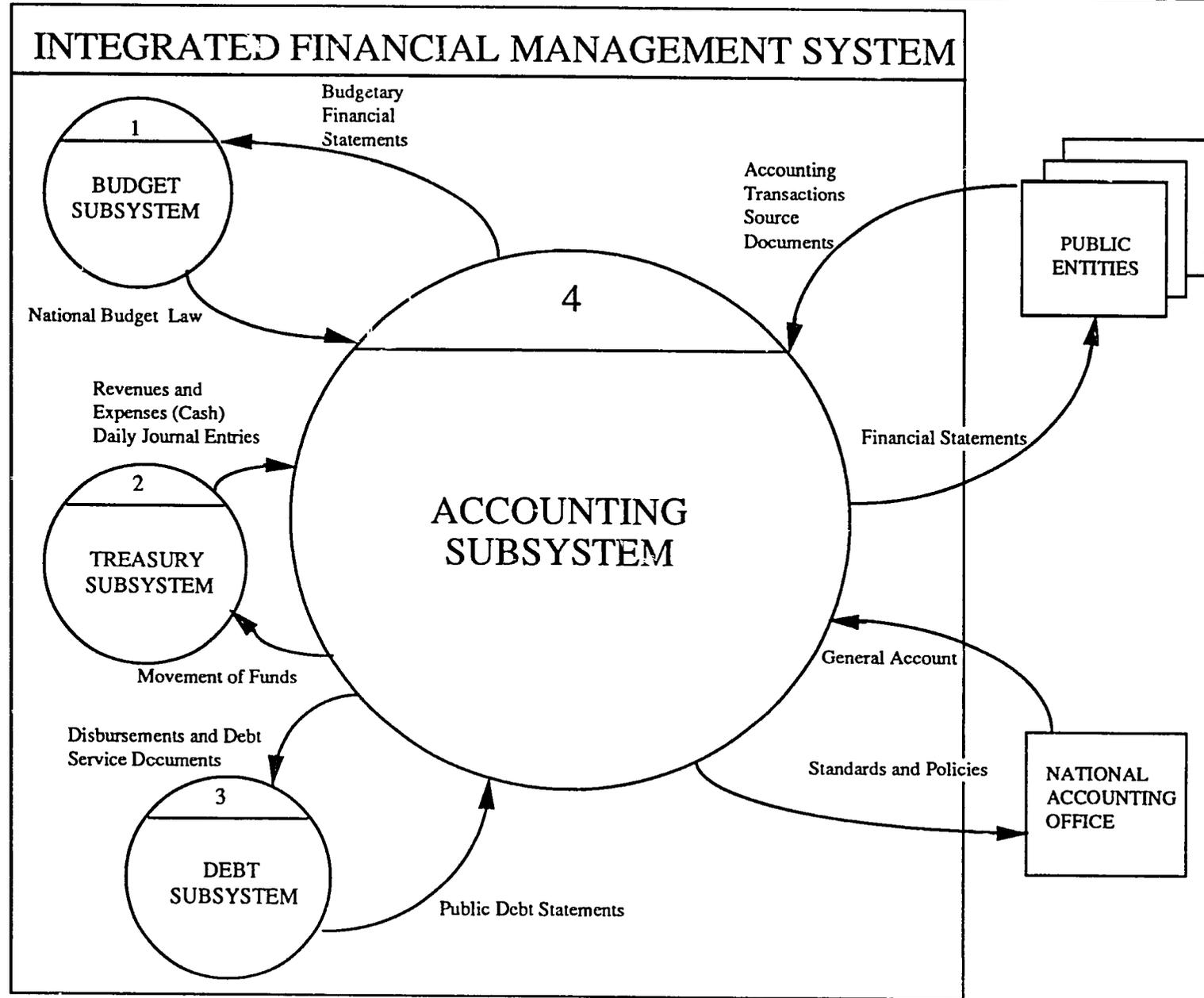


FIGURE 28

REGULATORY AGENCY

- ESTABLISH ACCOUNTING PRINCIPLES, POLICIES AND STANDARDS
- EVALUATE THE IMPLEMENTATION OF PRINCIPLES, POLICIES AND STANDARDS

ENTITY RESPONSIBLE FOR THE GOVERNMENT PROGRAM

- RECONCILE INFORMATION ON RESOURCES RECEIVED AND/OR TRANSFERED BETWEEN PUBLIC INSTITUTIONS

GOVERNMENT ENTITY

PREPARATION OF SOURCE DOCUMENTS



SUMMARY OF OPERATION



ENTRY IN CONTROL ACCOUNTS AND SUBSIDIARY RECORDS



FINANCIAL STATEMENTS



RECONCILIATION OF RESOURCES RECEIVED AND/OR TRANSFERED



COMBINED FINANCIAL STATEMENTS

REGULATORY AGENCY

- ESTABLISH ACCOUNTING PRINCIPLES, POLICIES AND STANDARDS
- EVALUATE THE IMPLEMENTATION OF PRINCIPLES, POLICIES AND STANDARDS

ENTITY RESPONSIBLE FOR THE GOVERNMENT PROGRAM

- MAKE APPROVED BUDGETARY TRANSFERS
- RECONCILE TRANSFERS AMONG PUBLIC INSTITUTIONS

GOVERNMENT ENTITY

PREPARATION OF SOURCE DOCUMENTS



SUMMARY OF OPERATIONS



ENTRIES IN CONTROL
ACCOUNTS AND
SUBSIDIARY RECORDS



BUDGETARY STATEMENTS



RECONCILIATION OF AUTHORIZED TRANSFERS



COMBINED BUDGETARY STATEMENTS

83

7. Comprehensive Audit Process (CAP)

Functional Obj: Determine in a professional and independent manner that the State has obtained an appropriate value for the monies invested, that revenues have been collected and deposited intact, that assets are adequately protected, and financial statements and other financial data is fairly presented, in accordance with generally accepted accounting principles and applicable legislation.

Determine that the evaluation of the internal control structure of each public entity by that institution's internal audit personnel permits a determination if plans have been executed according to management's authorizations and within the policies and programs of the government, and with effectiveness, efficiency and economy.

Description: A comprehensive auditing process includes financial, compliance and operational (performance) audits performed by internal and external audit units.

Components: Internal and External Audit Functions

The internal control structure is the responsibility of each government entity, however the SAI and/or the country's Chief Financial Officer establishes applicable regulations and technical standards. Internal audit includes the financial and performance audits performed by the institution's internal audit personnel.

External audit includes the external financial and performance audits performed by the OAG and contracted private auditing firms.

Oper. Environment: The comprehensive auditing process extends throughout the entire public sector. This includes the central government institutions, decentralized agencies, public enterprises, intermediate financial institutions, development corporations, provinces and municipalities.

The comprehensive auditing process function is based on a central regulatory audit body which is the SAI, private auditing firms contracted by the SAI, and internal audit units of the public sector institutions.

B. Project Objectives

To achieve the project goal, the following **objectives** have been established in each of the functional areas.

Budgeting

The project objectives in the budgeting area include:

- o Timely and accurate budgets for government revenues and expenditures in compliance with financial and economic policies, consistent with the objectives and goals of the national investment plan
- o Basic legal provisions, 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

Treasury

The project objectives in the treasury area 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

Public Debt

The project objectives in the public debt area are:

- o Coordination, registration, 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 fund requirements during critical periods.

- o Policy and procedure manuals covering registration, control and auditing of the public debt in accordance with GOP and international financial institutions requirements

Accounting

The project objectives in the accounting area are:

- o General ledger control over all financial transactions of the reporting entity of the GOP which may include 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
- o Timely and accurate financial statements for the reporting entity of the GOP and the major public sector institutions, produced periodically by each government unit and in consolidated form
- o Management reporting which supports decision-makers information requirements

Auditing

The project objectives in the auditing area are:

- o Financial audit reports issued by OAG auditors or by contracted private public accounting firms on the annual financial statements of the GOP and individual public entities.
- o Compendium of governmental auditing standards and procedures, applicable to Panamá in accordance with the standards and guidelines of the International Organization of Supreme Audit Institutions (INTOSAI).
- o Operational (performance) auditing manuals and reports.
- o Ongoing specific training programs in financial, compliance and operational auditing for internal and external auditors.

Information Systems

The project objective in the information systems area is:

- o A computer information systems strategic plan for implementing computer systems which meets the long-term IFMS requirements.

The project goal and objectives will be achieved through the coordinated activities of the contractor and the host country counterpart personnel. An additional objective of the project design is the transfer of technology or "know-how" from the contractor(s) to counterpart personnel.

C. Project Approach

As indicated in section A. above, 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) in the Office of the Comptroller General (CG) and support of the migration of financial management functions to the Executive branch
- 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 support of the separation of the OAG from the CG in order to create a wholly independent OAG, reporting directly to the Assembly

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

- o implementation of organizational improvements, including the rationalization of financial management responsibilities among government entities and better definition and documentation of key financial functions
- o formulation, documentation and implementation of improved financial management standards, policies regulations and procedures

- o development of a computer information systems strategic plan which will identify computerization alternatives to further improve the efficiency and effectiveness of the manual or existing automated financial processes
- o establishment of an independent OAG under the umbrella of the CG, reporting to the Legislative Branch
- o formulation and implementation of professional government audit standards, policies practices and procedures
- o preparation of draft proposed financial management and government audit legislative reforms with on-going assistance to support their enactment
- o the provision of classroom and on-the-job training in new financial management and government audit responsibilities, functions and procedures
- o 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.

1. IFMS

The description of the project approach to establishing the IFMS is divided into design and implementation activities. It is important to note that the IFMS can be implemented on a manual, computerized, or part manual/part computerized basis. For this reason, the project design treats the computerization component of the project as an integral part of the IFMS design and implementation activities.

a. 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 central government regulatory agencies 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 (central government, public enterprise, etc.).

Project teams should work concurrently in each functional area (budget, treasury, public debt and accounting). The Project Team Leader and IFMS Manager 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 experiences. 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 are designed to generate consensus among GOP officials on policy issues presented by the contractor. Formal courses will be designed to instruct financial managers and administrative employees in IFMS and CAP concepts and related standards, policies, regulations, practices, procedures, reporting requirements and schedules, and use of standard forms and data.

As financial management responsibilities and functions are better defined in the design phase, the internal organization of the financial management functions will require restructuring. The contractor will need to define the organizational structure for the central regulatory offices as well 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 to 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. 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.

Therefore, during the initial phases of this project, information systems plans should be developed to further define potential computer systems to be developed in accordance with GOP priorities. In defining the potential new IFMS information systems, the strategic plan should define the fundamental information processes (subsystems) and the information flows and the required interfaces between the subsystems.

As a result of the information systems plan, the GOP and A.I.D. will have an opportunity to assess the value of potential information systems on an application by application basis, taking into consideration budget restraints and priorities. Further, detailed technical information will be available which will facilitate planning and efficient implementation of the potential new computer systems.

The key to integrating financial information systems is the 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.

Work on the information systems strategic plan will be carried out in close coordination with work by 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 incorporated into the information systems strategic plan.

b. 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 CAP 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 same consultants in each specialized area will give the training for that area. In this way, there will be a uniform approach to the work done in regards to analysis and design, implementation, and training of the officials responsible for managing IFMS and CAP. The consultants should schedule training on a periodic basis throughout the project. Training of GOP personnel as Training Center instructors will be done by a training expert to ensure the sustainability of the GOP training capability.

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 debates.

New or revised financial management systems (financial and budgetary accounting, budget execution control, and cash and debt management) will be implemented at the ministerial level. Depending upon the results of the computer information systems strategic plan, these may be implemented on either a manual or automated basis.

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 revenues and expenditures 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, 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. If computer system enhancements or new systems included in the strategic plan are approved, these can be incorporated into the implementation work plan.

Implementation of computer information systems enhancements and/or new systems will be financed separately and be approved/rejected during or at completion of the information systems strategic plan prepared during the IFMS design activities. The contractor(s) should be prepared to modify the project IFMS implementation plan to incorporate a computer systems component should the strategic plan be approved in part or in whole.

Importantly, the project design timing of computer system implementation, if approved, is subsequent to the resolution of major financial management issues which will be addressed during development of the policy and procedure manuals in the IFMS design phase. This eliminates the risk of a failed computer system implementation caused by attempting to solve major policy and procedural problems at the same time that a new system is being implemented.

2. Comprehensive Audit Process (CAP)

The description of the project approach to establishing the CAP is also divided into design and implementation activities.

a. CAP 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 Comptroller 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 reporting directly to the Congress. However, achieving a strong government audit function is not dependent upon establishing the OAG outside of the CG.

Specific CAP 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.

b. CAP Implementation

Implementation of the CAP 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.

3. 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 contractor should be prepared to provide periodic assistance to the CG in areas to be defined.

A more detailed description of the primary tasks to be carried out and an estimate of the required level of effort associated with these tasks is included in the Terms of Reference section of this document.

D. Project Scope

The IFMS core financial systems will be implemented at a central government (ministerial) level, decentralized agencies, major government owned public enterprises and financial intermediaries. Guidance and directives to the municipalities on the implementation of financial management and internal audit manuals which incorporate new or revised standards, policies, procedures, forms, etc. will be primarily provided in group training sessions.

Limited implementation assistance on an agency by agency basis will be provided on an as-needed basis, according to established priorities.

In the area of government external auditing, training and implementation assistance will be provided directly to the Office of the Auditor General. In the area of internal audit, internal auditors will participate in classroom training sessions and selected audit units will receive field supervision by the technical assistance team.

E. Terms of Reference

The Terms of Reference (TOR) describe project execution activities. 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 the appendices to this document. It is expected that some technical assistance team members will be local Panamanians.

Activity: IFMS DESIGN - BUDGET

Beginning date: Month: 09 Year: 01

Ending date: Month: 08 Year: 02

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.

Required personnel:

CONSULTANTS

COUNTERPARTS

Type	Months	Type	Months
Principal budget consultant	10	Four Budget Spec.	40
Senior budget specialist	6	Six budget analysts	60
Senior budget specialist (financial institutions)	2	Budget specialist	6
Senior legislation specialist	1	Two legal advisers	4
		Organizational development specialist	6
		Three administrative analysts	18

Activity: **IFMS IMPLEMENTATION - BUDGET**

Beginning date: Month: 09 Year: 02

Ending date: Month: 12 Year: 05

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 (Appendix E) 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.

Required personnel:

CONSULTANTS

Type	Months
Principal budget consultant	23
Senior Budget specialist	15

COUNTERPARTS

Type	Months
Two Sr.budget spec	40
Two budget specialists	60
Organizational development specialist	12
Three administrative analysts	36

Activity: **IFMS DESIGN - TREASURY (CASH MANAGEMENT)**

Beginning date: Month: 09 Year: 01

Ending date: Month: 04 Year: 02

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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal treasury specialist	7	Two Senior treasury specialist	14
Treasury specialist	3	Two treasury specialist	14
Legal specialist	1		

Activity: **IFMS IMPLEMENTATION - TREASURY (CASH MGT)**

Beginning date: Month: 05 Year: 02

Ending date: Month: 08 Year: 03

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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal treasury specialist	15	Two Sr. treasury specialists	30
Treasury specialist	7	Treasury specialist	19

Activity:

IFMS DESIGN - PUBLIC DEBT

Starting date: Month: 09 Year: 01

Ending date: Month: 03 Year: 02

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
 - 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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal debt specialist	6	Two Sr. debt specialists	12
Debt specialist	2	Two debt specialist	12
Fiscal legislation specialist	1	Fiscal legislation specialist	4

Activity:

IFMS IMPLEMENTATION - PUBLIC DEBT

Beginning date: Month: 04 Year: 02

Ending date: Month: 05 Year: 03

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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal debt specialist	12	Two Sr debt specialist	24
Debt specialist	6	Two debt specialists	15

Activity: IFMS DESIGN - ACCOUNTING

Beginning date: Month: 09 Year: 01

Ending date: Month: 08 Year: 02

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 Comptroller 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.
- o Coordination with the Computer Information Systems Strategic Plan team.

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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal government accounting specialist	11	Three Sr government accountants	34
Government accounting specialist	7	Two accountants	14
Specialist in financial intermediary accounting	3	Specialist in financial intermediary accounting	6
		Organization and procedures specialist	6

Activity: **IFMS IMPLEMENTATION - ACCOUNTING**

Beginning date: Month: 09 Year: 02

Ending date: Month: 08 Year: 05

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.

Required personnel:

CONSULTANTS		COUNTERPARTS	
Type	Months	Type	Months
Principal government accounting specialist	28	Three Sr. government accountants	84
Specialist in parastatal accounting	20	Specialist in parastatal accounting	20
Specialist in financial intermediary accounting	4	Specialist in financial intermediary accounting	10

Activity:

COMPUTER INFORMATION SYSTEMS STRATEGIC

PLAN

Start date: Month: 09 Year: 01

Completion date: Month: 07 Year: 02

The following activities will be carried out to develop a computer information systems strategic plan:

- o Establish an Interface Control Committee responsible for identifying and controlling information which flows between systems and deciding on issues such as: data definitions, use, security, and timeliness.
- o Analyze existing systems.
- o Identify the major systems which should be automated and prioritize the development of these systems.
- o Develop systems definition using structured methodologies similar to those of Yourdon, DeMarco, and Gane and Sarson and Computer Assisted Software Engineering tools (CASE).
- o Survey relevant off-the-shelf application software packages.
- o Perform risk analysis and prepare cost schedule estimates.
- o Recommend a prioritization of systems to develop or purchase.

Products:

1. Critical Success Factors
2. Data Flow Diagrams
3. Logical Data Model
4. High Level Data Dictionary and Process Descriptions
5. Analysis of Existing Systems
6. Brief study of relevant Off-the-Shelf application software packages

7. Determine business functions and recommend systems to develop or purchase
8. Prioritization and selection of systems which will be developed or purchased
9. Definition of subsystem objectives
10. Definition of man/machine boundary
11. Risk analysis
12. Cost schedule estimates
13. Design plan and assignment of responsibilities
14. Preliminary hardware and software requirements
15. Security/audit analysis and requirements

Personnel requirements:

CONSULTANTS

COUNTERPARTS

Type	Months	Type	Months
Systems project manager	8	Systems project manager	10
Systems designer	8	Four systems analysts	40
Systems analyst	5	Documentation spec	10
Systems analyst	5		
Data base specialist	2		
Communications specialist	2		

Activity: **CAP DESIGN - GOVERNMENT AUDITING**

Beginning date: Month: 09 Year: 01

Ending date: Month: 03 Year: 03

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

- o Organization of the Office of the Auditor General (OAG) so that external post-control includes financial, compliance, operational (performance) auditing, with 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 Product 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 Governmental auditing
 - o Operational auditing
 - o Electronic data processing auditing
 - o Investigation of fraud
 - o Project auditing
 - o Administrative contracting
 - o Work costs and budgets
8. Evaluation program for internal audit offices.

Required personnel:

CONSULTANTS

COUNTERPARTS

Type	Months	Type	Months
Govt financial audit specialist	9	Three certified public accountants	30
Govt performance audit specialist	5	Three performance auditors or candidates	18
Public works audit specialist	2	Three engineers	12
EDP audit specialist	2	Three EDP auditors or candidates	12
Investigative audit specialist	3	Two investigative auditors	6

Activity:

CAP IMPLEMENTATION - GOVERNMENT AUDITING

Beginning date: Month: 06 Year: 02

Ending date: Month: 12 Year: 05

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 and application of internal control manuals and standards to all public institutions and internal auditing offices.
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

Required personnel:

CONSULTANTS

COUNTERPARTS

Type	Months	Type	Months
Govt financial audit specialist	27	Three certified public accountants	90
Govt performance audit specialist	11	Three performance auditors or candidates	36
Public works audit specialist	6	Three engineers	24
EDP audit specialist	6	Three EDP auditors or candidates	24
Investigative audit specialist	9	Two investigative auditors	20

Activity:

TRAINING - INSTRUCTOR TRAINING

Beginning date: Month: 09 Year: 01

Ending date: Month: 12 Year: 05

The following activities will be carried in the instructor training component:

- o On-going technical assistance in readying the Training Center for classroom training sessions
- o Technical assistance in the organization and maintenance of training facilities as well as planning of training activities
- o Instructor training (training for trainers) in pedagogical methods
- o Classroom supervision and follow-up to ensure the quality of classroom instruction
- o Review and assistance in the selection of teaching materials
- o Assistance in determining candidate aptitudes for training

Products:

1. Annual Training Center training programs.
2. Instructors teaching handbook.
3. Evaluation reports on the quality of classroom instruction.

Required personnel:

CONSULTANTS

COUNTERPARTS

Type	Months	Type	Months
Training specialist	20	One government trainer	20

F. Organization of project development

To effectively complete the identified technical activities, the support of senior staff and administrative support staff is necessary. The contractor should provide the following project direction and administrative personnel:

- o Project Team Leader
- o IFMS Manager
- o CAP Manager
- o Home office and administrative support

The technical staff will report to the Team Leader. They will be organized into two work teams (see Figures 31 and 32). The first will be responsible for the implementation of the IFMS and the second for the implementation of the CAP. IFMS and CAP managers may be one of the functional specialists.

The GOP should form an Executive Commission (see Figure 33) to make project policy decisions. The Commission will be composed of legislative and executive branch executives, including the:

- o Comptroller General of Panama
- o Minister of Planning and Economic Policy
- o Minister of Finance and Treasury
- o President of the Budget Committee of the Legislative Assembly

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
- 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.

IFMS TEAM ORGANIZATION

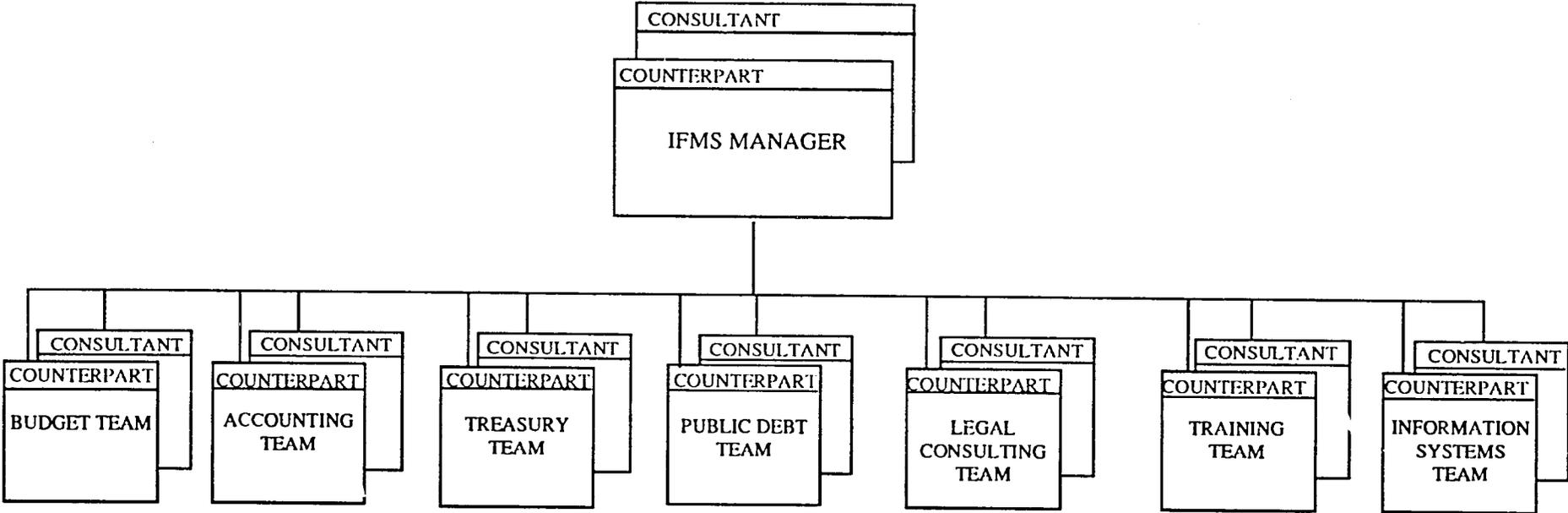
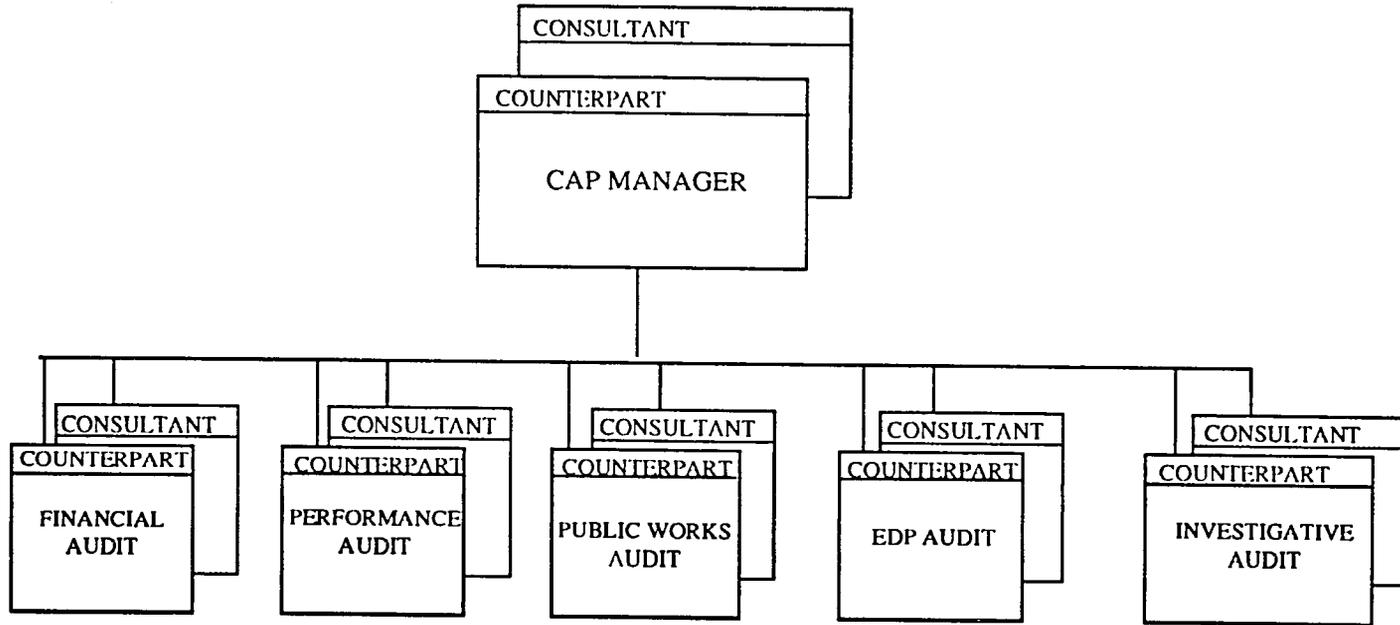


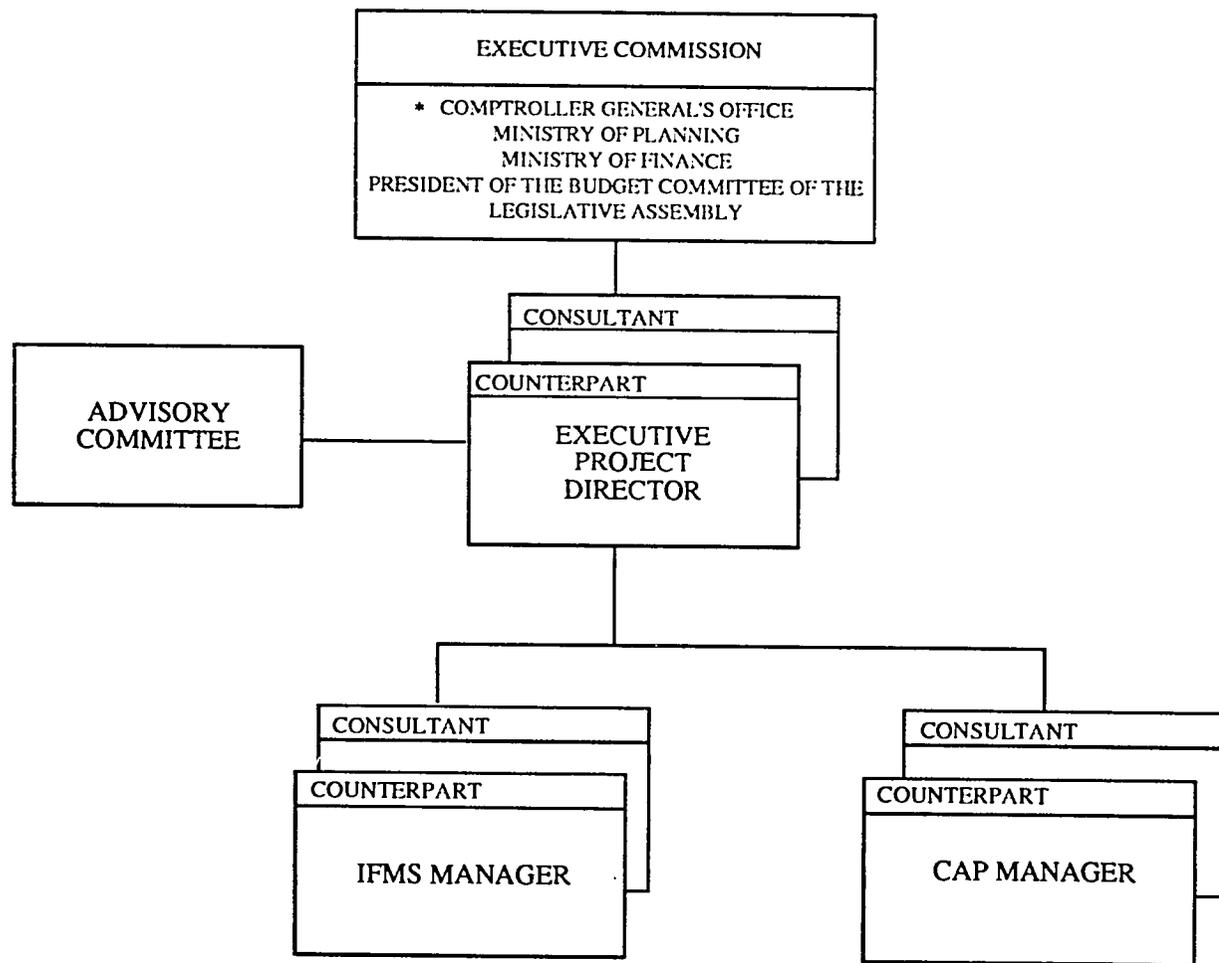
FIGURE 31

105

CAP TEAM ORGANIZATION



EXECUTIVE COMMISSION AND PROJECT MANAGEMENT TEAM ORGANIZATION



* THE COMPTROLLER GENERAL HAS PRIMARY RESPONSIBILITY

FIGURE 33

127

G. Time Schedule

The time schedule (Gantt chart, see Figure 34) and estimated level of effort (LOE) breakdowns (Figures 35 - 46) included in this section are for illustrative purposes. The pie charts presented in Figures 47 through 51 pictorially represent LOE by functional area, year and local/off-shore ratio. Contractors may propose equally viable alternative means and staffing to achieve the project objectives. Firms or consultants' previous experience in similar projects, staffing availability, familiarity with the GOP, proprietary methodologies and other capabilities of the consultants may also have a bearing on the LOE and the timing of certain activities.

SCHEDULE OF ACTIVITIES

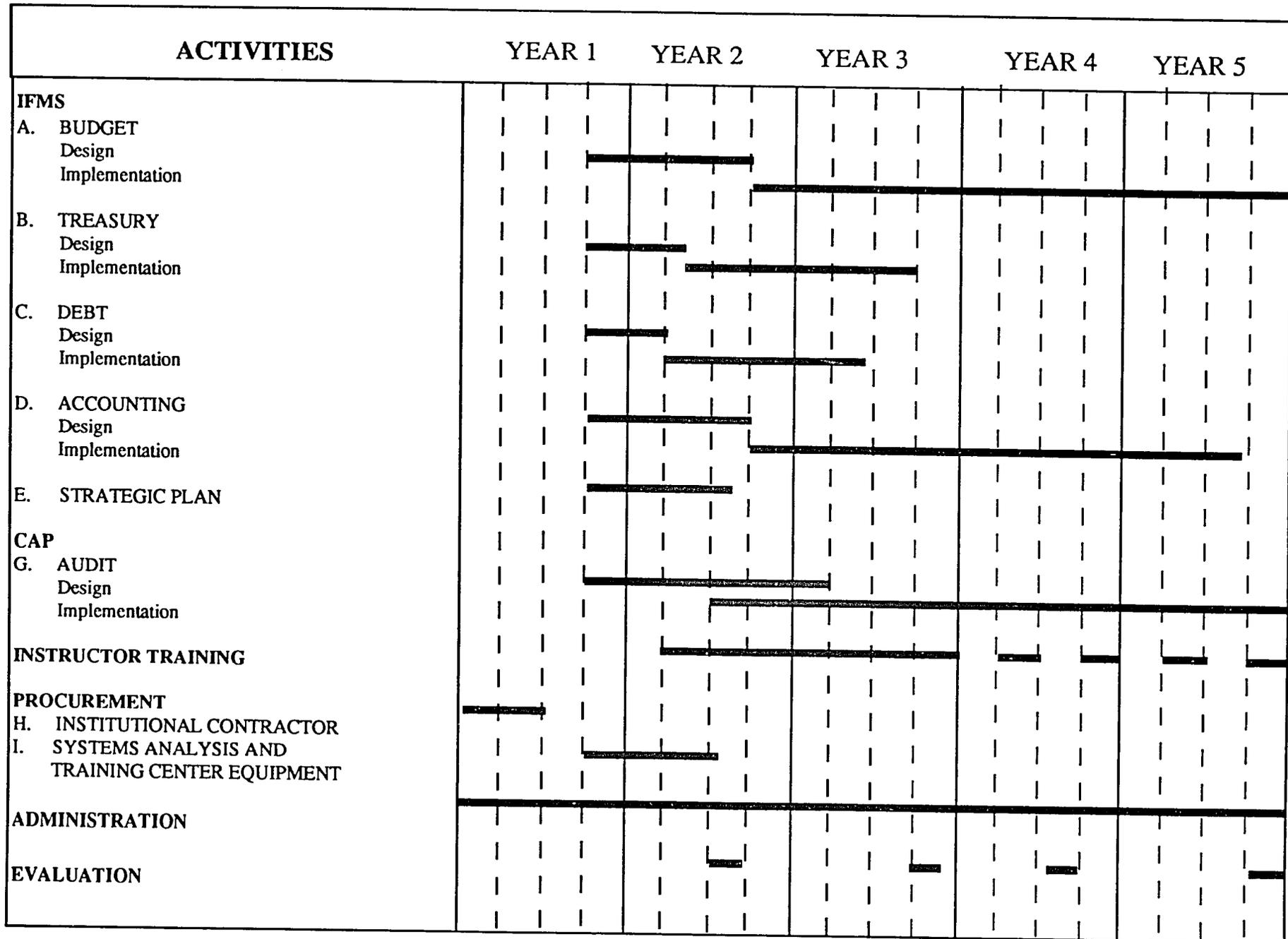


FIGURE 34

USAID/PANAMA
IFMS AND CAP PROJECT

PROJECTED LEVEL OF EFFORT (LOE) - TECHNICAL ASSISTANCE

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
TEAM LEADER	4	10	10	10	6	40
IFMS DESIGN						
Budget	4	15	0	0	0	19
Treasury	4	7	0	0	0	11
Public Debt	4	5	0	0	0	9
Accounting	4	17	0	0	0	21
Strategic Plan	12	18	0	0	0	30
Subtotal	28	62	0	0	0	90
IFMS IMPLEMENTATION						
Budget	0	8	16	11	3	38
Treasury	0	14	8	0	0	22
Public Debt	0	14	4	0	0	18
Accounting	0	6	24	17	5	52
Subtotal	0	42	52	28	8	130
CAP DESIGN	4	11	6	0	0	21
CAP IMPLEMENTATION	0	14	26	15	4	59
Subtotal	4	25	32	15	4	80
TRAINING	4	10	2	2	2	20
HM OFC SUP & QUALITY ASSURANC	8	8	8	8	8	40
TOTAL	48	157	104	63	28	400

FIGURE 35

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - BUDGET						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
IFMS DESIGN Budget						
Principal consultant	4	6				10
Sr. specialist		6				6
Financial inst. spec.		2				2
Legal specialist		1				1
Subtotal	4	15	0	0	0	19
IFMS IMPLEMENTATION Budget						
Principal consultant		4	8	8	3	23
Sr. specialist		4	8	3		15
Financial inst. spec.						0
Legal specialist						0
Subtotal	0	8	16	11	3	38
TOTAL - BUDGET	4	23	16	11	3	57

FIGURE 36

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LCE - TREASURY						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
IFMS DESIGN Treasury Principal Treasury Spec. Treasury Spec. Legal specialist	4	3 3 1				7 3 1
Subtotal	4	7	0	0	0	11
IFMS IMPLEMENTATION Treasury Principal Treasury Spec. Treasury Spec. Legal specialist		7 7	8			15 7 0
Subtotal	0	14	8	0	0	22
TOTAL - TREASURY	4	21	8	0	0	33

FIGURE 37

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - PUBLIC DEBT						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
IFMS DESIGN Public Debt Principal debt spec. Debt Spec. Fiscal Legislation Spec	4	2 2 1				6 2 1
Subtotal	4	5	0	0	0	9
IFMS IMPLEMENTATION Public Debt Principal consultant Sr. specialist Financial inst. spec.		8 6	4			12 6 0
Subtotal	0	14	4	0	0	18
TOTAL - PUBLIC DEBT	4	19	4	0	0	27

FIGURE 38

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - ACCOUNTING						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
IFMS DESIGN						
Accounting						
Principal Accountant	4	7				11
Accountant		7				7
Financial inter. accountant		3				3
Subtotal	4	17	0	0	0	21
IFMS IMPLEMENTATION						
Accounting						
Principal Accountant		3	10	10	5	28
Accountant		3	10	7		20
Financial inter. accountant			4			4
Subtotal	0	6	24	17	5	52
TOTAL - ACCOUNTING	4	23	24	17	5	73

FIGURE 39

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - COMPUTER INFORMATION SYSTEMS STRATEGY						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
IFMS DESIGN						
CISSP						
Systems Project Manager	4	4				8
Systems Designer	4	4				8
Systems Analyst	2	3				5
Systems Analyst	2	3				5
Data Base Specialist	0	2				2
Communications Specialist	0	2				2
TOTAL - CISSP	12	18	0	0	0	30

FIGURE 40

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE – CAP						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
CAP DESIGN						
Financial Audit Spec.	4	5				9
Performance Audit Spec.		3	2			5
Public Works Audit Spec.			2			2
EDP Audit Spec.			2			2
Investigative Aucit Spec.		3				3
Subtotal	4	11	6	0	0	21
CAP IMPLEMENTATION						
Financial Audit Spec.		5	10	8	4	27
Performance Audit Spec.		4	4	3		11
Public Works Audit Spec.			4	2		6
EDP Audit Spec.			4	2		6
Investigative Audit Spec.		5	4			9
Subtotal	0	14	26	15	4	59
TOTAL	4	25	32	15	4	80

FIGURE 41

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - TRAINING CENTER						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
TRAINING Training Instructor	4	10	2	2	2	20
TOTAL	4	10	2	2	2	20

FIGURE 42

1/27

USAID/PANAMA IFMS AND CAP PROJECT						
PROJECTED LOE - HOME OFFICE SUPPORT & QUALITY ASSURANCE						
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
TRAINING						
Project Director	2	2	2	2	2	10
Sr. Technical Advisor	2	2	2	2	2	10
Administration staff	4	4	4	4	4	20
TOTAL	8	8	8	8	8	40

FIGURE 43

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE - SUMMARY BY FUNCTIONAL AREA				
	DESIGN	IMPLEMENT	TOTAL	%
TEAM LEADER	14	26	40	10%
IFMS				
Budget	19	38	57	14%
Treasury	11	22	33	8%
Public debt	9	18	27	7%
Accounting	21	52	73	18%
Strategic plan	30	0	30	8%
Subtotal	90	130	220	55%
CAP				
Audit	21	59	80	20%
TRAINING	14	6	20	5%
HOME OFFICE SUPPORT & QUALITY ASSURANCE	16	24	40	10%
TOTAL	141	219	400	100%

FIGURE 44

10/1

USAID/PANAMA IFMS AND CAP PROJECT PROJECTED LOE – LOCAL/OFF-SHORE CONSULTANT					
	OFFSHORE	%	LOCAL	%	TOTAL
TEAM LEADER	40	1	0	40%	40
IFMS					
Budget	33	58%	24	42%	57
Treasury	22	67%	11	33%	33
Public debt	18	67%	9	33%	27
Accounting	39	53%	34	47%	73
Strategic plan	25	83%	5	17%	30
Subtotal	137	62%	83	38%	220
CAP					
Audit	80	100%	0	0%	80
TRAINING	20	100%	0	0%	20
HM OFC SUP & QUALITY ASSURANCE	40	100%	0	0%	40
TOTAL	317	79%	83	21%	400

FIGURE 45

IFMS AND CAP PROJECT

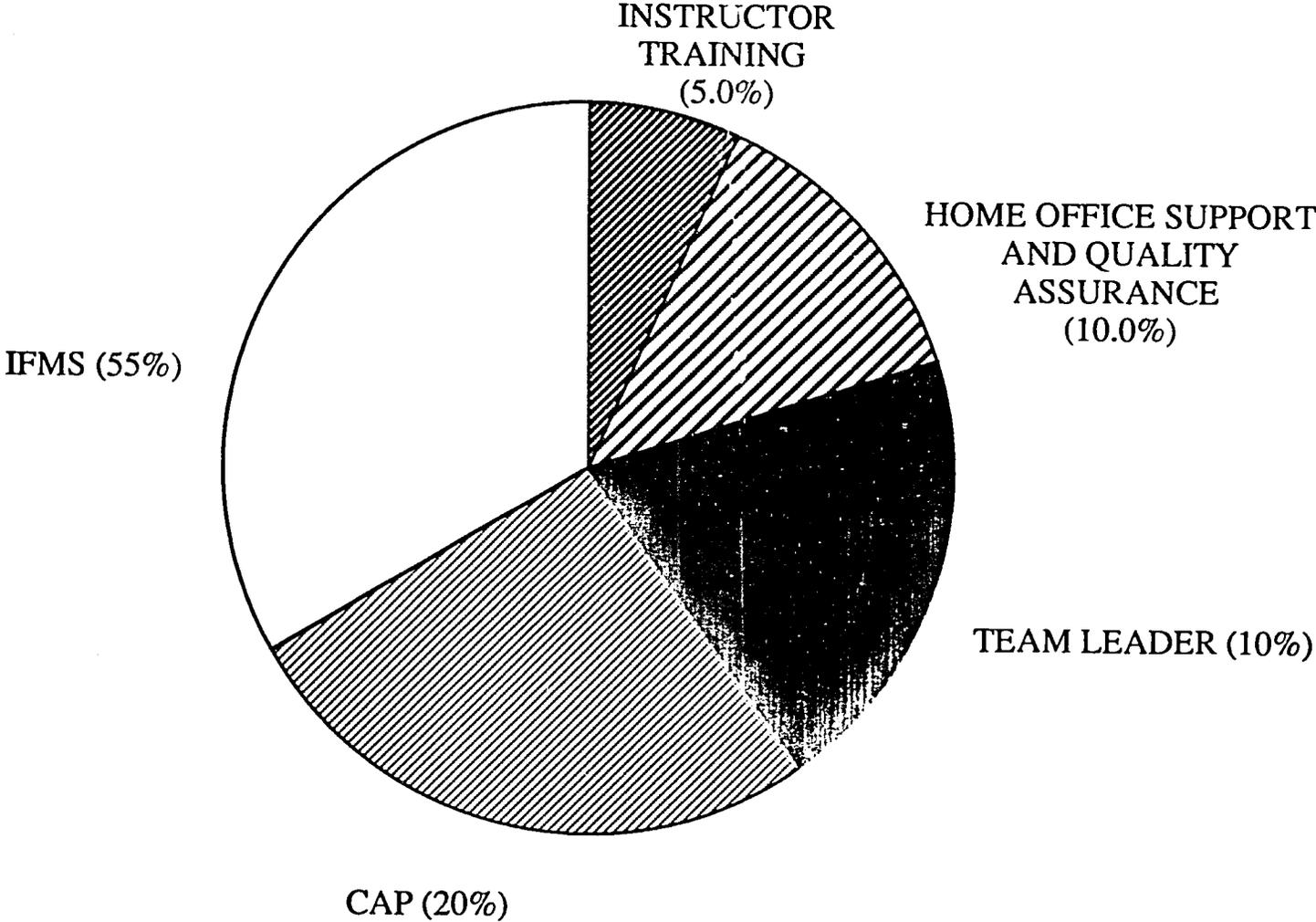


Figure 46

IFMS AND CAP PROJECT LEVEL OF EFFORT BY FUNCTIONAL AREA

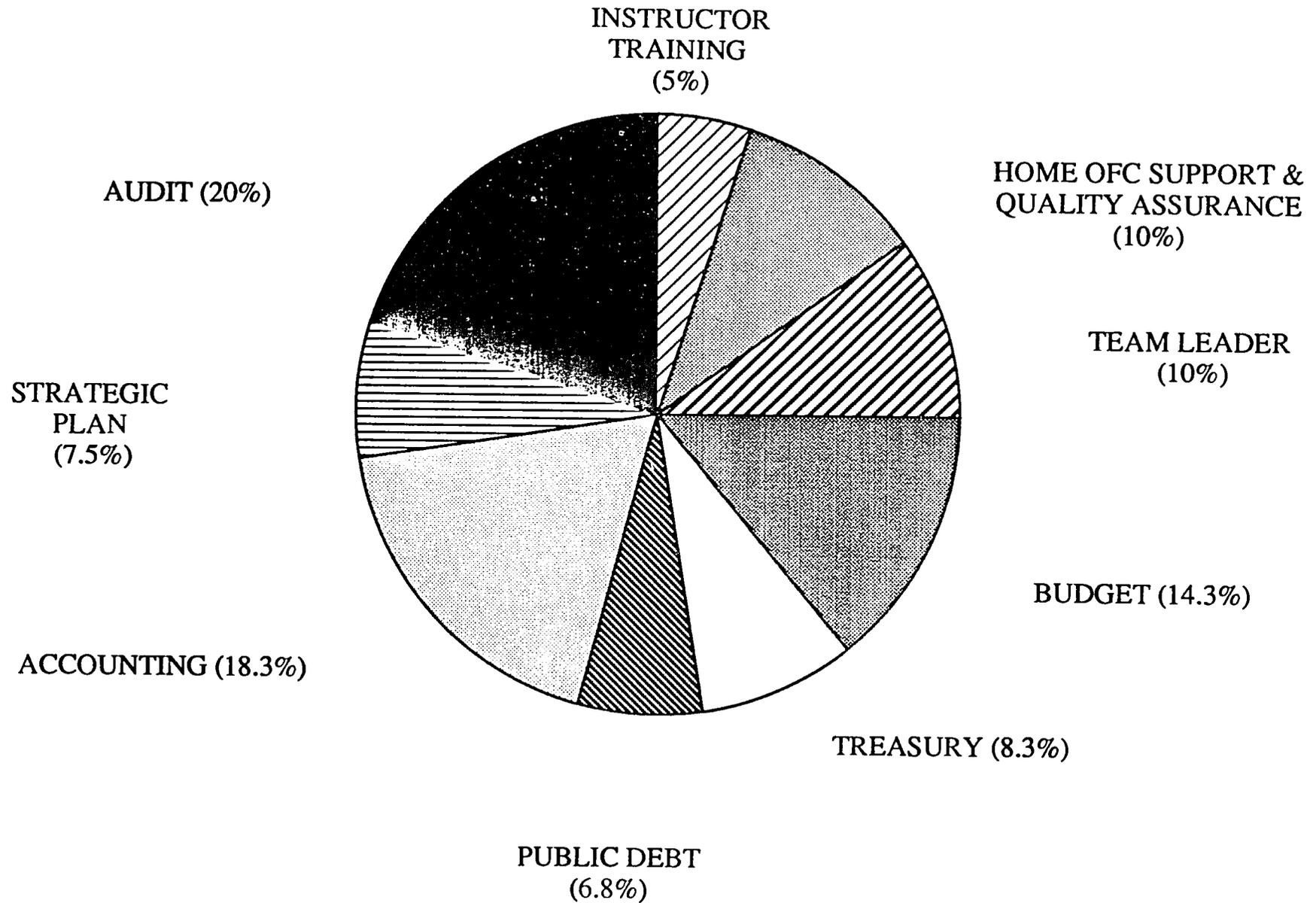


Figure 47

19/2

IFMS AND CAP PROJECT LEVEL OF EFFORT BY IFMS FUNCTIONAL AREA

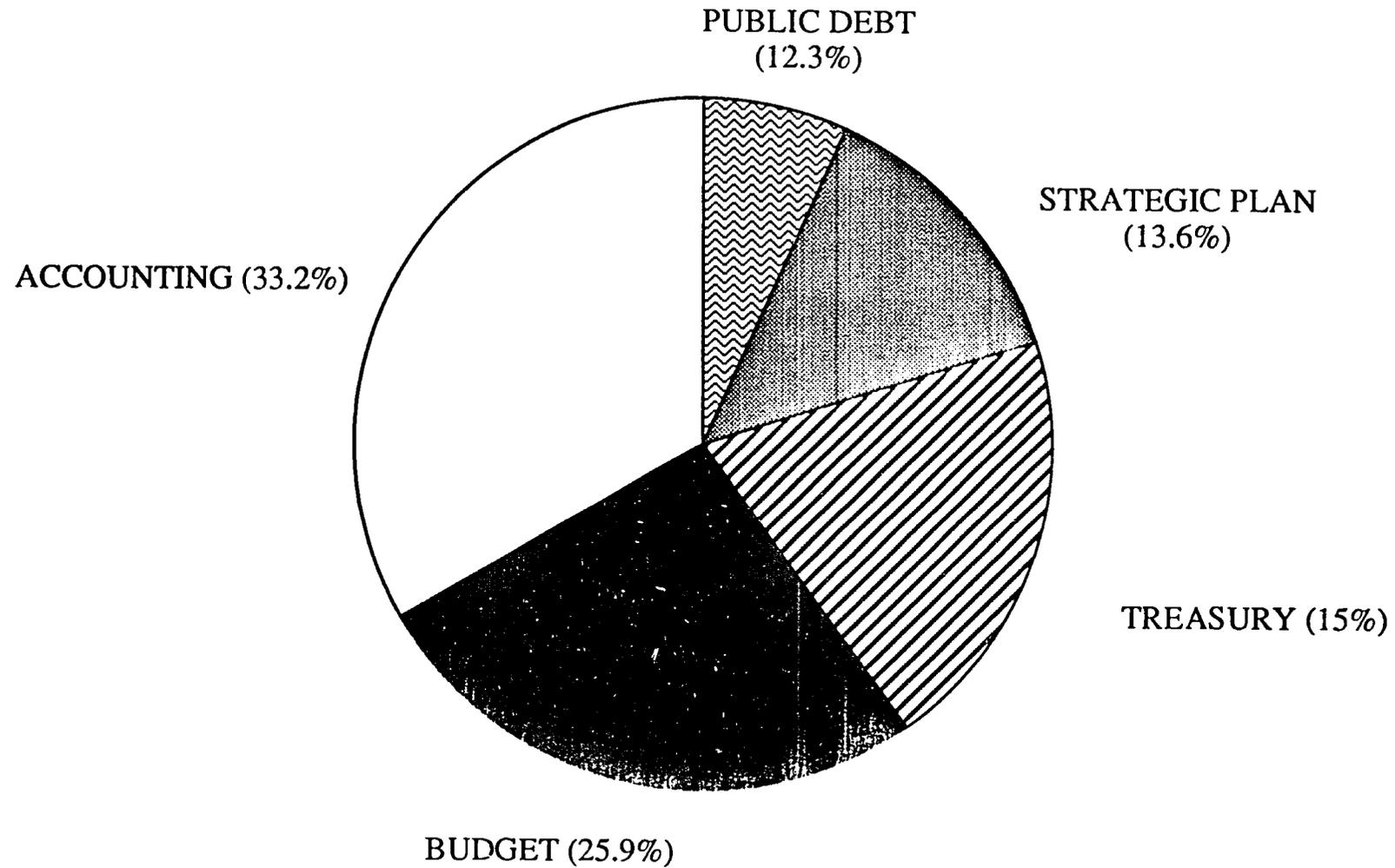


Figure 48

IFMS AND CAP PROJECT LEVEL OF EFFORT BY FUNCTIONAL AREA

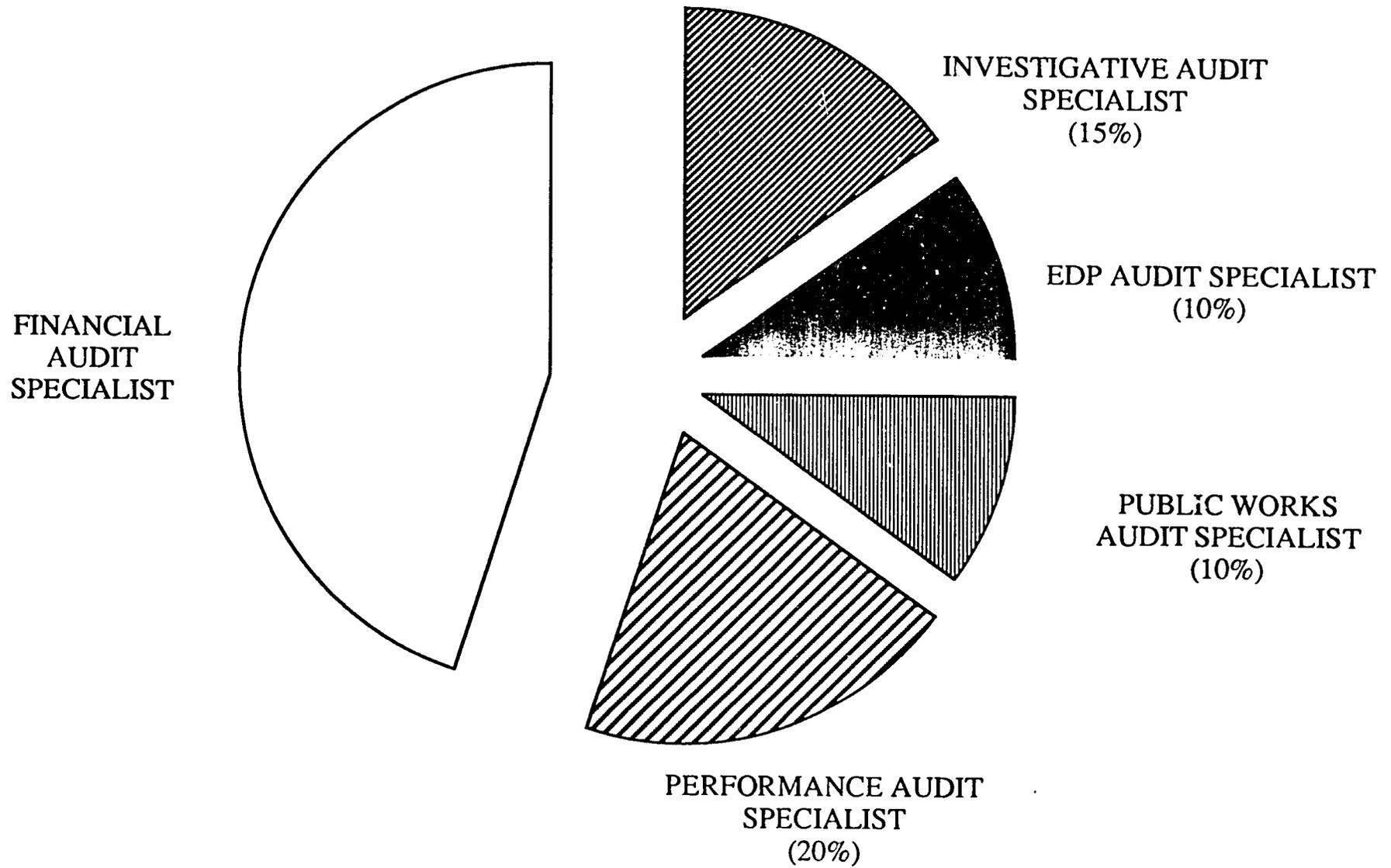


Figure 49

144

IFMS AND CAP PROJECT LEVEL OF EFFORT (LOE) BY YEAR

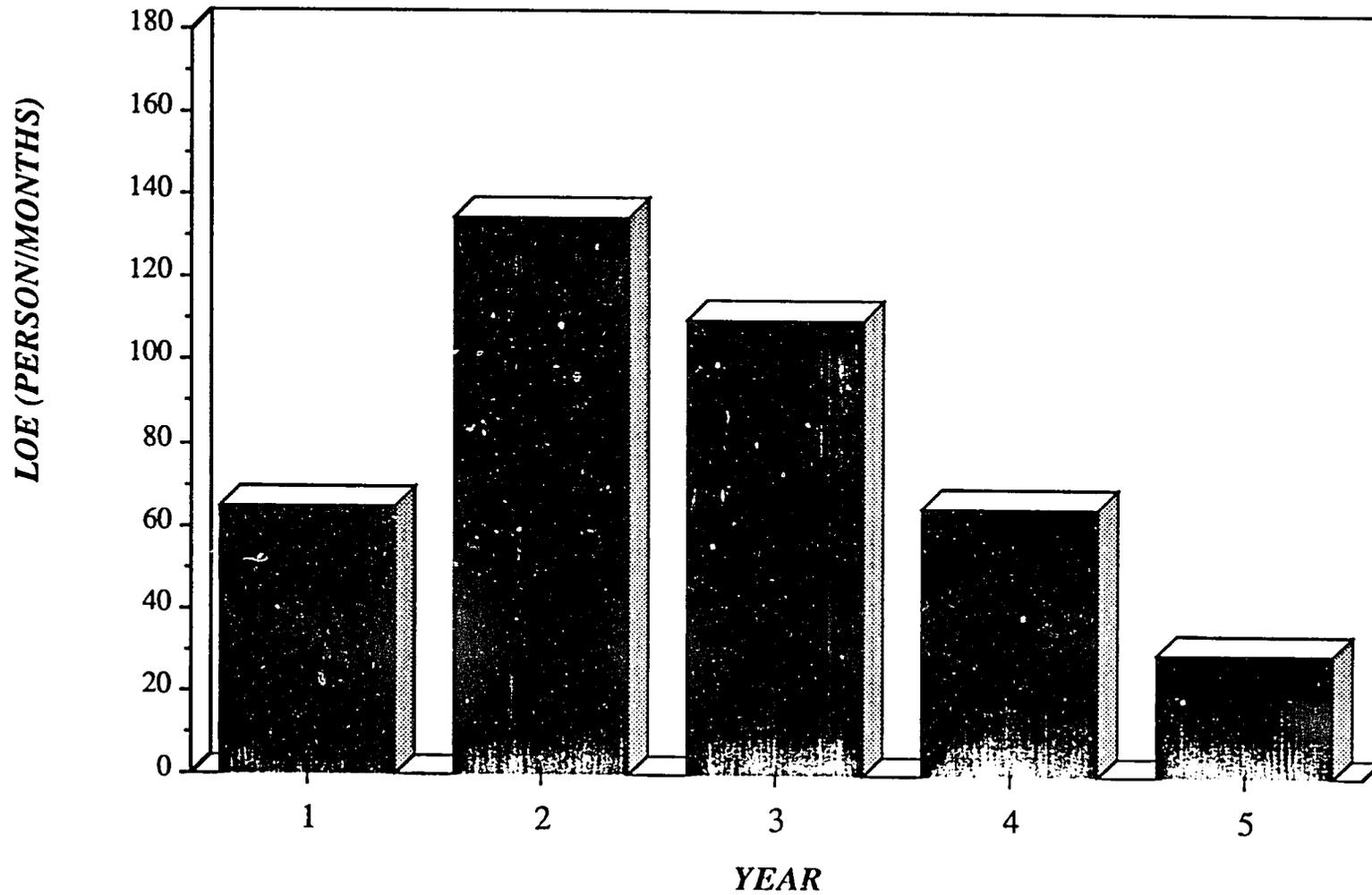


Figure 50

145

IFMS AND CAP PROJECT LEVEL OF EFFORT BY LOCAL/OFF-SHORE

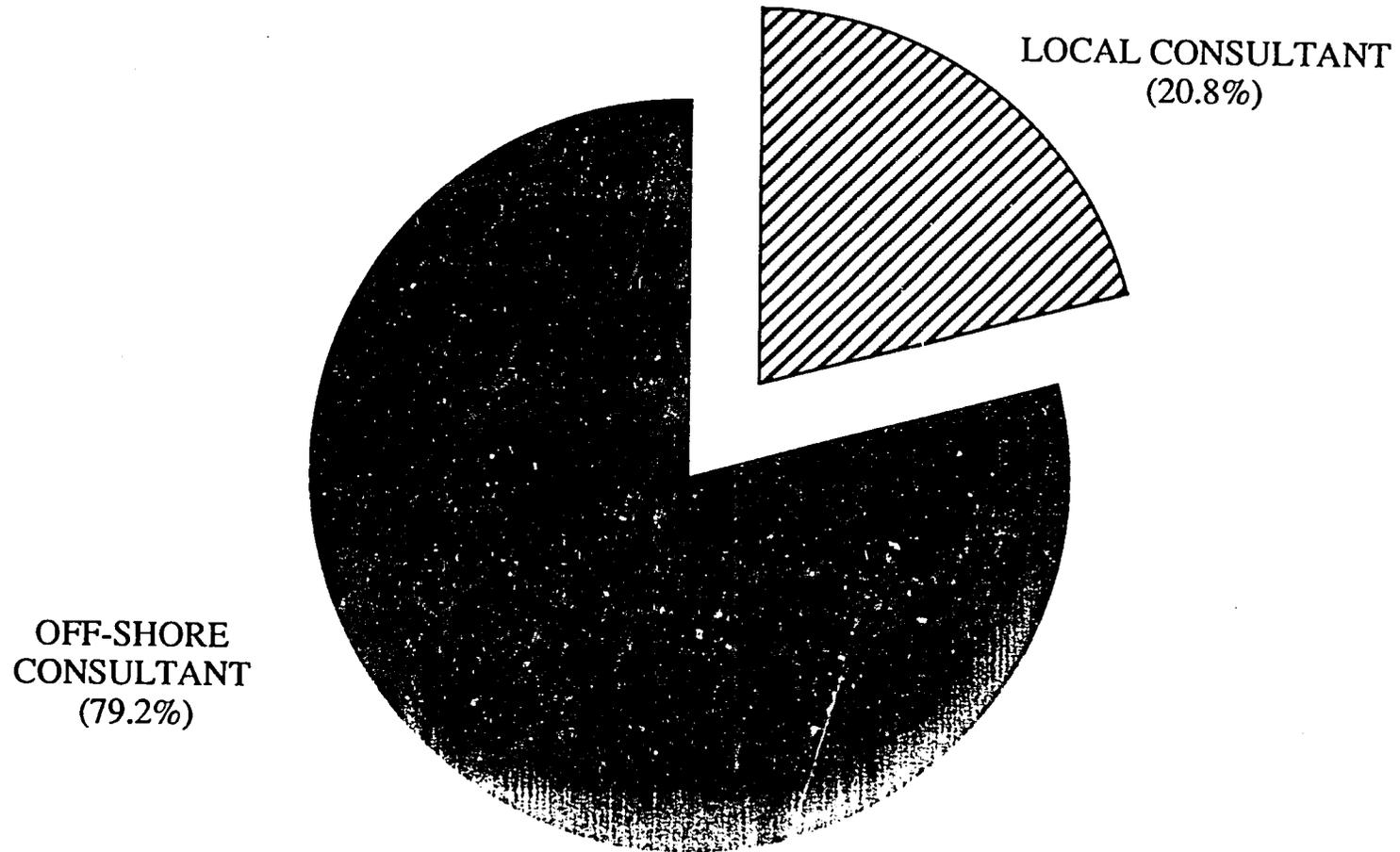


Figure 51

146-

H. Logframe

The following logframe summarizes the project in terms of its goal, verification indicators, means of achieving the goal, products, assumptions, and verification elements.

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 confidence in the integrity and competence the government

GOP using improved financial management systems

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 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 Process

Introduction of required legislation

Commitment on part of host government to commit 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

- Preparation of timely and accurate budgets
- Policy and procedural manuals
- Draft proposed legislation

Evaluation

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

- Annual cash flow forecast that is updated monthly
- Policy and procedural manuals
- Draft proposed legislation

Evaluation

Debt subsystem that manages acquisition, servicing and retirement of public debt

- Timely and accurate records on public debt, debt servicing amortization records
- Implementation of "exception management reporting"
- Policy and procedure manuals covering registration, control and auditing of the public debt
- Draft proposed legislation

Evaluation

OUTPUT:	MEASURABLY VERIFIABLE INDICATORS	MEANS OF VERIFICATION
----------------	---	------------------------------

Accounting subsystem which classifies, records and analyzes all government financial transactions

- General ledger control
- Verifiable accounting controls
- Government accounting standards and procedures
- Draft proposed legislation
- Timely and fairly presented financial statements of individual public entities
- Combined financial statement for GOP

Evaluation

GOP information systems strategic plan

- A computer information systems strategic plan
- Transfer of technology to counterpart

Inspection

II. Comprehensive Audit Process which ensures fair, objective, reliable and independent review of government performance and financial reporting

- 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
- Office of the Auditor General
- Training Programs

Evaluation

ACTIVITIES:

-Proposed draft financial management and government audit legislative reforms	Proposed draft financial management and government audit legislative reforms
-Implementation of organization improvements including better definition and documentation of key financial functions	Organizational policies issued
-Formulation, documentation and implementation of financial management standards, policies, regulations and procedures	Policy and procedures manuals Standards and guidelines issued
-Promotion of awareness of responsibility to provide honest and efficient management of public resources	Seminars and workshops held
-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
-Implementation of government audit standards, policies and procedures	Professionally prepared audit reports
-Computer information systems strategic plan	Strategic Plan issued

I. PROJECT MILESTONES

The following milestones are intended to provide A.I.D. with a reasonable and practical means of determining if the project is being executed according to plan and will achieve its goal and objectives.

Project Start-up

1. Project Executive Commission (PEC)

The Project Executive Commission should be set up and have conducted their first meeting by the end of month one (EOM 1).

2. Project Officer

The Mission should assign/hire or contract, in the case of a personal service contractor (PSC), a project officer to provide day to day Mission administration and monitoring of the project. The project officer should be in country within 90 days of signing the project agreement.

3. GOP Satisfaction of Condition Precedents (CPs), if any

The GOP should satisfy CPs identified in preliminary project implementation letters (PILs), within 120 days of signing the project agreement.

Procurement of Institutional Contractor

1. Notification in the Commerce Business Daily (CBD)

The Mission should include a notice in the CBD that a Request for Proposal (RFP) can be obtained for the project. This action should be taken within two weeks of signing the agreement.

2. Issuance of the RFP

The RFP should be drafted and available to interested firms 60 days after signing the agreement or 45 days after running the CBD notification.

3. Receipt of Proposals

Proposals from interested firms should be received within 60 days after issuance of the RFP.

4. Contractor Selection

Proposals should be evaluated and a contractor selected within 180 days of agreement signing, or 30 days after receipt of proposals.

5. Consultant Contract Signed

Negotiation and signing of the technical assistance contract should be completed within 210 days (end of month six, EOM 6), or 30 days after selection of the contractor.

Project Execution

1. Consultant Team In-country

All long-term consultant team members should arrive in country by EOM 8.

2. Detailed Project Work Plan

The contractor should prepare a detailed project work plan for year one of the project and a more general projected life of project (LOP) activity plan by EOM 9.

3. Work Plan Approval

A.I.D. and the GOP should review the work plan simultaneously and approve it within 30 days.

4. Project Interface Control Committee

The Project Interface Control Committee should be set up and have conducted their first meeting by EOM 11.

5. Host Country (HC) Counterpart Personnel Identification

HC 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.

6. Training Seminars

Training seminars should be initiated for counterpart personnel by EOM 11.

7. Incorporation of HC Counterpart Personnel in Project

All key, full-time counterpart personnel should be freed from other responsibilities and working on the project by EOM 12.

8. Equipment Procurement

The following are specific computer, Training Center and miscellaneous equipment procurement milestones:

- o Detailed requirements: EOM 9
- o Purchase Orders: EOM 10
- o Delivery of goods purchased locally: EOM 11
- o Delivery of goods purchased in U.S.: EOM 13

9. Project Executive Committee (PEC) Agreement on IFMS Conceptual Framework

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

10. Office of the Auditor General (OAG)

OAG is formally established by administrative order as a unit of the Office of the Comptroller General and the Auditor General assumes post by EOM 12.

11. Computer Information Systems Strategic Plan

- o Deliver critical success factors (CSFs), business function descriptions and high level system design alternatives by EOM 14.
- o Deliver data flow diagrams by EOM 18.
- o Deliver preliminary prioritization of processes to automate, with estimated hardware and software needs and costs by EOM 19.
- o Deliver final prioritized system design alternatives, with implementation plan and estimated level of effort, hardware and software requirements, and costs by EOM 20
- o Project Interface Control Committee and Project Executive Committee decide to proceed with implementation or not by EOM 22.

12. IFMS/CAP Draft Manuals

Functional teams complete first draft of organizational, policy and procedure manuals by EOM 18.

13. Draft Proposed Legislation

First drafts of new legal provisions in all functional areas are completed by EOM 18.

14. Training Workshops

Training workshops are initiated by EOM 19.

15. Training Courses and Conferences

Training courses and conferences are initiated by EOM 19.

16. Preliminary Standard Government-wide General Ledger Chart of Accounts

Delivery of the standard, government-wide general ledger chart of accounts to public entities for comment by EOM 22.

17. IFMS/CAP Final Manuals

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

18. External Audit Reports on Public Institutions

First professionally prepared external audit reports on selected public entities for GOP, donor agencies and financial institutions use by EOM 24.

19. Reorganized National Budget, Treasury, Public Debt and Accounting Offices

The national budget, treasury, public debt and accounting offices will have initiated the reorganization process by EOM 32.

20. Internal Audit Reports

First internal audit reports, using established internal audit standards, guidelines and practices on selected public entities for GOP, donor agencies and financial institutions use by EOM 32.

21. Approved Standard Government-wide General Ledger Chart of Accounts

The standard, government-wide general ledger chart of accounts should be approved by the PEC by EOM 32.

22. Annual Cash Flow Projections Prepared

Annual cash flow projections (by month) prepared by EOM 32.

23. Public debt Reporting System

The modified national public debt reporting system will be initiated by EOM 32.

24. Implementation of Payment Processing and Disbursement System

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

25. Accounts Receivable Reconciliations

Accounts receivable reconciliations prepared by EOM 38.

26. Treasury Reporting System

Treasury reports issued by EOM 44.

27. Central Government and Decentralized Entities Budget System Implementation

The central government and decentralized institutions adopt and put into practice budget preparation and execution control subsystem by EOM 44.

28. Combined Government Financial Statements

The first combined GOP financial statements are prepared which combine the financial statements of as many individual public entities for which financial statements are prepared by EOM 44.

29. External Audit Reports on GOP Combined Financial Statements

First professionally prepared external audit reports on GOP combined financial statements for GOP, donor agencies and financial institutions use by EOM 50.

30. GOP GAAP and GOP GAGAS Approved

GOP generally accepted accounting principles (GOP GAAP) and GOP Generally Accepted Government Auditing Standards (GOP GAGAS) approved by EOM 50.

31. Public Enterprises and Development Corporations Budget System Implementation

The public enterprise and development corporations adopt and put into practice budget preparation and execution control subsystem by EOM 50.

32. Financial Intermediaries Budget System Implementation

The financial intermediaries adopt and put into practice budget preparation and execution control subsystem by EOM 56.

33. Project evaluations completed by EOMs 21, 34, 47, 60.

Evaluation of the achievement of these milestones 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.

The external evaluations should include specialists in the following areas:

- o Accounting and Budget specialist
- o Treasury and Public Debt specialist
- o Systems Information specialist
- o Government Auditing specialist

It is important that the specialists selected for the evaluation have extensive experience in Latin American government financial management and government auditing. They should also have **modern concepts** of these functions so that the results of the project are not judged by antiquated notions which include pre-audit as an external audit function and the dominance of budgeting to the exclusion of all other financial management functions.

V. ASSUMPTIONS AND CONDITIONS FOR PROJECT SUCCESS

This section presents the primary assumptions and conditions under which the project was designed. It describes the issues that may affect the successful implementation of the project and the way in which these inherent risks will be addressed to limit their impact on the implementation of the project.

A. Roles of Panamanian Government Agencies in the IFMS

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

In most organizations there are generally on-going "turf battles." This is especially true in an organization as large, complex, and political as a national government. There may be debate over the responsibility for some financial management functions. However, this debate is natural and should be promoted.

The inherent risk in this process is that agreement will not be reached on these matters on a timely basis and will delay implementation efforts. This risk is diminished to an acceptable level by the commitment to improving government financial management shown to date by all of the government institutions involved.

other than the establishment of the Office of the Auditor General (see B. below) which does not directly effect MIPPE or MHT.

The need to demonstrate to the public that the government of Panamá is strengthening financial management to reduce government fraud and corruption is a strong promotor of the current environment of cooperation and coordination. In addition, 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 Process (CAP).

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). This will require an administrative order from the Comptroller to establish the OAG within the Office of the Comptroller General (CG).

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

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 campaign 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 effecting this change which requires legislative reform is not necessary for the success of the project.

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 (Directorate of Investigative Services) within the CG using this administrative authority. It therefore appears likely that the project goal of creating the OAG can be achieved.

Staffing and maintaining a sufficient number of highly qualified auditors under conditions of budget restrictions poses another concern. As with the new Office of Investigative Auditing, 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. Transfer of CG personnel to the OAG 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 of 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.

C. Scope of the project

Given the large number and different type of GOP institutions, it is important to define an appropriate project scope and level of implementation. Too small a scope may not achieve the objectives of the IFMS and CAP. Too large a scope may be difficult to achieve, excessively costly and beyond the absorptive capability of the GOP.

To achieve the IFMS objectives, implementation will be carried out at a central government (ministerial) level. Government-wide policy and procedure manuals, implementation directives and substantial group training will be provided to public entities. Limited, direct, on-site implementation assistance will 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. Contractor implementation assistance in the municipalities is not contemplated during the five year project time frame.

D. Counterpart Computer Information Systems Personnel

A sufficient number of skilled management information systems (MIS) counterpart personnel must be identified and maintained in the project and government. This problem is especially acute because of the general shortage of host country MIS counterpart personnel with large computer information systems design experience. Complicating the problem is the fact that once trained, counterpart personnel often find better salaries outside of the government. Most counterpart personnel must also be dedicated full-time to the project.

The project design assumes that few, if any, counterpart MIS personnel with large integrated financial information system design experience will be identified in the GOP. On-the-job training will overcome this problem. In addition, some MIS training is planned to be provided prior to the initiation of the long-term project through short-term TA under the Immediate Recovery Project (IRP).

Continuous training will be provided to counterpart personnel through the CG Training Center or directly by the contractor personnel, to provide counterpart personnel the required MIS skills. This training will provide an important incentive for counterpart personnel to stay with the government.

Signed agreements between the government institution and the beneficiary of the training is a practice that is gaining acceptance and showing results in similar situations in which an institution must make a significant investment in personnel training. In these agreements, the beneficiary of the training agrees to remain with

the employer for a defined period of time after completion of the training. The GOP should be urged to consider this mechanism or other incentives.

E. Timing of Financial Management and Government Auditing Improvements

A fundamental assumption of the project design is that financial systems and the 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.

VI. ALTERNATIVE STRATEGIES

This chapter summarizes the selected approach for project implementation described more fully in Chapter IV and discusses the alternative approaches considered during project analysis. Advantages of the project design over other alternatives are also analyzed.

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.

165

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 Comptroller General (CG) but will have operational autonomy and independence with respect to other CG financial management

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 reporting directly to the Congress. 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. The 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.

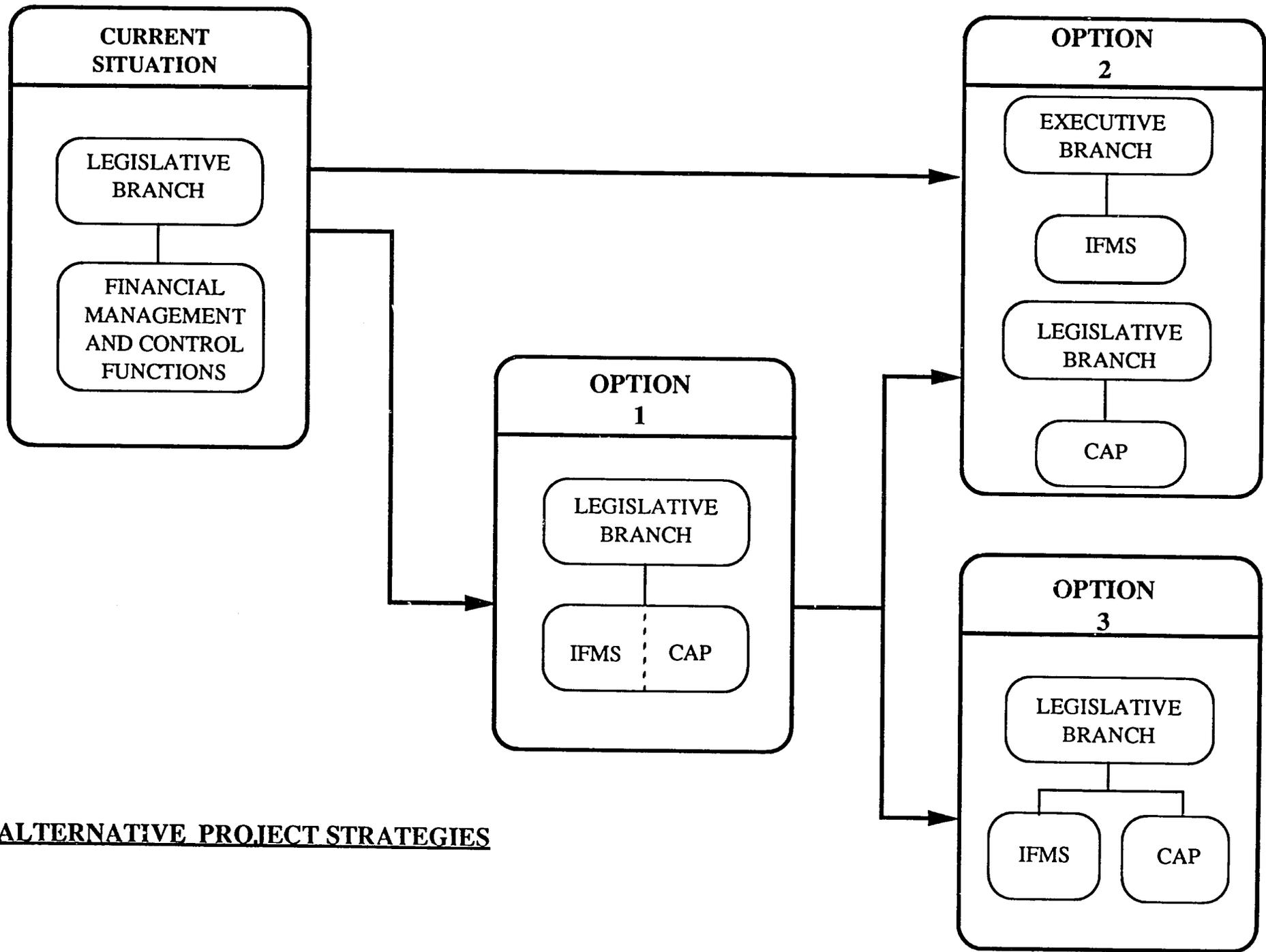
Specific functional areas are stronger than others in Panamá. An alternative to the IFMS approach therefore might include prioritizing the functional areas and concentrating technical assistance in the weaker ones. However, this approach presents the clear disadvantage of potentially developing systems 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 central regulatory 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. Alternate CAP Approaches

Alternate approaches to implementation of the CAP are presented in Figure 52. The proposed solution to be achieved under the project is the "intermediate solution." The other two alternative solutions are conceptually acceptable but would require a constitutional amendment and therefore are not specific objectives of the project. While the intermediate solution does not fully adhere to conceptual models, it can fully achieve the objective of establishing a professional government audit capability and also contribute significantly to achieving the overall goal of the project which is improving government financial management and accountability in Panamá.



ALTERNATIVE PROJECT STRATEGIES

FIGURE 52

167

D. Alternate Computer Information System Approaches

The computer information systems activity described in chapter IV provides for the utilization of existing computer systems to the extent possible and the preparation of a computerized information systems master plan.

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 level of effort estimates to achieve these enhancements, however, can vary significantly depending upon the computerization solution chosen (commercial software package, custom software development or re-engineering). Therefore, it is important that information systems improvement projects include a component to diagram and analyze functional and process relationships and information flows to adequately study the improvement alternatives.

The project design includes a systems analysis component (computer information system strategic plan) to perform this systems analysis and accurately identify the level of effort required to design and implement the systems. 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.

As shown in the terms of reference (TOR), 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 30 person months over one year.

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 of 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.

E. Advantages of the Project Design over Other Alternatives

The advantages of the project design described in Chapter IV and summarized above 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

VII. ECONOMIC ANALYSIS OF THE PROJECT

A. Introduction

It is not possible to precisely calculate the economic benefits of this type of project in quantifiable terms for a variety of reasons:

- 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, this requirement, however, does not make the benefits less real
- 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

Benefits can, however, be quantified by inference. By identifying or estimating the absolute amounts being processed through the various systems, it is possible to assign minimal percentages to the benefits that will accrue through more efficient and effective administration, management and control.

B. Benefits

1. Treasury

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 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
- 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, the GOP can raise the balance on deposit in interest-bearing accounts to 5.220 million Balboas. Assuming an annual interest rate of 8%, the projected annual benefit would be 417,603 Balboas.

2. Public Debt

An 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, de-centralized 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
- 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

The enforcement of discipline in contracting debt could be estimated to reduce the overall debt level (3,531.8 million Balboas) by 0.1%, producing an annual savings of 353,180 Balboas in interest payments at 10% annual interest.

3. Budget

Another 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
- o Improved coordination of expenditures, ensuring that obligations will be incurred only when funds are available

Enforced discipline over government spending can be estimated to save 0.1% of the annual 1,725.5 million Balboa budget, or 1,725,600 Balboas annually.

4. Accounting

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
- 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

Assuming that reduced opportunity for waste, loss and misappropriation can save 0.1%, more effective management can save 0.1% and greater incentive to management can 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.

5. Government Audit

A primary benefit 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. We can 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, or a total of 4.404 million Balboas annually.

6. General

The final benefit to be detailed in this section is not subject to quantification, but is, perhaps, the most significant. The 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.

**DESIGN FOR A TECHNICAL ASSISTANCE
PROJECT TO IMPROVE GOVERNMENT'
FINANCIAL MANAGEMENT IN PANAMA**

**FINAL REPORT
APPENDICES**

October 16, 1990

Translated and adapted from the Spanish
Contract No. LAC-0302-C-00-0026-00

**ASSESSMENT OF
GOVERNMENTAL FINANCIAL MANAGEMENT
IN PANAMA**

SUMMARY REPORT

JUNE 1990

**Contract No. LAC-0658-C-00-9021-00
Project No. 598-0658**

118

ASSESSMENT OF
GOVERNMENTAL FINANCIAL MANAGEMENT IN PANAMA

SUMMARY REPORT

TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	
I. INTRODUCTION	ii
II. CONCEPTUAL AND METHODOLOGICAL APPROACH	iii
III. PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS	v
IV. INTEGRATED FINANCIAL MANAGEMENT SYSTEM AND COMPREHENSIVE AUDIT PROCESS	v
Budget Subsystem	vii
Cash and Debt Management Subsystem	vii
Government Accounting Subsystem	ix
Information Systems	x
Governmental Control and Auditing	xi
Contract Administration and Project Auditing	xiii
Recommendations Common to All Areas	xiv
 <u>SUMMARY REPORT</u>	
I. INTRODUCTION	1
Background	1
Objectives	1
Scope of the Assessment	2
Methodology	3
Constraints	3
Results	4

APPENDIX A

II.	CONCEPTUAL FRAMEWORK AND METHODOLOGY	5
III.	CONCLUSIONS AND RECOMMENDATIONS	11
	Integrated Systems of Financial Management and Auditing:	
	General Context	11
	Budget Subsystem	13
	Cash and Debt Management Subsystem	17
	Governmental Accounting Subsystem	39
	Financial Management Information Systems	53
	Auditing and Control	62
	Contract Administration and Project Auditing	74

150

I. INTRODUCTION

This report contains the assessment of government financial management in Panama, which was carried out by Price Waterhouse under the purview of the Regional Financial management Improvement Project in Latin America and the Caribbean (LAC/RFMIP) and in accordance with the terms of the agreement entitled "Immediate Recovery Project" signed March 7, 1990 between the Government of Panama and the Agency for International Development (A.I.D.).

The conceptual framework of this report defines government financial management as **an integrated system, whose core components include budgeting, cash and debt management and accounting, and whose purpose is the effective and efficient use of the financial resources of the government.** Auditing is the tool that provides control over the use of these resources. This report also covers the areas of project auditing, and administrative contracting and information systems.

The main goal of the "Immediate Recovery Project" was the delivery of technical assistance services that would assist in establishing financial management and control systems and promote a strong, clear awareness in all public officials of their personal responsibility for the management of public funds.

As outlined in the terms of reference, the basic purpose of the assessment was the identification of problems in government financial management and the delivery of recommendations that are both feasible for immediate implementation and fit in the framework of the medium and long term establishment and implementation of an Integrated Financial Management System (IFMS) and a Comprehensive Auditing Process (CAP).

Working jointly with government officials, an institutional sample representative of Panama's public sector was selected. The sample concentrated on the Comptroller

APPENDIX A

General's Office, but also included the Ministries of Economic Planning and Policy, Finance and Treasury, and Health and Education; as well as the Institutes of Hydraulic Resources and Electrification (IRHE), Telecommunications (INTEL), and Agricultural Marketing (IMA); and the Municipalities of Penonomé and Panama.

The selected methodology was based on an analysis of each agency's organic laws, regulations, manuals, guidelines and other standards and administrative processes; visits to the pertinent sections of the chosen agencies, and interviews with staff members. Under the terms of the agreement between the GOP and A.I.D., the study did not include tax administration and customs or fiscal and monetary policies.

The final product of the assessment is this summary report, which includes an overview of the reports prepared for each of the functional areas. The respective detailed reports are available in Spanish.

II. CONCEPTUAL AND METHODOLOGICAL APPROACH

The LAC/RFMIP has introduced the integrated financial management system approach to various countries of the region. This approach is based on the application of the General Theory of Systems to the analysis and operation of public resources in general, and financial resources in particular. Based upon twenty years of experience in this field, the IFMS will help rectify the deficiencies characterizing financial management.

Using this methodology and conceptual perspective, commonly referred to as a systematic approach, or "system", financial management can be seen as a system composed of a group of subsystems. Assuming that the goals for a democratic state is the achievement of the fulfillment of the needs and demands of the different groups that form its society; this goal is achieved through vertically separate systems that form public sector administration, such as education, health, industry, agriculture and others.

APPENDIX A

In order to function properly, the vertical systems need human resources and inputs, and these can also be considered a group of systems. Foremost among these are human resources, technology, materials, information, control, planning, and organizational and financial resources-- all of which constitute the horizontal system of public administration.

The fulfillment of public sector goals is achieved through the operations and activities of the agencies that are part of the government using the means and resources made available by the state. These agencies include the central government, decentralized agencies, public enterprises and the autonomous territorial governments.

The components or elements of public financial management within the public sector can be organized within a rational structure made up of budget, public debt, treasury or cash management, and accounting, all of which, from the point of view of their functions, can be considered subsystems of the financial management system.

Control can also be considered a system, made up of internal and external controls. In government management, the agencies responsible for external control are the Comptrollers General and the Courts of Accounts, which are generally referred to as supreme audit institutions (SAIs).

The conceptual framework for government control exercised by the supreme audit institutions was designed at the international level by the International Organization of Supreme Audit Institutions (INTOSAI), which is composed of all the Comptroller General Offices and all the Courts of Accounts of the charter members of the United Nations. This framework considers pre-control to be the responsibilities of the internal control structure of the individual agency. External control should always be performed ex post facto, and should be the responsibility of supreme audit institutions. In addition, government control, whether internal or external, should be exercised by means of a professional audit that examines the basic issues of legality and financial consideration, the efficiency of operations and the effectiveness of the results.

III. PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS

The detailed report for each of the assessment areas presents an objective description of the current situation, analyzes that situation and draws conclusions. Recommendations are set forth as goals to be achieved through specific measures to be taken in the short, medium and long term.

This section provides a summary of the main conclusions and recommendations of the summary report, first in a general context and then specifically for each of the areas covered by the assessment:

- o Integrated financial management system and comprehensive audit process
- o Budget subsystem
- o Cash and debt management subsystems
- o Government accounting subsystem
- o Information subsystem
- o Government control and auditing
- o Contract administration and project auditing

184

IV. INTEGRATED FINANCIAL MANAGEMENT SYSTEM AND COMPREHENSIVE AUDIT PROCESS

Since the Comptroller General's Office has been empowered by the Constitution to perform important financial duties, the consultants made it the central focus of the analysis and assessment performed. The responsibilities of the Office include budget design and execution, administration of treasury funds and public debt, and accounting procedures. At the same time, the Comptroller General's Office fulfills the duties of financial oversight and auditing of all government agencies.

In stating the principal objective of designing and implementing the integrated financial management system and comprehensive audit process, it was decided that the Comptroller General's Office would initially be the umbrella organization under which the principal functions of financial management would be organized, since it is charged with the financial oversight role on behalf of the Legislative Assembly and already has the majority of these functions as part of its duties. During the second stage of the process, some of these functions would be converted into a separate agency or ministry under the executive branch. At the same time, development of a new Office of the Auditor General would take place and would be under the authority of the legislative branch.

The general goal recommended is, therefore, defined in the context of establishing these two basic systems, which are clearly related but independent from each other.

A. Budget Subsystem

The objective is to provide the country with an integrated budgeting subsystem which would serve as the principal policy and administrative tool for government planning. It should cover all public entities, and all government revenues and expenditures. It should

APPENDIX A

also link the budget to accounting classifications, reflecting the current situation, but improving its design to guarantee that all resources are controlled through the budget.

To achieve this objective, specific short, medium and long term measures are recommended, among which are: formulating a compendium of legal and regulatory provisions in order to prepare a proposal for an organic budget law and the related regulations and manuals for budget administration; the design and implementation of a subsystem which takes into account the financial plan, the investment plan, including priority projects and their financing arrangements, and the annual budget; an organizational development plan for the offices that comprise the supervisory unit for financial management; the development of technical instruments, such as management indicators; and staff training as needed in the face of the proposed changes.

B. Cash and Debt Management Subsystem

The main objectives of the cash and debt management subsystems, from the legal standpoint, are to provide the regulations which define the organization and operation of the offices responsible for cash and debt management, and the policies and processes needed for programming, collecting, disbursing and efficiently utilizing the resources available in the national treasury. A comprehensive, hierarchical, harmonious and coherent set of regulations to govern cash management and public debt management. To this end, short- and medium-term measures are proposed that are designed to merge the cash management and public debt management subsystem with the remaining financial management subsystems.

Organizationally, the objective is to design and strengthen the organizational structure of the office in charge of the subsystems at the national level, interrelating it with the other elements of financial management and with the decentralized, autonomous and territorial entities. This objective is supplemented by three interrelated recommendations designed

APPENDIX A

to strengthen the present organization, decentralize payments and improve the professional level of the staff. In order to achieve this, short- and medium-term measures are proposed to address the organization and information system inter alia.

The design and implementation of general directives and manuals have been proposed in order to define the basic instruments to be used as well as the procedures for programming, collecting and efficiently utilizing cash resources. Eight recommendations that must be implemented within the short and medium term are presented. They relate to the development of processes such as annual cash flow forecasts, which need to be put on a monthly basis; administrative techniques leading to efficient collection of funds; etc.

Finally, primary and related recommendations are proposed, along with the measures to be undertaken in the short and medium term, which are designed to achieve a competent, dedicated staff through a training plan, and to make available to decision-makers useful, reliable and timely information. This information should include frequent comparisons and analysis of actual and projected revenues and expenditures, and the resources originating from internal or external public debt.

C. Government Accounting Subsystem

The first objective provides for a coherent and consistent legal framework that would confer to the institution responsible for government financial management, the exclusive right to establish the norms for the organizational and functional areas of the government accounting subsystem. This objective is complemented by a related recommendation geared to equipping the subsystem with the necessary regulations and manuals needed to establish consistent criteria for recording and generating data on financial operations. In order to meet these recommendations, measures for immediate implementation and also for the short and medium term are proposed.

Organizationally, the objective is to provide a structure for all administrative units which comprise the government accounting. The principal objective and the three related recommendations are complemented with short-, medium- and long-term measures are geared to defining the organizational structure from the supervisory institution down to the level of the accounting units in each government entity in order to have consistent recording procedures for all financial procedures, whether of a national resource or budgeting origin, or relating to the cost of production of goods and services.

Another organizational objective is to provide a subsystem of government accounting capable of producing annual financial statements within two months after the close of the year; monthly or quarterly financial statements within ten days after the close of the period; and other data and information that decision-makers need. This objective has four related recommendations and corresponding short-, medium- and long-term measures to implement principles, technical standards and accounting policies that facilitate the accounting operations.

From the human resource standpoint, the objective is to provide all government accounting units with competent staff and continuing education programs, thus ensuring the establishment of accounting standards.

In the information systems area, the aim is to have useful, reliable and timely information to facilitate decision-making and the analysis and auditing of all assets, liabilities, and revenues and expenditures of the state. These principal objectives are made possible through related recommendations and through short-, medium- and long-term measures, such as the design and execution of a training program and the definition of the structure and content of financial statements and reports.

D. Information Systems

The regulatory objective is to create the National Commission of Government Financial Data. This objective is necessary in order to coordinate the output of the different information units, leading to improved timeliness and integrity of national data and a better utilization of resources. To this end, a series of short- and medium-term measures are proposed which lead to the preparation of new legislation, standards, policies and regulations for the operation of the Commission and the different information units.

Organizationally, the objective is to restructure information units, integrating them into an institutional system in their capacity as providers of support services. This objective has three recommendations related to the formation of user committees and information centers, as well as the updating of information systems. The achievement of carrying out these recommendations is based on the implementation of a series of timely short- and medium-term measures designed to ensure the organization of the system.

In the area of administration of the information systems the objective is to regulate the operation of information units in order to define procedures for systems development, data processing, and implementing safeguards in an efficient manner. This objective is complemented by six recommendations related to the design of a methodology for the development of applications; the preparation of standards for programs and norms

APPENDIX A

optimizing development of applications and facilitating their maintenance; and the development of norms and regulations for the safeguards against the loss of information and fraud. A series of specific and specialized short- and medium-term measures are proposed towards carrying out these recommendations.

The design of a master plan is proposed for the development of information systems for government financial management and planning at the institutional level leading to a development framework and an implementation and integration strategy for application throughout the government. Along with this objective are two interrelated recommendations dealing with control and evaluation of the development and implementation of the applications, and the formulation of standards for contracting with private firms in the field of computer science. To this end, short- and medium-term measures are proposed for the entire public sector.

In addition, the design of a program of professional development is proposed that will take into account training in the area of computer science, the creation of incentives to reward performance, and the establishment of norms for hiring personnel with greater professional qualifications. This objective is made possible through the implementation of a series of short- and medium-term measures targeted at the technical and operational staffs of information units, the users of information systems, and the design and implementation of an administrative and professional career track in the data management field.

E. Governmental Control and Auditing

The establishment of a new conceptual framework is proposed in the area of control that will facilitate the reorientation of governmental control actions in a manner compatible with the modern concepts that promote the exercise of professional and independent internal and external auditing; the execution of internal control practiced by

APPENDIX A

the agency that initiates the actions; and the whole structure supported by a harmonious, legal, and hierarchical order that would make such control mandatory within the government. There are four related recommendations within this objective, ranging from proposed amendments to the Political Constitution and the Organic Law of the Office of the Comptroller General, to the disclosure of the new normative framework. To this end, short-, medium- and long-term measures are proposed foremost among which is a multi-disciplinary commission staffed by qualified professionals, rigorously selected and charged with carrying out all the evaluations related to the legal changes proposed.

The design and execution of a plan of organizational improvement is proposed to update the internal structure of the Comptroller General's Office, and particularly the Office of the Auditor General. The purpose is to ensure that it is the supervisory body for the comprehensive audit process. This would lead to the establishment of professional auditing that is independent and ex post facto. It would also ensure better efficiency and quality in the areas of financial, performance and operational auditing. Additionally, the Office of the Auditor General would be responsible for coordinating the output of all government internal audit units. There are four related recommendations within this objective, with proposed short- and medium-term measures that provide the details of the proposed organizational and operational design and implementation.

There is a need for auditing manuals that establish technical and professional guidelines, processes and procedures for auditors to perform government audits, whether of a financial, performance or operational nature, as a requirement for the implementation of a comprehensive audit process. This objective is complemented by four related recommendations and short-, medium- and long-term measures for application in the supervisory body of the system, government audit units and contracted private firms.

In the area of human resources, the objective is to establish technical criteria for the selection and hiring of staff on the basis of specific requirements, as well as for performance evaluations and advancement and promotion of auditors engaged in the

APPENDIX A

implementation of the comprehensive audit process. This objective has two related recommendations and short-, medium- and long-term measures leading to the development of a plan for professional development based on a continuing training program.

F. Contract Administration and Project Auditing

A law for public contracting is proposed based on the concept of clearly establishing the responsibility of government organizations and individuals that are part of the contractual processes while at the same time defining the scope and limitations of each type of action. This law should be the only legal instrument for regulating all the contractual requirements of the state. This objective has two related recommendations and short-, medium- and long-term measures, foremost among which is the establishment of a working group, which upon compiling all current contractual guidelines, will prepare national acquisitions regulations to improve the present situation. At the same time professionals of the highest technical and legal competence will form a committee to improve the regulations of the Fiscal Code which are concerned with administrative contracting.

Policy and conceptual norms should be defined for the organization internal controls inherent in the activities of every entity, and for external control or project auditing, which are part of the comprehensive audit process. This objective is complemented by two related recommendations and short-, medium- and long-term measures for the development of project auditing in the Office of the Comptroller General.

The procedural focus should be to develop the manuals and educational materials necessary, establishing the scope and limitations of the typical activities of each government entity in project auditing to ensure efficiency and effectiveness in the exercise of external control. This objective has two related recommendations and short-

APPENDIX A

and medium-term measures leading to the design and distribution of a series of technical documents.

In the area of human resources, the objective is to establish a group that would perform project auditing using operational audit tools. The two related recommendations will provide comprehensive and specialized training, fulfilling the necessary short- and medium-term measures.

The objective in the information systems area is to support the design of a national system of projects, or project inventory, to facilitate project control. This objective has one related recommendation with respective short- and medium-term measures for collaborating in the preparation of legislation for the national system of projects.

G. Recommendations Common to All Areas

It is clear that there are conclusions and recommendations common to all areas concerning legal framework, human resources and information systems; however, there are certain larger issues that also need to be considered.

It is recognized that there is a need for a true "Code of Financial Management, Control and Auditing in the Government of Panama." This code would be responsive to the needs of this new approach and include comprehensive criteria and principles that should be observed. Through regulations and other secondary processes and procedures, standards will be adapted, applied and developed according to the characteristics and qualities of each entity to enable each of them to meet new requirements as they arise, or whenever the decision is made to incorporate new technology. This will require a significant and comprehensive legislative review effort.

Training at all levels and in all areas should be emphasized. This training should focus on updating operational knowledge and improving competence and skills. It should not

APPENDIX A

become an exercise in training for the sake of training. The relevance and content of training, even in specialized areas, should stem from or at least be compatible with the concept of financial management as a network of interrelated, interdependent and interactive subsystems.

ASSESSMENT OF GOVERNMENTAL FINANCIAL MANAGEMENT IN PANAMA

SUMMARY REPORT

JUNE 1990

Contract No. LAC-0658-C-00-9021-00

Project No. 598-0658

195

ASSESSMENT OF
GOVERNMENTAL FINANCIAL MANAGEMENT IN PANAMA

SUMMARY REPORT

TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	
I. INTRODUCTION	ii
II. CONCEPTUAL AND METHODOLOGICAL APPROACH	iii
III. PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS	v
IV. INTEGRATED FINANCIAL MANAGEMENT SYSTEM AND COMPREHENSIVE AUDIT PROCESS	v
Budget Subsystem	vii
Cash and Debt Management Subsystem	vii
Government Accounting Subsystem	ix

196

APPENDIX A

Information Systems	x
Governmental Control and Auditing	xi
Contract Administration and Project Auditing	xiii
Recommendations Common to All Areas	xiv

SUMMARY REPORT

I. INTRODUCTION	1
Background	1
Objectives	1
Scope of the Assessment	2
Methodology	3
Constraints	3
Results	4
II. CONCEPTUAL FRAMEWORK AND METHODOLOGY	5

197

III. CONCLUSIONS AND RECOMMENDATIONS	11
Integrated Systems of Financial Management and Auditing:	
General Context	11
Budget Subsystem	13
Cash and Debt Management Subsystem	17
Governmental Accounting Subsystem	39
Financial Management Information Systems	53
Auditing and Control	62
Contract Administration and Project Auditing	74

198

I. INTRODUCTION

This report contains the assessment of government financial management in Panama, which was carried out by Price Waterhouse under the purview of the Regional Financial management Improvement Project in Latin America and the Caribbean (LAC/RFMIP) and in accordance with the terms of the agreement entitled "Immediate Recovery Project" signed March 7, 1990 between the Government of Panama and the Agency for International Development (A.I.D.).

The conceptual framework of this report defines government financial management as an **integrated system, whose core components include budgeting, cash and debt management and accounting, and whose purpose is the effective and efficient use of the financial resources of the government.** Auditing is the tool that provides control over the use of these resources. This report also covers the areas of project auditing, and administrative contracting and information systems.

The main goal of the "Immediate Recovery Project" was the delivery of technical assistance services that would assist in establishing financial management and control systems and promote a strong, clear awareness in all public officials of their personal responsibility for the management of public funds.

As outlined in the terms of reference, the basic purpose of the assessment was the identification of problems in government financial management and the delivery of recommendations that are both feasible for immediate implementation and fit in the framework of the medium and long term establishment and implementation of an Integrated Financial Management System (IFMS) and a Comprehensive Auditing Process (CAP).

Working jointly with government officials, an institutional sample representative of Panama's public sector was selected. The sample concentrated on the Comptroller

APPENDIX A

General's Office, but also included the Ministries of Economic Planning and Policy, Finance and Treasury, and Health and Education; as well as the Institutes of Hydraulic Resources and Electrification (IRHE), Telecommunications (INTEL), and Agricultural Marketing (IMA); and the Municipalities of Penonomé and Panama.

The selected methodology was based on an analysis of each agency's organic laws, regulations, manuals, guidelines and other standards and administrative processes; visits to the pertinent sections of the chosen agencies, and interviews with staff members. Under the terms of the agreement between the GOP and A.I.D., the study did not include tax administration and customs or fiscal and monetary policies.

The final product of the assessment is this summary report, which includes an overview of the reports prepared for each of the functional areas. The respective detailed reports are available in Spanish.

II. CONCEPTUAL AND METHODOLOGICAL APPROACH

The LAC/RFMIP has introduced the integrated financial management system approach to various countries of the region. This approach is based on the application of the General Theory of Systems to the analysis and operation of public resources in general, and financial resources in particular. Based upon twenty years of experience in this field, the IFMS will help rectify the deficiencies characterizing financial management.

Using this methodology and conceptual perspective, commonly referred to as a systematic approach, or "system", financial management can be seen as a system composed of a group of subsystems. Assuming that the goals for a democratic state is the achievement of the fulfillment of the needs and demands of the different groups that form its society; this goal is achieved through vertically separate systems that form public sector administration, such as education, health, industry, agriculture and others.

APPENDIX A

In order to function properly, the vertical systems need human resources and inputs, and these can also be considered a group of systems. Foremost among these are human resources, technology, materials, information, control, planning, and organizational and financial resources-- all of which constitute the horizontal system of public administration.

The fulfillment of public sector goals is achieved through the operations and activities of the agencies that are part of the government using the means and resources made available by the state. These agencies include the central government, decentralized agencies, public enterprises and the autonomous territorial governments.

The components or elements of public financial management within the public sector can be organized within a rational structure made up of budget, public debt, treasury or cash management, and accounting, all of which, from the point of view of their functions, can be considered subsystems of the financial management system.

Control can also be considered a system, made up of internal and external controls. In government management, the agencies responsible for external control are the Comptrollers General and the Courts of Accounts, which are generally referred to as supreme audit institutions (SAIs).

The conceptual framework for government control exercised by the supreme audit institutions was designed at the international level by the International Organization of Supreme Audit Institutions (INTOSAI), which is composed of all the Comptroller General Offices and all the Courts of Accounts of the charter members of the United Nations. This framework considers pre-control to be the responsibilities of the internal control structure of the individual agency. External control should always be performed ex post facto, and should be the responsibility of supreme audit institutions. In addition, government control, whether internal or external, should be exercised by means of a professional audit that examines the basic issues of legality and financial consideration, the efficiency of operations and the effectiveness of the results.

III. PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS

The detailed report for each of the assessment areas presents an objective description of the current situation, analyzes that situation and draws conclusions. Recommendations are set forth as goals to be achieved through specific measures to be taken in the short, medium and long term.

This section provides a summary of the main conclusions and recommendations of the summary report, first in a general context and then specifically for each of the areas covered by the assessment:

- o Integrated financial management system and comprehensive audit process
- o Budget subsystem
- o Cash and debt management subsystems
- o Government accounting subsystem
- o Information subsystem
- o Government control and auditing
- o Contract administration and project auditing

202

IV. INTEGRATED FINANCIAL MANAGEMENT SYSTEM AND COMPREHENSIVE AUDIT PROCESS

Since the Comptroller General's Office has been empowered by the Constitution to perform important financial duties, the consultants made it the central focus of the analysis and assessment performed. The responsibilities of the Office include budget design and execution, administration of treasury funds and public debt, and accounting procedures. At the same time, the Comptroller General's Office fulfills the duties of financial oversight and auditing of all government agencies.

In stating the principal objective of designing and implementing the integrated financial management system and comprehensive audit process, it was decided that the Comptroller General's Office would initially be the umbrella organization under which the principal functions of financial management would be organized, since it is charged with the financial oversight role on behalf of the Legislative Assembly and already has the majority of these functions as part of its duties. During the second stage of the process, some of these functions would be converted into a separate agency or ministry under the executive branch. At the same time, development of a new Office of the Auditor General would take place and would be under the authority of the legislative branch.

The general goal recommended is, therefore, defined in the context of establishing these two basic systems, which are clearly related but independent from each other.

A. Budget Subsystem

The objective is to provide the country with an integrated budgeting subsystem which would serve as the principal policy and administrative tool for government planning. It should cover all public entities, and all government revenues and expenditures. It should

203

APPENDIX A

also link the budget to accounting classifications, reflecting the current situation, but improving its design to guarantee that all resources are controlled through the budget.

To achieve this objective, specific short, medium and long term measures are recommended, among which are: formulating a compendium of legal and regulatory provisions in order to prepare a proposal for an organic budget law and the related regulations and manuals for budget administration; the design and implementation of a subsystem which takes into account the financial plan, the investment plan, including priority projects and their financing arrangements, and the annual budget; an organizational development plan for the offices that comprise the supervisory unit for financial management; the development of technical instruments, such as management indicators; and staff training as needed in the face of the proposed changes.

B. Cash and Debt Management Subsystem

The main objectives of the cash and debt management subsystems, from the legal standpoint, are to provide the regulations which define the organization and operation of the offices responsible for cash and debt management, and the policies and processes needed for programming, collecting, disbursing and efficiently utilizing the resources available in the national treasury. A comprehensive, hierarchical, harmonious and coherent set of regulations to govern cash management and public debt management. To this end, short- and medium-term measures are proposed that are designed to merge the cash management and public debt management subsystem with the remaining financial management subsystems.

Organizationally, the objective is to design and strengthen the organizational structure of the office in charge of the subsystems at the national level, interrelating it with the other elements of financial management and with the decentralized, autonomous and territorial entities. This objective is supplemented by three interrelated recommendations designed

APPENDIX A

to strengthen the present organization, decentralize payments and improve the professional level of the staff. In order to achieve this, short- and medium-term measures are proposed to address the organization and information system inter alia.

The design and implementation of general directives and manuals have been proposed in order to define the basic instruments to be used as well as the procedures for programming, collecting and efficiently utilizing cash resources. Eight recommendations that must be implemented within the short and medium term are presented. They relate to the development of processes such as annual cash flow forecasts, which need to be put on a monthly basis; administrative techniques leading to efficient collection of funds; etc.

Finally, primary and related recommendations are proposed, along with the measures to be undertaken in the short and medium term, which are designed to achieve a competent, dedicated staff through a training plan, and to make available to decision-makers useful, reliable and timely information. This information should include frequent comparisons and analysis of actual and projected revenues and expenditures, and the resources originating from internal or external public debt.

C. Government Accounting Subsystem

The first objective provides for a coherent and consistent legal framework that would confer to the institution responsible for government financial management, the exclusive right to establish the norms for the organizational and functional areas of the government accounting subsystem. This objective is complemented by a related recommendation geared to equipping the subsystem with the necessary regulations and manuals needed to establish consistent criteria for recording and generating data on financial operations. In order to meet these recommendations, measures for immediate implementation and also for the short and medium term are proposed.

Organizationally, the objective is to provide a structure for all administrative units which comprise the government accounting. The principal objective and the three related recommendations are complemented with short-, medium- and long-term measures are geared to defining the organizational structure from the supervisory institution down to the level of the accounting units in each government entity in order to have consistent recording procedures for all financial procedures, whether of a national resource or budgeting origin, or relating to the cost of production of goods and services.

Another organizational objective is to provide a subsystem of government accounting capable of producing annual financial statements within two months after the close of the year; monthly or quarterly financial statements within ten days after the close of the period; and other data and information that decision-makers need. This objective has four related recommendations and corresponding short-, medium- and long-term measures to implement principles, technical standards and accounting policies that facilitate the accounting operations.

From the human resource standpoint, the objective is to provide all government accounting units with competent staff and continuing education programs, thus ensuring the establishment of accounting standards.

APPENDIX

In the information systems area, the aim is to have useful, reliable and timely information to facilitate decision-making and the analysis and auditing of all assets, liabilities, and revenues and expenditures of the state. These principal objectives are made possible through related recommendations and through short-, medium- and long-term measures, such as the design and execution of a training program and the definition of the structure and content of financial statements and reports.

D. Information Systems

The regulatory objective is to create the National Commission of Government Financial Data. This objective is necessary in order to coordinate the output of the different information units, leading to improved timeliness and integrity of national data and a better utilization of resources. To this end, a series of short- and medium-term measures are proposed which lead to the preparation of new legislation, standards, policies and regulations for the operation of the Commission and the different information units.

Organizationally, the objective is to restructure information units, integrating them into an institutional system in their capacity as providers of support services. This objective has three recommendations related to the formation of user committees and information centers, as well as the updating of information systems. The achievement of carrying out these recommendations is based on the implementation of a series of timely short- and medium-term measures designed to ensure the organization of the system.

In the area of administration of the information systems the objective is to regulate the operation of information units in order to define procedures for systems development, data processing, and implementing safeguards in an efficient manner. This objective is complemented by six recommendations related to the design of a methodology for the development of applications; the preparation of standards for programs and norms

APPENDIX A

optimizing development of applications and facilitating their maintenance; and the development of norms and regulations for the safeguards against the loss of information and fraud. A series of specific and specialized short- and medium-term measures are proposed towards carrying out these recommendations.

The design of a master plan is proposed for the development of information systems for government financial management and planning at the institutional level leading to a development framework and an implementation and integration strategy for application throughout the government. Along with this objective are two interrelated recommendations dealing with control and evaluation of the development and implementation of the applications, and the formulation of standards for contracting with private firms in the field of computer science. To this end, short- and medium-term measures are proposed for the entire public sector.

In addition, the design of a program of professional development is proposed that will take into account training in the area of computer science, the creation of incentives to reward performance, and the establishment of norms for hiring personnel with greater professional qualifications. This objective is made possible through the implementation of a series of short- and medium-term measures targeted at the technical and operational staffs of information units, the users of information systems, and the design and implementation of an administrative and professional career track in the data management field.

E. Governmental Control and Auditing

The establishment of a new conceptual framework is proposed in the area of control that will facilitate the reorientation of governmental control actions in a manner compatible with the modern concepts that promote the exercise of professional and independent internal and external auditing; the execution of internal control practiced by

APPENDIX A

the agency that initiates the actions; and the whole structure supported by a harmonious, legal, and hierarchical order that would make such control mandatory within the government. There are four related recommendations within this objective, ranging from proposed amendments to the Political Constitution and the Organic Law of the Office of the Comptroller General, to the disclosure of the new normative framework. To this end, short-, medium- and long-term measures are proposed, foremost among which is a multi-disciplinary commission staffed by qualified professionals, rigorously selected and charged with carrying out all the evaluations related to the legal changes proposed.

The design and execution of a plan of organizational improvement is proposed to update the internal structure of the Comptroller General's Office, and particularly the Office of the Auditor General. The purpose is to ensure that it is the supervisory body for the comprehensive audit process. This would lead to the establishment of professional auditing that is independent and ex post facto. It would also ensure better efficiency and quality in the areas of financial, performance and operational auditing. Additionally, the Office of the Auditor General would be responsible for coordinating the output of all government internal audit units. There are four related recommendations within this objective, with proposed short- and medium-term measures that provide the details of the proposed organizational and operational design and implementation.

There is a need for auditing manuals that establish technical and professional guidelines, processes and procedures for auditors to perform government audits, whether of a financial, performance or operational nature, as a requirement for the implementation of a comprehensive audit process. This objective is complemented by four related recommendations and short-, medium- and long-term measures for application in the supervisory body of the system, government audit units and contracted private firms.

In the area of human resources, the objective is to establish technical criteria for the selection and hiring of staff on the basis of specific requirements, as well as for performance evaluations and advancement and promotion of auditors engaged in the

APPENDIX A

implementation of the comprehensive audit process. This objective has two related recommendations and short-, medium- and long-term measures leading to the development of a plan for professional development based on a continuing training program.

F. Contract Administration and Project Auditing

A law for public contracting is proposed based on the concept of clearly establishing the responsibility of government organizations and individuals that are part of the contractual processes while at the same time defining the scope and limitations of each type of action. This law should be the only legal instrument for regulating all the contractual requirements of the state. This objective has two related recommendations and short-, medium- and long-term measures, foremost among which is the establishment of a working group, which upon compiling all current contractual guidelines, will prepare national acquisitions regulations to improve the present situation. At the same time professionals of the highest technical and legal competence will form a committee to improve the regulations of the Fiscal Code which are concerned with administrative contracting.

Policy and conceptual norms should be defined for the organization internal controls inherent in the activities of every entity, and for external control or project auditing, which are part of the comprehensive audit process. This objective is complemented by two related recommendations and short-, medium- and long-term measures for the development of project auditing in the Office of the Comptroller General.

The procedural focus should be to develop the manuals and educational materials necessary, establishing the scope and limitations of the typical activities of each government entity in project auditing to ensure efficiency and effectiveness in the exercise of external control. This objective has two related recommendations and short-

APPENDIX A

and medium-term measures leading to the design and distribution of a series of technical documents.

In the area of human resources, the objective is to establish a group that would perform project auditing using operational audit tools. The two related recommendations will provide comprehensive and specialized training, fulfilling the necessary short- and medium-term measures.

The objective in the information systems area is to support the design of a national system of projects, or project inventory, to facilitate project control. This objective has one related recommendation with respective short- and medium-term measures for collaborating in the preparation of legislation for the national system of projects.

G. Recommendations Common to All Areas

It is clear that there are conclusions and recommendations common to all areas concerning legal framework, human resources and information systems; however, there are certain larger issues that also need to be considered.

It is recognized that there is a need for a true "Code of Financial Management, Control and Auditing in the Government of Panama." This code would be responsive to the needs of this new approach and include comprehensive criteria and principles that should be observed. Through regulations and other secondary processes and procedures, standards will be adapted, applied and developed according to the characteristics and qualities of each entity to enable each of them to meet new requirements as they arise, or whenever the decision is made to incorporate new technology. This will require a significant and comprehensive legislative review effort.

Training at all levels and in all areas should be emphasized. This training should focus on updating operational knowledge and improving competence and skills. It should not

APPENDIX A

become an exercise in training for the sake of training. The relevance and content of training, even in specialized areas, should stem from or at least be compatible with the concept of financial management as a network of interrelated, interdependent and interactive subsystems.

A.I.D. AUDIT GUIDELINES

The following text was taken from *Your Role in the Accountability Process: Accountability, Financial Management and Audit of A.I.D. Furnished Resources in Beneficiary Countries*, a publication of the U.S. Agency for International Development. Guidelines #1 - #6 are the following:

Guideline #1

A budget containing realistic revenue and expenditure estimates should be prepared and formally approved annually, prior to the beginning of the year. The budget account classifications should coincide or tie in with the general ledger account classifications.

Guideline #2

An accounting system should be in operation that is capable of producing in a timely manner:

(a) Annual financial statements within two months after year end, in accordance with (1) generally accepted accounting principals prescribed formally within the country; (2) international accounting standards prescribed by the International Accounting Standards Committee, a sister organization of the International Federation of Accountants; or (3) generally accepted accounting principles prescribed formally in the United States.

(b) Interim financial statements on a monthly or quarterly basis produced within the first ten days after period end, which present in a manner consistent with the annual financial statements all assets, liabilities, revenues and expenditures.

(c) Other interim financial data for use in making managerial decisions including frequent comparisons and analyses of budgeted and actual revenues and expenditures.

Guideline #3

A system of cash requirements forecasting, control and prompt reporting of cash collections, timely collection of receivables and appropriate action in periods of cash

APPENDIX B

shortfall should be operation to assure the availability of cash for purposes of financing budgeted expenditures on the dates they are due to be disbursed.

Guideline #4

Practices and procedures for debt management should be prescribed and followed which assure that all internal and external debt incurred and outstanding is known, approved and duly recorded on the accounting records and reported in financial statements including full disclosure of future amounts required debt service and retirement.

Guideline #5

An internal control structure should be in place which ensures that resource use is consistent with laws, regulations, policies and other requirements; that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in financial statements and reports.

Guideline #6

Prior to the initial disbursement of A.I.D. appropriated funds, the initiation of activities under any agreement with A.I.D. or the beginning of each subsequent year a contract should be executed with a firm of independent auditors acceptable to A.I.D. for the annual audit of the financial statements of the organization in its entirety to be performed by professionally qualified, full-time employed audit staff in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States as revised in 1988, which incorporate the field work and reporting standards included in *Statements on Auditing Standards*, (SAS) issued by the American Institute of Certified Public Accountants.

EXISTING GOP HARDWARE/SOFTWARE

The following list identifies the existing GOP hardware and software by major public sector financial management institution.

**OFFICE OF THE COMPTROLLER GENERAL OF PANAMA
DIRECTORATE OF DATA SYSTEMS**

IBM 4381

Equipment configuration:

- o IBM 4381-P13 (24 Mb/12 channels)
- o 2 IBM 3880-002 disk controllers
- o 7 IBM 3350 hard disk drives (317 Mb c/u)
- o 4 IBM 3375 hard disk drives (819 Mb c/u)
- o 1 IBM 3380-CJ2 hard disk drive (1.26 Gb)
- o 1 IBM 3803-002 magnetic tape drive
- o 6 IBM 3420-008 magnetic tape controllers
- o 1 IBM 3204-005 (1,200 lpm) printer
- o 2 IBM 4245-012 (1,200 lpm) printers
- o 2 IBM 4224 (200 cps) printers
- o 1 IBM 3287 (120 cps) printer
- o 1 IBM 3720-001
- o 1 IBM 3272-002
- o 1 IBM 3274-D31
- o 1 IBM 3174-01L
- o 15 IBM 3174-81R remote terminals
- o 107 work stations (51 local and 56 remote)
- o 50 modems

Support system programs:

- o MVS/SP (version 1.3.8) operating system, including:
JES2, TSO, CICS/VS, ACF/VTAM, ACF/NCP, RMF,
DPF, ISPF/PDF, NETVIEW and SMP
- o COBOL, FORTRAN IV and ASSEMBLER languages
- o SUPRA data base
- o MANTIS fourth generation language
- o RACF security administrator
- o SAS and SPSS statistical analysis packages

215

APPENDIX C

- o EASYTRIEVE report generator
- o RAPID census data base
- o CENTS3, CENTS5, COCENTS and CONCOR survey management programs

IBM SERIES/1 (used for data capture)

Systems configuration:

- o IBM Series/1 (1 Mb) processor
- o IBM 4964 floppy disk drive
- o 2 IBM 4956 and 4962 (180 Mb) hard disk drive
- o IBM 4973 printer (150 lpm)
- o 27 work stations

Support systems programs:

- o EDX operating system
- o EDL program language
- o COBOL compiler
- o S1DES data entry system
- o Series/1-S/370 communications package

**MINISTRY OF PLANNING AND ECONOMIC POLICY
DATA PROCESSING CENTER**

Equipment configuration:

- o ALTOS 2086 (4 Mb) processor
- o 2 hard disk drives(70 Mb and 190 Mb)
- o 1 floppy disk drive (5.25"/1.2 Mb)
- o 1 cartridge disk drive (60 Mb)
- o NCR 6420 printer (600 1pm)
- o National printer (240 cps)
- o 14 terminals

Support systems programs:

- o XENIX version 3.4B operating system
- o RM/COBOL compiler
- o Multiplan electronic page
- o Uniplex word processor

**MINISTRY OF FINANCE AND THE TREASURY
DEPARTMENT OF DATA PROCESSING**

Equipment configuration:

- o IBM 4341 (8 Mb) processor
- o 1 IBM 3880 controller
- o 8 IBM 3375 (819 Mb c/u) hard disk drives
- o 1 IBM 3540 floppy disk drive
- o 1 IBM 3803 tape controller
- o 3 IBM 3420-007 magnetic tape drives
- o 2 IBM 3202-005 (1,200 lpm) printers
- o 1 IBM 3705 communications controller
- o 2 IBM 3274 local controllers
- o 1 IBM 3278 console

Support systems programs:

- o DOS/VSE operating system, including BTAM/ES, CICS and others
- o COBOL language
- o ADABAS data base
- o NATURAL fourth generation language
- o PREDICT data dictionary
- o NATIONAL SECURITY security administration

218

**NATIONAL BANK OF PANAMA
COMPUTER CENTER**

Equipment configuration:

- o IBM 4381-P12 (16 Mb/12 channels) processor
- o IBM 4341 (4 Mb/6 channels) processor
- o 2 IBM 3380 controllers
- o 3 IBM 3380-AA4 (2.5 Gb c/u) hard disk drives
- o 1 IBM 3380-CJ2 (1.26 Gb) hard disk drive
- o 1 IBM 3830 controller
- o 4 IBM 3350 (545 Mb c/u) hard disk drives
- o 2 IBM 3203 (1,100 lpm) printers
- o 1 IBM 4245 (1,200 lpm) printer
- o 1 IBM 3705 controller
- o 1 IBM 3720 controller
- o 2 IBM 3274 local controllers
- o 1 IBM 3174 local controller
- o 1 IBM 3803 tape controller
- o 4 IBM 4320-009 magnetic tape drives
- o 225 terminals (84 local and 141 remote)

Support systems programs:

- o MVS/SP operating system, including: ACF/VTAM, RMF and others
- o COMPLETE tele-processing monitor
- o ADABAS data base
- o NATURAL fourth generation language
- o PREDICT data dictionary
- o NATIONAL SECURITY security administration
- o NATURAL CONNECTION PC/Mainframe communication
- o SAS statistical analysis system
- o COBOL language
- o LOOK operating system program monitor

219

FINANCIAL SYSTEMS AND SUBSYSTEMS

SYSTEM NAME:

Expenditure budget system

DESCRIPTION:

The expenditure budget system controls the process of executing the different components of the budgets of the central government, various decentralized entities and the Municipality of Panama.

The system manages the budget execution process, including information on requisitions, purchase orders, contracts and other accounts, which are traded for payables and then put in the register of budget accounting and the payment documents generated.

FUNCTIONAL CHARACTERISTICS:

The system is based on a network of remote terminals located at different entities tied in with the Office of the Comptroller General. Terminals have access to the system to verify funds available in different budget components and also to enter expenditure transactions. The information is centralized in the data base of the aforementioned system.

The expenditure budget is produced by the Ministry of Planning and Economic Policy and later transferred on disk to this system.

The system accounts for a large section of the necessary information for the creation of financial statistics for budget accounting.

TECHNICAL CHARACTERISTICS:

The system is programed on IBM 4381 equipment on the MVS operating system. It was programed in MANTIS and COBOL using the SUPRA data base.

The system functions basically on line, with the support of various batch processes for the production of reports.

PRINCIPAL USERS:

The principal users of the system are in: the Office of the Comptroller General of Panama, the Accounting Division and the auditing units located in various public entities; and the various administrative units of the central government.

CURRENT STATUS:

The expenditure budget system is completely operative.

RELATIONSHIP TO FINANCIAL MANAGEMENT:

The expenditure budget system is a fundamental component of government financial management.

FINANCIAL SYSTEMS AND SUBSYSTEMS

SYSTEM NAME:

Income system (revenue budget)

DESCRIPTION:

The income system controls the execution of budget components concerning income. This includes all the cash receipts originating in the Ministry of Finance, the Treasury, the National Bank of Panama and in various decentralized entities.

FUNCTIONAL CHARACTERISTICS:

The system combines a centralized process of collecting data from reports that are sent daily by the Ministry of Finance, the Treasury and the National Bank of Panama with data collection from the network of remote terminals that belongs to the Comptroller General's Office for those transactions that correspond to the decentralized sector.

Information from this system is centrally stored in the system at the Office of the Comptroller General of Panama.

TECHNICAL CHARACTERISTICS:

The system runs on the IBM 4381 under the MVS operating system. It was programmed in CICS and COBOL using VSAM files.

The system basically functions on line with the support of various batch processes.

PRINCIPAL USERS:

The principal users of this system are the Accounting and Statistics Divisions, both of which are part of the Office of the Comptroller General of Panama.

CURRENT STATUS:

The income system is completely operational.

RELATIONSHIP TO FINANCIAL MANAGEMENT:

The revenue budget is a fundamental component of the financial management of the state.

12/23

FINANCIAL SYSTEMS AND SUBSYSTEMS

SYSTEM NAME:

Personnel and payroll structure system

DESCRIPTION:

The personnel and payroll structure system controls personnel positions approved in the budget for the central government and fourteen decentralized entities.

The system manages the activities of personnel, produces the biweekly payroll, and sends out the corresponding proof of payment (check).

FUNCTIONAL CHARACTERISTICS:

To manage approximately 125,000 public servants, the system is based on detailed budget information at the employee level.

Personnel activities are tracked through a network of remote terminals in the Office of the Comptroller General of Panama which interface with centralized files and produce employee payrolls and payment every two weeks.

This information is transferred for use in the expenditure budget system. Additionally, it is used in the creation of social security payments schedules.

TECHNICAL CHARACTERISTICS:

The IBM 4381 system runs under the MVS operating system. It is programed in CICS and COBOL and uses VSAM files.

The systems works basically on line with batch process support.

PRINCIPAL USERS:

The principal users of this system are the auditing units of the Office of the Comptroller General of Panama located in different public entities and in the Payroll Section of the Auditing Division.

APPENDIX D

CURRENT STATUS:

The personnel and payroll structure system is completely functional.

The computer center of the Office of the Comptroller General of Panama is developing a new system that will replace this one. The new system will basically improve the current design and interface more with other related systems.

RELATIONSHIP TO FINANCIAL MANAGEMENT:

The government payroll represents a large percentage of government expenditures. The system plays a fundamental part in the execution of the expenditures budget of the government.

FINANCIAL SYSTEMS AND SUBSYSTEMS

SYSTEM NAME:

Personnel deductions subsystem

DESCRIPTION:

The personnel deductions subsystem is part of the personnel system. It oversees some 300,000 deductions from the salaries of government employees which have to be properly administered for both the employees and the employers.

This subsystem produces work certifications (guarantees) for employees that are administered under the personnel and payroll structure system.

FUNCTIONAL CHARACTERISTICS:

The subsystem is centrally run through the computers in the Office of the Comptroller General of Panama. A series of terminals at service windows assist the public and facilitate the process of managing central government employee deductions.

Decentralized entities use this subsystem to interface with the remote terminal network installed by the Office of the Comptroller General of Panama in these entities.

Twice weekly, the information produced by this system is transferred to be used in the payroll production process.

TECHNICAL CHARACTERISTICS:

The IBM 4381 system runs on the MVS operating system. It is programmed in MANTIS and COBOL and uses VSAM files.

The systems works basically on line with batch process support.

APPENDIX D

PRINCIPAL USERS:

The principal user of this subsystem is the Deductions Section, a unit within the Accounting Division in the Office of the Comptroller General of Panama.

CURRENT STATUS:

The personnel deduction subsystem is completely functional.

RELATIONSHIP TO FINANCIAL MANAGEMENT:

The relationship of this subsystem to financial management derives from its relationship to personnel, one of the main departments dealing with the expense budget.

FINANCIAL SYSTEMS AND SUBSYSTEMS:

SYSTEM NAME:

Public debt system

DESCRIPTION:

The public debt system manages the balances and records for public loans of the central government and decentralized institutions.

It manages disbursements, amortizations, financial agents, forms of payment, money exchanges, etc., as well as outstanding loans, credit lines, promissory notes and bonds, and the issuing of government bonds for internal and external debt for both borrowers and lenders.

FUNCTIONAL CHARACTERISTICS:

The information is processed centrally in the computers of the Office of the Comptroller General of Panama. Accrued interest is calculated, projections on amortization are made, and other reports are issued.

TECHNICAL CHARACTERISTICS:

The IBM 4381 system runs under the MVS operating system. It is programmed in MANTIS and COBOL and uses VSAM files.

The systems works basically on line with batch process support for reports.

PRINCIPLE USERS:

The principle user of this subsystem is the Accounting Division in the Office of the Comptroller General of Panama.

CURRENT STATUS:

The public debt system is completely functional.

RELATIONSHIP TO FINANCIAL MANAGEMENT:

The public debt is an important component of government financial management.

TRAINING NEEDS

Technical training is an important means of achieving the project goal. As identified in the "Approach" and "Terms of Reference" sections of the project design, 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 following minimum training needs for each of the areas were defined. In addition, the type of training events that should be developed and a tentative schedule are shown:

- 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.

120

APPENDIX E

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	Governmental audit:		
	Internal and external audit, project audit	3	45

231

APPENDIX E

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
			20
			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:		

APPENDIX E

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:		
Government audit;	4	25
Internal audit;	8	25
Operational audit;	4	30
Fraud investigation;	2	20
Electronic data processing audit;	4	20
Project audit;	3	30
Administrative contracting;	2	20
Costs and budgets	4	30
Conferences:		
IFMS and CAP	5	150
Out-of-country training		
oo Budget:		
Project data base observation and study in Chile (2 persons for a maximum of 15 days)	1	

223

EXPERIENCE AND SPECIALIZATION OF CONSULTANTS AND OTHER PROJECT PERSONNEL

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

BUDGET:

Principal 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;
- o Coordinate with the computer information systems strategic plan team.

Requirements:

- o **Academic:**
Degree in administration, economics, or public accounting, preferably with postgraduate degree.

APPENDIX F

- o 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.

Senior Budget Specialist

Functions:

- o Collaborate in the development of the methodology for programming and budget formulation of the central government and other decentralized entities: public enterprises, development corporations, municipal development corporations and other financial intermediaries;
- o Collaborate in the development of budget execution control, follow-up and evaluation manuals for the central government and other decentralized entities; the public enterprises, the development corporations, municipal development corporations and other financial intermediaries;
- o Collaborate with the principal consultant in the implementation, follow-up and evaluation of the public sector budget.
- o Participate in execution of the budget training plan.

Requirements:

- o Participate as a member of the Computer Information System Strategic Plan team.

APPENDIX F

- o Academic:

Professional degree in administration, economics, or public accounting, preferably with postgraduate degree.
- o Minimum of 10 years experience in one or more of the following areas:
 - Technical assistance projects in public administration, public finance and public budgets
 - Budget management and analysis for public enterprises
 - Academic or training activities in the financial, managerial or budgeting fields.

Legal Specialist

Functions:

- o Analyze and inventory the current legislation and regulations relating to budget, treasury, public debt, accounting and auditing.
- o Prepare proposed draft legal reforms for the subsystems of budget, treasury, public debt, accounting and auditing.
- o Prepare proposed draft regulatory standards to support application of the primary financial legislation;
- o Develop the codification of all primary financial standards and regulations for the budget, treasury, public debt, accounting and auditing functions;
- o Participate in the training plan.

Requirements:

- o Academic:

Law degree, with specialization in fiscal or business law, preferably with postgraduate degree in public administration.

- o Minimum of 10 years experience in:
 - Judicial assessments of financial administration.
 - Drafting of laws, regulations, and standards in the field of public administration.
 - Academic or training activities in the field of public law or public administration.

TREASURY:

Principal 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.
- o Coordinate with the Computer Information System Strategic Plan team.

Requirements:

- o Academic:

237

APPENDIX F

Advanced degree in public administration, economics or related field, with specialization in public finance, public programming and financial analysis.

- o Minimum 7 years experience in:
 - Processes and techniques in planning, executing, controlling and evaluating Treasury.
 - Design and implementation of Treasury subsystems.
 - Training in higher education institutions on public finance, programming and financial policy.

Senior Treasury Specialist

Functions:

- o Jointly develop, with host country counterpart, a compendium of norms and regulations of the treasury subsystem of the public sector;
- o Analyze the functions and positions of the organic structure, participate in the development and implementation of a restructuring plan for the treasury function;
- o Provide training and develop training material;
- o Assist in implementation procedures;
- o Participate as a member of the Computer Information System Strategic Plan team.

Requirements:

- o Academic:

Advanced degree in economics or public administration, with specialization in organizational development and public finance.
- o Minimum of 5 years experience in:
 - Organization and methods of Treasury and Finance ministries
 - Techniques and processes of planning, execution, control and evaluation of the Treasury;
 - Design and implementation of Treasury subsystems.

PUBLIC SECTOR DEBT:

Principal 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;
- o Coordinate with the Computer Information System Strategic Plan team.

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 experience 7 years 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.

2029

Senior Public Debt Specialist

Functions:

- o Assist in developing a compendium of norms and regulations and public sector debt subsystem;
- o Participate in the development of a new organizational structure;
- o Identify training requirements and develop training materials;
- o Establish procedures and assist in the implementation of the public debt subsystem;
- o Participate as member of the Computer Information System Strategic Plan team.

Requirements:

- o **Academics:**
Degree in economics or public administration, with specialization in organizational development and public finance with emphasis on public debt.
- o **Minimum 5 years experience in:**
 - Organization and operations of Ministries of Finance or Public Debt;
 - Techniques and processes of planning, execution, control and evaluation of the public debt;
 - Design and implementation of the public debt subsystem.

240

ACCOUNTING:

Principal 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;
- o Coordinate with the Computer Information System Strategic Plan team.

Requirements:

- o Academic:
Professional degree in public accounting, preferably with post-graduate studies.

244

- o Minimum 10 years experience in:
 - Design and implementation of accounting systems at a national 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.

Senior Accounting Specialist

Functions:

- o Assist in the development of the standard general ledger chart of accounts;
- o Develop the government-wide accounting manual;
- o Assist in the implementation of the accounting subsystem;
- o Participate in the implementation of the subsystem;
- o Participate as an instructor in accounting training.

Requirements:

- o Academic:
 - Degree in public accounting, preferably with post-graduate studies.
- o Minimum 8 years experience in:
 - Design, implementation and management of national and public enterprise accounting systems;

242

Financial Intermediaries Accounting Specialist

Functions:

- o Develop a general ledger chart of accounts for use in the financial intermediaries group which is consistent with the GOP standard general ledger chart of accounts;
- o Develop an accounting manual for use in the financial intermediaries group;
- o Train the financial intermediaries accountants;
- o Manage the implementation of the accounting subsystem in a selected pilot entity in the financial intermediaries group;
- o Participate in the implementation of the accounting subsystem in the financial intermediaries group.

Requirements:

- o Academic:
Degree in public accounting, preferably with post-graduate studies.
- o Minimum 8 years experience in:
 - Design and implementation of accounting systems in public financial institutions.

2/12

GOVERNMENT AUDIT:

Financial Audit Specialist

Functions:

- o Analyze and design the CAP 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 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.

244

Performance Audit Specialist

Functions:

- o Manage the development of a performance audit capability in the Office of the Auditor General;
- o Organize the respective Office of the Auditor General performance audit and internal audit units;
- o Develop the professional generally accepted government audit standards (GAGAS) and the procedural manuals for the execution of performance audits by internal or external auditors;
- o Develop and participate as instructor in a performance audit training program.

Requirements:

- o **Academic:**
Certified Public Accountant, preferably with post-graduate specialization.
- o **Minimum 10 years experience in:**
 - Planning, execution and control of performance audits;
 - Organization of performance audit capabilities;
 - Development and implementation of standards on internal control, internal and external audit, and development of procedural manuals;
 - Consulting, preferably international, with multilateral agencies, in governmental control systems improvement and design projects.

Public Works Audit Specialist

Functions:

- o Manage the implementation of public works audit as a specialized area;
- o Analyze, design and develop the public works audit function and organize the respective unit;

245

APPENDIX F

- o Design and implement a public works audit manual that contains policies, internal and external control project technical norms, and instruction on administrative procedures;
- o Develop a strategy for increased control and public works audit;
- o Assist in the formulation of improved regulations and in the development of a new government contracting law;
- o Give courses on public works audit, contract administration.

Requirements:

- o Academic:
 - Degree in civil engineering, preferably with post-graduate specialization.
- o Minimum 10 years experience in:
 - Execution of public works projects;
 - Knowledge of public contract administration laws;
 - Experience in contract administration.

TRAINING:

Human Resources Specialist in training

Functions:

- o Advise in preparing the Training Center for classroom training sessions;
- o Plan courses in instructor training in government financial management systems and audit;
- o Review and select teaching materials;
- o Advise and train the management and support personnel of the Training Center during the initial phase of the program;
- o Collaborate with the Project Manager to tailor instructor training to address aspects particular to area of specialization.

Requirements:

- o Academic:**
 - Pedagogical degree**
- o Minimum 5 years experience in:**
 - Organization and management of training programs in Latin America;**
 - Development and implementation of training courses for instructors in appropriate area of specialization;**
 - Development of training materials for instructors in appropriate area of specialization;**
 - Training of instructors;**
 - Evaluation of classroom instruction.**

APPENDIX G

COMPUTER SYSTEMS PROCUREMENT ESTIMATED EQUIPMENT COSTS:

The following computer hardware and software is required to support consultants and host country counterpart personnel involved in developing the IFMS, CAP and computer information systems strategic plan.

20	386 Based PCs 40 MB HD 2MB RAM 3.5 Inch Disk VGA Color Monitor Mouse Network Board	3,000	\$ 60,000
1	Server 600MB hard Disk Tape Backup 8MB RAM Network Board	20,000	20,000
1	CASE tool(s) for analysis	10,000	10,000
1	Network WP - Spanish	3,500	3,500
1	Network 123 - Spanish	3,500	3,500
1	Network Project Management SW	5,000	5,000
1	Network Graphics SW	3,500	3,500
1	Desktop Publishing	3,500	3,500
1	Wiring	5,000	5,000
3	Laser Printers (1 postscript)	2,000	6,000
1	E-MAIL, work group utilities	4,000	4,000
1	CD-ROM	1,000	1,000
	Miscellaneous	5,000	5,000
TOTAL Equipment and Software			130,000
Maintenance and Supplies			10,000
		\$ 140,000	
TOTAL Estimated Cost			\$ 140,000