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**COUNTRY ASSESSMENT OF
GOVERNMENTAL FINANCIAL MANAGEMENT
IN COLOMBIA**

SUMMARY REPORT

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COUNTRY ASSESSMENT OF GOVERNMENTAL FINANCIAL MANAGEMENT

IN COLOMBIA

SUMMARY REPORT

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SUMMARY REPORT

I. INTRODUCTION

A. Background

The Bureau for Latin America and the Caribbean of the Agency for International Development (AID), has contracted the consulting firm Price Waterhouse to carry out its Latin American and Caribbean Regional Financial Management Improvement Project.

As a part of that project a "Country Assessment of Financial Management in the Republic of Colombia" was requested by that nation's government. This report summarizes the results of the assessment and presents its main conclusions and recommendations. Seven additional more detailed reports on specific areas were produced and are available in the Spanish language.

For purposes of this assessment, "public financial management" comprises the areas of budgeting, cash and debt management and accounting together with related areas such as public contracting and control of public works, electronic data processing, internal control and external audits.

B. Objectives

The main objectives of this assessment were to identify improvements needed in financial management in the Government of Colombia, to develop clear and feasible

recommendations which would help the Colombian Government formulate a strategy to achieve more efficient and effective financial management, and identify any notable achievements already made in the field which might be imitated, adopted and applied by other Latin American and Caribbean countries.

The specific objectives of the assessment included:

- o Performing a comprehensive analysis of prevailing legislation (laws, regulations and other provisions) related to financial management organization, systems, methods, policies, procedures and operations carried out by governmental entities and agencies responsible for financial management and studying the extent of participation of the various levels within the government.
- o Assessing the components within the organizational structure of the government and the extent to which they contribute to efficiency in financial management.
- o Determining the reliability, usefulness and timeliness of information produced on the financial condition of the main agencies within the executive branch of the government and other selected public entities, and whether such data are used in decision-making by public administrators.
- o Clearly identifying weaknesses in government financial management and potential opportunities for actions aimed at improving efficiency and effectiveness.
- o Providing a set of recommended actions to improve governmental financial management, through additional studies or projects to be carried out by the government, with or without technical assistance, as well as training and staff development programs.

C. Scope of the Assessment

The assessment covered the following areas:

- o Budgeting
- o Public Debt
- o Cash Management
- o Accounting
- o Public Contracting and Public Works Control
- o Electronic Data Processing
- o Auditing

The National Planning Department and the Comptroller General's Office suggested agencies representative of the public sector to be visited. They were:

- o National Planning Department
 - National Directorate of Public Works
- o Office of the Comptroller General
 - Departments of Audit, Accounting and Financial Analysis
- o Ministry of Finance
 - Departments of Budgeting, Public Debt and Treasury
- o Ministry of Public Works and Transportation
- o Ministry of Health
- o Colombian Agricultural Institute
- o Territorial Credit Institute
- o Colombian Institute of Electric Power
- o Regional Autonomous Corporation of the Bogotá Savannah
- o Municipality of Cartagena and its enterprises
- o Municipality of Facatativa
- o Municipality of Tunja

In all of these government entities any unit having activities related to financial management (budgeting, cash management, public debt, accounting, auditing), administrative contracting, project management or automated data processing was visited.

Field work began on July 24 and ended on September 29, 1989.

D. Methodology

The assessment was based upon field visits to the principal governmental entities in charge of financial management at the national level and to other public entities selected as being representative.

During these visits, relevant officials were interviewed and pertinent legal dispositions, administrative rules, manuals, directives, documents, records, reports and operations were examined. Additional information was obtained as available from other related external sources.

In order to ensure a comprehensive and effective assessment, specific work programs for each activity area were prepared. Descriptions and analyses were based upon documentary evidence.

E. Constraints

This study did not include any assessment of tax and customs administration or fiscal and monetary policies, which were expressly excluded from the terms of reference agreed to by the Government. Thus examination of the Treasury's revenue raising mechanisms and related procedures were not considered. Nonetheless, during the assessment of the automated data processing area, the automated data processing plan being implemented by the National Tax Directorate of the Ministry of Finance was analyzed, due to its importance and its linkage with the various administrative units of the Ministry.

Because of health problems, the consultant responsible for covering the areas of internal control and audit had to withdraw from the assessment. Therefore, coverage was limited to the Comptroller General's Office. In spite of the absence of field visits to the public entities the conclusions and recommendations of this study were not

invalidated since the internal control and audit activities carried out by the Comptroller General's Office are practically identical.

Due to circumstances beyond our control, the areas of accounting and automated data processing in the Municipality of Facatativá were not covered. After examining the areas of budgeting, public debt, cash management and government contracting, such limitation had no effect on the validity of our conclusions and recommendations.

F. Results

The formal products of the assessment consist of a summary report and seven detailed reports. This Summary Report on government financial management provides a conceptual perspective of the main elements and summarizes the most important conclusions and recommendations of the assessment. It is presented in both English and Spanish.

Seven detailed area-specific reports are provided as appendices to the Spanish version of the Summary Report. These reports were prepared by the consultants in the various areas covered: budgeting, public debt, cash management, accounting, public contracting and public works control, automated data processing, internal control, and auditing.

Each of the area-specific reports covers the institutional organizations included in the assessment and presents a descriptive section, an analytical section and a profile for technical assistance.

- o The descriptive section includes:
 - Legal basis
 - Organization
 - Processes and procedures
 - Human resources
 - Information systems

- o The analytical section includes:**
 - Comments**
 - Conclusions**
 - Recommendations**

- o A profile for a technical assistance project, which may not necessarily entail foreign technical assistance, which includes:**
 - Background**
 - Project objectives**
 - Specific actions required**
 - Level of effort required**
 - Professional and technical consultant profiles**

II. CONCEPTUAL FRAMEWORK AND METHODOLOGY

In order to facilitate understanding of the principal conclusions and recommendations summarized in the following section, and to appreciate the doctrinary viewpoint of the team of consultants, it is important to begin this report by setting out the fundamental concepts used to define the methodology.

As generally understood, a "system" entails a certain order in which animate and inanimate items are arranged and the existence of a purpose is implied. 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 these components responsible for controlling and evaluating the operation of the entire system including itself.

The General Theory of Systems or the "systems" concept is or can be applied to all scientific fields including the social sciences. The term "system" may also be used to refer to the disciplined organization of work and human behavior that is structured for a common purpose. Similarly, it may also be applied to develop theories and technical techniques in any discipline and can provide an interdisciplinary point of view to analyze any event, matter, or situation.

In the General Theory, 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 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 Given the principle of order that exists within the system, each of its components has its own place within the whole.
- 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 destroys the efficiency of the system as a whole.

Once this concept was adopted by the administrative sciences, it became common to hear about the so-called "horizontal systems of management." The most important and generally accepted systems in this field are:

- o Planning
- o Organization
- o Human resource management
- o Financial resource management
- o Supply management
- o Control and audit

From an organizational standpoint, the proper operation of each system demands that it be governed by a ruling body.

An analysis of the components or elements of financial management permits the parts to be put into a logical conceptual process: procurement of resources, management of resources, recording and reporting, and evaluation of results.

Applying the systems concept to government financial management, government financial management may be defined as **an integrated system, whose components include**

budgeting, treasury, 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 cannot be individually isolated since they are interlinked within an indivisible conceptual unit by virtue of the sole purpose that keeps them together. This purpose is to make public organizations more competent and efficient so that they can achieve their goals by means of the rational supply and management of resources.

Any deficiencies in one or several elements affect the whole of governmental financial management, and at the same time, modifications in government policies influence its various parts or elements. Conceptual design, change and modification of the elements of governmental financial management, based upon reasonable criteria, are anticipated and implemented as part of government policy taking into account financial management as a whole.

Governments have institutional frameworks for managing their financial resources. On the national level, financial accountability falls upon the Chief Executive and the Finance Minister; on the level of each entity or agency, this responsibility is assigned to the Chief Executive Officer.

Control should also be recognized as a system that supports administrative and managerial activities. It provides support for, and is a driving force in the management process. It is manifested through an articulate framework of activities and professional operations that provide the opportunity to identify the actual, examine and compare the actual with a preestablished model, and make the necessary changes in order to achieve managerial goals.

The system of control has three elements or components: internal control and internal and external audit.

In the public sector, the responsible external audit organizations is the Office of the Comptroller General or the Court of Accounts. The organizations are generically known as supreme audit institutions (SAI).

The International Organization of Supreme Audit Institutions (INTOSAI), is the governing organization for these institutions and is composed of supreme audit institutions from all the member countries of the United Nations. Some of the more important standards promulgated by th group include the following:

- o Control in the public sector is a responsibility of management and the supreme audit institutions.
- o Internal control is the responsibility of the management.
- o Precontrol (sometimes miscalled pre-audit) is an integral part of internal control and should be part of normal operations.
- o External control, which is always applied ex post facto (after the operations have been performed), is the supreme audit institution's inherent responsibility.
- o Internal and external ex post facto controls are practiced professionally through a specialized discipline called auditing.
- o Postulates and standards for the professional practice of auditing are set out in Generally Accepted Audit Standards (GAAS). For government auditing, they are contained in the INTOSAI Auditing Standards.
- o Independence is an indispensable requirement in performing audits. It is required not only of the audit entity but of the audit staff as well.
- o An audit is carried out based on the examination of a representative sample selected from the full universe of operations.
- o Government audits are concerned not only with the financial and legal operations, but also with their economy and efficiency, and the effectiveness of results.

Given the close linkage between financial management systems and those of internal control and audit, it is convenient to group them under one system, called the Financial Management and Control Macrosystem (FMCM), which allows the consideration of control over budgeting, cash and debt management, accounting and financial reporting.

III. PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS

Our conclusions and recommendations refer to short and medium-term periods, which for the purposes of this study should be construed as one year and one to three years, respectively.

A. Legal Provisions Governing Financial Management

Notwithstanding the long and deep-rooted legal tradition prevalent in the Republic of Colombia, a single code comprising all legal regulations and provisions for every element of governmental financial management -- budget, cash and debt management and accounting -- has not yet been achieved. This is mainly due to the lack of a common approach and the failure to use the systems approach as described in the preceding section.

Legal provisions are found in various forms. Some provisions have been specifically promulgated in laws to regulate given aspects of certain components, while others result from regulations issued by the Comptroller General's Office in exercise of its authority. Many legal provisions relative to governmental accounting, as currently included in the Constitution and various laws and decrees, are anachronistic in many of their technical accounting aspects.

New legislation on governmental financial management (the new budget law No. 38-89) is the result of considerable legislative effort, arising from various studies, projects and discussions. However, this law almost exclusively refers to budgetary matters and deals very briefly with the other financial management components. It does not include any provisions for accounting, and incorporates only a few on cash and debt management. This law could have been more practical, harmonious and comprehensive had it included within a single legal instrument all basic provisions concerning the components of governmental financial management.

The new law requires that all national public institutions which have large resources, be included in the national budget. It also successfully incorporates a significant number of innovative principles, both organizational and instrumental. These are described in the descriptive section of the pertinent area-specific report.

The trend in the last three statutes (1964, 1973 and 1989) has been to simplify the legislation in order to facilitate legal and organizational structure changes which may develop thereby preventing long delays to modify laws. Although the last two statutes repeal the preceding ones, they do not expressly contain language revoking any other laws which may be in conflict with the new provisions.

In order to carry out the legal provisions, regulatory decrees relating to only one part or to specific articles are issued. This quickly results in an over abundance of standards, thus complicating their communication, interpretation and enforcement.

At the other governmental levels, such as departments, superintendencies, commissariats, districts and municipalities, the corresponding fiscal codes or budget statutes have not yet been updated with the principles and contents of the new budget law. Such codes or statutes should have a broader scope and include all the components of governmental financial management at their respective government and administrative levels, as a means of strengthening the capabilities of local management and achieving administrative decentralization.

RECOMMENDED GOAL

Prepare a public financial management code, for national application, taking into account the conceptual approach described herein. The code should coordinate, incorporate and offer legal support for the activities and relationships of each constituent element of financial management as well as provide for the harmonious functioning of the entire system.

RELATED GOALS

- o Compile an inventory of all existing legal and regulatory provisions in order to identify and codify all legislation in force related to governmental financial management.
- o Draft legislation to make the changes needed to achieve a harmonious, coherent and integrated set of provisions that facilitate public financial management.
- o Issue regulations for the new budget law of 1989 to provide interpretation and the application of its provisions in accordance with priorities set within it.
- o Formulate instructions and develop methodologies to achieve the codification of financial management provisions at the levels of departments, superintendencies, commissariats, districts and municipalities.

ACTIONS REQUIRED

- o Short-term Activities
 - Develop a work plan for the preparation of the governmental financial management code, with the participation of legal advisors and other consultants, the General Directorate of the Budget, the General Directorate of Public Credit, the General Directorate of the Treasury and the Office of the Comptroller General of the Republic, or their representatives.
 - Draft regulations for the 1989 budget law.
 - Organize working groups composed of representatives of the agencies included in the proposed governmental financial management system to implement the codification plan and to begin collecting and compiling an inventory of existing legislation.
 - Prepare a technical assistance plan for financial management for the various lower levels of administration, such as the departments, superintendencies, commissariats, districts and municipalities.

o **Medium-term Activities**

- Continue implementation of the above-mentioned plan to prepare a governmental financial management code and submit it for the approval of pertinent authorities as provided by prevailing legislation.
- Implement the technical assistance plan in financial management for organizations at the various lower levels including both technical advisory services and training.

B. Budgeting

1. **Organization**

The current organization of the main agencies responsible for the implementation of budget policies does not conform to the new system. The Superior Council for Fiscal Policy has not been established, and is not formally operational, despite being the "governing core" of the budgetary system. The functional expenditure committees have been informally involved in budget programming for 1990, without having utilized their full organizational potential.

At the ministerial level, ambiguities exist as to the exact responsibilities of the planning office, the delegated budget division and the divisions or sections for finance or budgeting; particularly with respect to the various stages of the budgetary process or cycle, as well as in reference to operational and capital expenditures.

At the level of national public institutions, the situation is more clearly defined with respect to the responsibilities of the planning offices and the divisions or sections for budgeting, although they are sometimes integrated with accounting. This also applies to regional institutions. However, there is less fragmentation in the budget process due to the coordination efforts being made.

At the municipal level the same situation prevails, though there is a larger concentration of budget management administration activities in the secretariats of finance. On the other

hand, in the case of smaller municipalities, there is a larger concentration of budget management activities in the planning office, and the Treasury plays a secondary role. These different situations arise from differing staff characteristics within the different offices.

RECOMMENDED GOAL

Implement an organizational development plan to upgrade the administrative structure, adapting it to the needs of the new budget system, taking into account its interdependency with the other financial management systems and with other administrative systems and seeking to reorganize certain strategic organizations which may in turn generate changes in other related agencies. (Those strategic organizations under consideration are the Superior Council for Fiscal Policy (CONFIS), General Directorate for Budgeting, National Planning Department, functional expenditure committees, sectorial planning offices (in the ministries), and the finance and budget divisions or sections (in the ministries) as well as in national public entities, regional autonomous corporations and regional and local governments such as municipalities.

RELATED GOALS

- o Formulate an organizational development plan based on the reorganization projects that should be implemented for the offices of the General Directorate of Budgeting, Treasury and Planning, according to Article 92 of Budget Law No. 38-89.

It is recommended that a more radical change be implemented in the Office of the Director General for Budgeting. This office should no longer be organized by processes (preparation, performance and control) but should become an organization structured by sector to achieve a certain degree of coherence in conceptual and methodological matters and organizational and institutional ones, as well. The pertinent area-specific report provides a detailed explanation of the reasons behind this recommendation.

- o Organize a project bank to be located in the "Division of Project Follow-up" which is part of the Public Finance Unit of the General Directorate for Macroeconomic Programming for the National Planning Department. Institutional changes should also be implemented to that effect.

- o Integrate the Executive Secretariat of the Superior Council for Fiscal Policy as a part of the General Directorate for Budgeting.
- o Organize sectorial and institutional committees for budgeting, based upon the incipient functional expenditure committees.
- o Review the structures and functions of the planning, finance and budget divisions or sections in the various ministries, public entities and regional autonomous corporations in order to strengthen, assess and define their budgetary duties.
- o Provide technical assistance to agencies for planning and budgeting at lower government levels, in order to upgrade their organizational structures following the guidelines set forth in the organizational development plan prepared for the budget system.

ACTIONS REQUIRED

- o Short-term Activities
 - Organize a working group to prepare a global organizational plan for the budget system, inviting the participation of organizations with public administration experience. The reorganization of the General Directorate of Budgeting and the National Planning Department should be considered of equal importance.
 - Develop the strategy and design an implementation program for the organizational development plan, selecting those sectors that have the "best organizational climates" in which to introduce the necessary changes in the administrative structures.
 - Develop management procedures for the project bank. The project bank should provide the basis for support of the capital investment budget.
 - Develop management procedures for the Superior Council for Fiscal Policy and its secretariat, the sectorial and institutional committees for budgeting in the various ministries and decentralized national public entities.
 - Prepare the operational and organizational procedures for the planning offices in the various ministries and related entities, finance and budget divisions or sections in the various ministries and related entities, and the planning and budget divisions at the regional level.
 - Prepare manuals, procedures, methodologies, policies, etc., to provide technical assistance at lower governmental levels.

o **Medium-term Activities**

- Continue with the implementation of the organizational development plan, and identify strengthening activities to be carried out at selected strategic organizations.
- Evaluate the progress made in the implementation of the organizational development plan, and make any adjustments or changes as needed.

2. **Budget System Procedures and Processes**

- o The budget system procedures and processes are the mechanisms by which the budget is linked with the planning and cash management activities. They provide insurance of adequate programming and implementation through such activities as the financial plan, annual investment plan, the project bank, annual cashflow forecast, and disbursement authorizations.
- o During the assessment, the financial plan, the annual investment plan and the general budget program were reviewed. The processes and resultant reports are meeting their objectives although the availability of information could be improved.

The following recommendations apply to the project bank and the annual cashflow forecast, respectively.

RECOMMENDED GOAL (PROJECT BANK)

Organize and implement a project bank to be titled, "National Bank for Investment Projects." This bank will provide guidance for regulating public investments and will produce the annual operational plan and the capital expenditure budget.

RELATED GOALS

- o Define the objectives, strategy, methodology and operational guidelines for the project bank, taking into consideration the various existing alternatives.
- o Design the management procedures for the project bank and clearly define the roles of the National Planning Department and the sectorial offices and institutions for planning.
- o Analyze experiences and situations other countries have had in managing project banks, with the purpose of providing a basis for the design, organization and operation of such a bank in Colombia.

ACTIONS REQUIRED

- o Short-term Activities
 - Prepare an inventory of investment projects in the public sector and ensure that it is constantly updated.
 - Select two or three countries to visit with the purpose of examining and analyzing the various features of implementation and management of a project bank, such as design, structure, information systems, personnel qualifications, etc.
 - Prepare a methodology for the planning and control of projects. The matrix based "Project Management" technology could be used.
 - Design and implement a comprehensive information system for the management of the project bank.
 - Incorporate into the 1990 Budget all information generated by the bank, such as the annual investment plan and the capital investment budget.
 - Strengthen the planning offices in the various ministries and institutions so that they perform a significant role in the bank's management. This will eventually lead to decentralization based upon clear policies and methodologies and integrated information systems.

o **Medium-term Activities**

- Implement the organizational program, methodologies and information systems in order to achieve a cohesive and comprehensive administration of the project bank.
- Evaluate the bank's management, and make any necessary changes in order to insure that new projects can be considered in a timely manner, not only during the budget programming stage but at any given time of the year. The bank, in order to be successful, must be viewed as a flexible, responsive entity.
- Coordinate overall project control with fiscal and financial evaluations in order to avoid duplication of budget control with project control.

RECOMMENDED GOAL (Annual Cashflow Forecast)

The annual cashflow forecast, the unified bank account and the disbursement authorization process must be integrated in order to achieve efficient implementation and budgetary control.

RELATED GOALS

- o Prepare a "Budget Performance Manual." It should include technical instructions for the preparation and issuance of the annual cashflow forecast (at the ministerial and institutional levels as well), regulations for disbursements and necessary authorizations and information that should be provided in order to manage the unified bank account.
- o Design an integrated information system for budget performance incorporating the three above-mentioned elements.

ACTIONS REQUIRED

- o **Short-term Activities**

- Formulate policies and processes which detail the procedures necessary in order to produce a monthly cashflow forecast.
 - Provide input into the design of the comprehensive information system for budgetary performance.
 - Initiate application of the Budget Performance Manual.
- o Medium-term Activities
- Test and implement the comprehensive information system for budget performance. It should be included in the "master plan" of information systems for improved governmental financial management.
 - Evaluate the use of the Budget Performance Manual and make any necessary adjustments.

3. Budget Process

- o The budgeting process should use budgetary and administrative techniques, which eventually will lead to or result in a budget which uses programming techniques or a program budget.
- o The 1989 Budget includes in the expenditure section, "management indicators, cost indicators, unit costs, average costs, annual average costs, receivables indicators, and indicators for management and assessment and evaluation results", which indicates that efforts have been made to improve budgetary planning. This will result in better control.
- o The 1989 Budget had no consistent operational classification or separation in the expenditure section. The 1990 General Budget now includes that classification and separation.
- o Current standards have been followed in the execution of the budget process. Under the title "Budget Accounting" any data pertinent to appropriations, disbursement authorizations, expenditures, drafts and balances were separated.
- o A large number of standards have been issued for the "administrative control of the budget, for budgetary control and evaluation, for fiscal and financial evaluation, and for evaluation of the results."
- o The General Directorate of the Budget carries out the "administrative control" by means of visits by officials from the Budget Inspection Division of the Office

of the Assistant Director for Administrative Control. These visits represent some sort of external control.

RECOMMENDED GOAL

The design and implementation of a simple methodology for all "management entities," which would provide the most efficient mechanism for internal budgetary control and be used by the managers of every institution. This methodology should form a part of and be integrated into the budgeting system and the "integrated management system" for all of the principal sectors of the national budget.

RELATED GOALS

- o Introduce a new approach for internal control, using a manager's orientation, as a fundamental responsibility of all levels of management. Emphasize that internal control forms an integral part of the administrative process and of the management function.
- o Review the "1990 Budget Planning Manual," the "Instruction Manual to Process FORMATS (7) for the 1990 Investment Programming" and the "Guidelines for Processing Format No. 8, Fiscal Implementation of Investment Projects" in order to make them compatible with the methodology for administrative planning.
- o Review all standards for control and evaluation, and any similar procedures for purposes of simplification.
- o Prepare a pilot project on administrative planning, its incorporation in the budget process and the implementation of a simplified control system.

ACTIONS REQUIRED

- o Short-term Activities
 - Organize a working group composed of management analysts and personnel from the General Directorate for the Budget to prepare a methodology for administrative planning that integrates budgetary

programming and includes investment programming and control. (The simplified control system should also be included.)

- Discuss in detail this methodology with the officials from the sectorial planning offices and the budget divisions or sections (in the various sectors and institutions) in order to achieve consensus before its approval, circulation and use.
- Prepare the revised manuals. This task should be performed by the working group together with delegates from the National Planning Department.
- Conduct workshops to introduce the new methodology and the revised manuals. These workshops should be held at an institution carefully selected because of its favorable "organizational climate" in order to introduce and explain the new techniques, the new functions and the new values inherent in the changes in approach, concepts and methods.
- Carry out a pilot project at the selected institutions and evaluate the results before applying the new methodology to other entities.

o Medium-term Activities

- Gradually expand the implementation of the pilot project to other institutions, which should be grouped by sectors.
- Continue providing information about the new control approach and its simplified system, as part of the budget management strengthening activity.

C. Public Debt

1. Organization

- o The organizations responsible for public debt administration are those that are also responsible for the formulation and execution of debt policies that finance the investment expenditure budget and any projects thereunder.
- o Currently, there is no strong institutional leadership in this area. Strong institutional leadership would provide a strong orientation at all levels of the

Colombian public sector in the selective utilization of resources provided by incurring public debt.

RECOMMENDED GOAL

Strengthen the administrative structure of the General Directorate for Public Debt in order to centralize policy formulation, implementation and control.

RELATED GOALS

- o Reorganize the General Directorate for Public Debt in such a way that it can exert stronger institutional leadership at the national level. This suggestion endeavors to make the management of public debt compatible with other resources and expenditures of the public sector, while respecting decentralized administration, especially in the sectorial context.
- o Assign, the responsibility for public debt management, by means of pertinent regulations, to the sectorial and institutional committees for budgeting in their corresponding areas and jurisdictions.

ACTIONS REQUIRED

- o Short-term Activities
 - Form a working group with representatives of the General Directorate for Public Debt of the Ministry of Finance and the External and Internal Financing Division of the National Planning Department, in order to analyze the actual organization of the General Directorate. Propose necessary changes and mechanisms for coordination with the External and Internal Financing Division, the General Directorate for Budgeting, the Treasury and the Comptroller General's Office.
 - Form a working group with representatives of the General Directorate for Public Debt, and the various ministries and related institutions in each sector, with the objective of analyzing and proposing the assignment of management responsibilities for public debt through pertinent regulations.

o **Medium-term Activities**

- **Implement the administrative reorganization plan proposed and approved by the General Directorate for Public Debt.**
- **Evaluate the results of the above mentioned administrative reorganization, and make the necessary adjustments in order to strengthen the institutional leadership.**
- **Provide technical assistance to sectorial and institutional committees for budgeting to implement the standards, procedures and policies for public debt.**

2. **Public Debt Policies and Procedures**

The description of public debt policies as stated in the financial plan, the annual investment plan and the 1990 National Budget clearly show that there exists a well-defined financing mechanism for public debt in relation to the other variables of the macroeconomic scenario. There is also evidence of a developing and refining process in this area.

RECOMMENDED GOAL

Consolidate all technical procedures and processes, integrating external public debt as well as internal public debt. A more detailed and comprehensive treatment is currently assigned to the treatment of external debt.

RELATED GOALS

- o **Prepare a Manual for Internal Public Debt that includes all regulatory aspects and introduces conceptual and analytical guidelines, similar to the Manual for External Public Debt.**

- o Provide information about public debt policies, with emphasis on the need for central management, especially at the sectorial level. It appears that the trend has been toward a new debt composition, with greater internal borrowing in relation to external indebtedness.

ACTIONS REQUIRED

- o Short-term Activities
 - Organize a working group with officials from the Office of the Assistant Director for Internal Credit of the General Directorate for Public Debt and from the External and Internal Credit Division of the National Planning Department. This working group should undertake the preparation of the Manual of Internal Public Debt.
 - Provide information and technical assistance to introduce standards, policies, methodology, reimbursements, and debt service guidance, to the sectorial institutions.
- o Medium-term Activities
 - Compile the internal and external credit provisions into one single Manual of Public Debt.
 - Initiate use of the Manual of Public Credit, evaluate its application and introduce any necessary changes.
 - Continue providing informational material and technical assistance on debt management matters.

D. Treasury

1. Organization

- o The current organization of the various offices that have treasury responsibilities does not meet the conceptual design requirements of a subsystem as defined for an integrated government financial management system, nor is it in compliance with the provisions of the new budget law.

- o There is no defined structure with respect to the position, hierarchy or legal authority of units responsible for treasury activities at the national level. In some cases these activities are carried out by the offices delegated with budget functions; in other cases, the activities are separately and marginally performed, and there was even one case in which a ministry was identified as having three different offices fragmentarily performing such activities.
- o There is a clearer definition of responsibility at the agency level. At this level, the structure and authority of treasury units are defined and the responsibilities assigned. However, it was noticed that at this level as well, there were cases in which the treasury's office was a part of the budget office, and also cases of the treasury's office being part of the budget and accounting unit.
- o There is no clear definition at the municipal level. In certain cases, treasury units were a part of a single Office of the Director for Finance; while in others, they belonged to the budget office or the budget and accounting unit.
- o It is understandable that at the national level the lack of an adequate structural and functional organization in accordance with the provisions of the new budget law can be attributed to the short period of time since its date of issue and the date of this study. However, our opinion is that the main reason for the deficiencies is the absence of an adequate design for the treasury subsystem, which, like all other components of financial management, requires the existence of a ruling body.
- o Responsibilities assigned to the Treasury Department, if the major task of collection of revenue is excluded, place it in an eclectic position. In some cases, the Treasury makes direct payments to the suppliers for goods and services, while in others, it passes on the resources for the payments to be made by the regional treasury units or the offices for budget or the treasury office within the various public institutions.

RECOMMENDED GOAL

Develop a comprehensive organizational development plan which includes the current administrative framework for fulfilling mandated treasury functions, the concept of treasury as an integral element (subsystem) of the financial management system, and the delegations and responsibilities included in the new budget law.

- o Design a comprehensive organizational development plan for the national treasury system, taking into account the interrelationships among the Superior Council for Fiscal Policy (CONFIS), General Directorate for Budget, the functional expenditure committees (to be organized according to the new budget law), the budgeting, treasury and accounting sections of the ministries, the national public entities, the regional autonomous corporations, the state-owned industries and businesses, and the General Directorate for Accounting, the creation of which is recommended as part of this study.
- o Implement this comprehensive organizational development plan in such a way that each structural element of the system is completely defined, authority and responsibility among the entities of the organization are distributed, and jurisdictions, functions, powers and duties are specified.

In order to meet these goals, the following considerations should be taken into account:

- The national treasury system should include a central ruling body within the Ministry of Finance. This body should be the Treasury.
- The Treasury (as the central ruling body) should be invested with legal powers and authority to issue secondary standards of a mandatory nature for the operation of the system.
- At the national level, the Treasury is part of the Ministry of Finance. Within the ministries, national public entities and state-owned industries and businesses, the treasury units should be part of the directorate or division of finance of the respective entity or organization.
- At the national level, the General Directorates for Budget, Public Debt, Treasury, and in the future, Accounting, are part of the Ministry of Finance. At the institutional level, the budget, debt, treasury and accounting entities should be part of a single finance unit.
- As on the national level, where there is only one Ministry of Finance, the institutional level should have only one finance unit and, consequently, one treasury unit. This organizational concept does not rule out the possibility of subordinate offices carrying out activities that are territorially far apart.
- The above considerations also apply to the organization of financial units and treasury offices at the sectorial and local levels.

ACTIONS REQUIRED

o Short-term Activities

- Organize an inter-institutional working group to prepare the general organizational structure for governmental financial management and in particular, for the treasury system. This working group should be composed of representatives from all organizations that are included in the proposed governmental financial management system.
- Submit the draft organizational structure for review and comments to the highest level executives involved in government financial management.
- Establish the strategies and implementation stages of the development plan and select priority areas for implementation.
- Implement the organizational development plan according to the priorities established. Priority should be given to the preparation, discussion, and approval of the operational operating procedures for treasury. These procedures should include consideration of the special authorizations granted under the new budget law. The law authorizes the granting of special temporary credit from the Central Bank of up to 8% of the total revenues for the preceeding fiscal year. This credit could be used to buy and sell government and treasury bonds as well as for the creation of the Unified Bank Account.
- Prepare methodologies, guidelines and instructions and provide technical assistance to ministries, national public institutions, government-owned industries and businesses, for the purpose of streamlining the organization and operations of their treasury offices.

o Medium-term Activities

- Continue implementing the organizational development plan in the treasury area in order to prepare the pertinent operational procedures in the ministries, national public institutions, and government-owned industrial and commercial enterprises, which are considered priorities.

- Prepare methodologies, guidelines and instructions and provide technical assistance to regional, sectorial and local entities, with the purpose of streamlining the organization and operations of their treasury offices.

2. Treasury Processes and Procedures

- o Once the structure and functions within a process are determined (i.e., determining who does what within the system), any administrative rationalization process requires that the procedures be defined (i.e., definition of when and how to implement activities).
- o Several processes and procedures are currently used for treasury operations; some are prescribed by current legislation, while others have resulted from past experience. Many of the processes and procedures are obsolete in view of the provisions set forth in the new budget law.
- o Although the new budget law mandates some procedures and processes such as the annual cash flow forecast, disbursement authorization and a unified bank account, it is necessary to supplement them with other essential processes required to meet actual needs, as well as to clearly define procedures to be used to produce the desired outputs.
- o Although in actual practice there exists a variety of procedures, none of the administrative offices in the Treasury has written manuals of such procedures. There are no written procedures for programming credit revenues and funds, programming payments nor effective treasury operations. Manuals do not exist for the use of credit income and funds, for the programming or use of payments, or in the area of internal control, preparation of reports or publication of statistics, except in the last case, where a few have been prepared by the manager of the systems section.

RECOMMENDED GOAL

Prepare a methodology that coordinates and integrates the distinct processes and procedures used in the operation of the subsystem and document them in a procedures manual that covers all operational areas and corresponds to the distinct entities under Treasury. Necessary internal controls should be included. Ensure that the procedures are clearly understood by all those who have responsibility for their application.

RELATED GOALS

- o Introduce appropriate procedures for the creation, operation and control of a unified bank account.
- o Apply procedures that will result in the most effective conduct and control of buy-and-sell operations for government and treasury bonds.
- o Develop adequate procedures for the annual cash flow forecast, the management of disbursement authorizations, payments service and the transfer of funds to public sector entities and organizations.

To achieve the above-mentioned goals, the following must be taken into consideration:

- The national bank network will be used for tax collection. Private banks were authorized, by resolution, to turn over to the Treasury any funds received within a period of 18 to 25 days. This provision implies that banks are authorized to have the use of government resources in return for services rendered. This system could lead to banks delaying payment to the Central Bank and using the funds in excess of the authorized period, thus generating control problems. It is recommended that this procedure be revised to include a provision for bank fees, which would prevent and discourage delays.
- It is impractical to concede that the unified bank account will be considered a checking account because, as mandated under the provisions of the new budget law, it will include all public organizations, entities and institutions that are included in the national budget.
- It should be understood that the unified bank account is a concept based upon the principle of internal control, which requires a minimum number of bank accounts. Currently, this is not the case for the Treasury, the ministries or the national public institutions.
- Just as a unified bank account would provide more flexibility to the treasury operations for the purpose of controlling cash flow, the existence of earmarked revenues is a rigid factor that has to be overcome.
- The efficient use by the Treasury of the unified bank account will depend to a large degree on the prompt availability of information on subaccount operations.

- In order to prepare the annual cash flow forecast, it will be imperative to program current tax and non-tax revenues, internal and external loan disbursements, use of credit by the Treasury at the Central Bank, monetization and investment of exchangeable bonds, annual programming of operating expenses, capital investment projects, public debt service, etc. Optimal procedures and information systems will be required.

Likewise, the execution of the cash flow forecast and disbursement authorization processes will depend largely upon the quality and timeliness of information on the capital revenue budget, as well as on the expenditures and transfers made by the Treasury and payments made by the various ministries and national public institutions.

ACTIONS REQUIRED

o Short-term Activities

- Organize a working group in the Treasury to develop as quickly as possible, a plan aimed at the identification, prioritization and design of administrative procedures required by the Treasury. This group will work together with representatives from the General Directorate for Budget, General Directorate for Public Debt and the proposed General Directorate for Accounting.
- Submit the resultant plan for the approval of the Treasurer of the Republic.
- Implement the above plan by developing priority procedures. It is recommended that priorities be established beginning with the unified bank account, the cash flow forecast and the management of disbursement authorizations.
- Formulate instructions in narrative and graphic form, specifying procedures to be followed, and provide forms to be used. Supply this information to the officials responsible for its application.
- Design a methodology for providing technical assistance to treasury offices in ministries and national public institutions, in order to prepare specific manuals in corresponding areas.

o Medium-term Activities

- Continue to implement the plan to provide procedural documentation while designing, approving and circulating the guidelines that will be required for other areas within the Treasury.
- Test and evaluate the procedure, and combine them into a single procedures manual. Have this manual approved by the proper authorities.
- Provide assistance to ministries and national public institutions for the preparation, application and evaluation of procedures in their corresponding treasury areas.

E. Accounting

1. Organization

- o Accountability is an important part of management or administrative responsibility. Every public executive, acting as head of an entity, organization or government program, needs to have financial information concerning his or her areas of authority in order to make management decisions based upon a thorough knowledge of the actual situation. Each also has financial management responsibilities.
- o Although initial record-keeping activities of financial operations within the national government organizations and agencies are each entity's responsibility, the Comptroller General's Office (an organization which operates independently from the administrative entities) is responsible for controlling standard practices, centralizing accounting and preparing governmental financial statements. These activities are carried out through the National Accounting Division.
- o Government accounting at the national level includes ministries, administrative departments, superintendencies, Congress, the Judicial Branch, the Attorney General's Office, National Registry of Civil Status and the Comptroller General's Office. These organizations are accounting entities. However, the accounting activities carried out by these entities are restricted to the preparation of

"accounting reports" as "trustees." All accounting information is to be centralized in the Comptroller General's Office.

- o Under these circumstances, the Comptroller General's Office has to process the accounting reports of a significant number of organizations, (up to 328 monthly reports), instead of the financial statements of a limited number of accounting entities. Therefore, government offices have, at the national level, as many accounting entities and units as organizations submitting financial reports.
- o As of this fiscal year, public institutions at the national level have not yet been consolidated. The situation at this level is very similar to that described for the Comptroller General's Office, though, on a smaller scale. However, the number of financial reports will increase considerably as of 1990, as a result of the incorporation of such institutions in the General Budget.
- o As for government-owned industries and businesses, the situation is somewhat better, since most of these businesses have their own accounting divisions which keep a comprehensive record of financial operations and prepare their corresponding financial statements.
- o At the regional and sectorial level, the structure of accounting units is not homogenous, and their responsibilities, rights and duties are not well defined or separated from other financial units, such as budget and treasury.

RECOMMENDED GOAL

Establishment of a new model of administrative organization for government accounting systems. The goal is to have the administrative entity responsible for the accounting records be part of the executive branch at the national level, that is, within the Ministry of Finance. Therefore, in all national entities and organizations, public institutions, state-owned industrial and commercial enterprises, departmental, regional and local entities, there will be only one accounting unit located in the office that has financial management responsibilities.

RELATED GOALS

- o Establishment of the General Directorate for Accounting within the Ministry of Finance. This office will be responsible for issuing accounting standards, developing consolidated financial statements for the nation and evaluating the application of the accounting system.

During the transition period, the Comptroller General's Office would continue to issue accounting standards while the new government accounting system is being initiated. This responsibility would later be assigned to the ruling body for accounting as part of the executive function.

- o Initiation and implementation of the new accounting system at the institutional level whereby every entity becomes an accounting unit and develops its own financial statements.
- o Design and implementation of a strategic plan to achieve coordination between the ruling body for accounting and the entities responsible for the management of other subsystems within the integrated financial management system.

ACTIONS REQUIRED

- o Short-term Activities
 - Organize a working group to develop a comprehensive organizational plan for the accounting subsystem, which will become an integral part of the governmental financial management system. This working group should include representatives from the Ministry of Finance, the Comptroller General's Office, and other ministries and national public institutions.
 - Formulate the strategies and implementation stages for the development plan, selecting priority areas according to the importance of the entities involved and the possibilities of obtaining the best results in the shortest time.

- Transfer accounting responsibilities and activities to the General Directorate for Accounting within the Ministry of Finance. Once accounting responsibilities are transferred independent audits of the government financial statements would be carried out by the Controller General's Office.
- o Medium-term Activities
- Continue with the implementation of the organizational development plan according to the established priorities schedule.
 - Provide assistance and advice to national public institutions, government-owned industries and businesses, and departmental, sectorial and local entities so that they can organize their own accounting divisions.

2. Principles, Policies and Technical Standards

- o The accounting system is based upon doctrines established through principles, policies and technical standards for the following purposes:
 - To define the characteristics, requirements and limitations imposed on the accounting practices and procedures by generally accepted standards and various socioeconomic changes.
 - To provide the necessary criteria or basis upon which to record and report the information generated by the system.
- o There are no generally accepted standards which either expressly or officially include principles, policies or specific technical standards to be used by the national government or other public sector entities or agencies.

RECOMMENDED GOAL

Prepare a set of secondary administrative resolutions to regulate the mandatory application of generally accepted accounting standards, and general and specific policies and technical standards, as the doctrinaire and methodological basis for the accounting system. These resolutions will be based on technical statements and guidelines of the professional public accounting organizations at the national and international levels, such

as the International Accounting Standards issued by the International Accounting Standards Committee, an organization that is a member of the International Federation of Accountants and adapted to the Colombian Public Sector.

In order to achieve the recommended goal, the following must be taken into consideration:

- o Accounting principles, at the least, will include:
 - General aspects
 - Assets
 - Liabilities
 - Capital assets
 - Balance sheets
 - Financial statement presentation
- o Accounting technical standards will include accurate and precise definitions including:
 - General, administrative and personnel aspects
 - Chart of accounts
 - Accounts for assets, liabilities, capital, revenues and expenditures
 - Forms, documents, procedures, records and manuals
 - Financial statements and supplementary information
 - Internal financial information for management purposes
 - Consolidation of financial information

ACTIONS REQUIRED

- o Short-term Activities
 - Designate a multisector commission with representatives from the Ministry of Finance, the Comptroller General's Office, national public institutions and government-owned industries and businesses as well as from the Colombian professional public accounting organizations. The purpose of this commission will be to determine which generally accepted accounting principles would require a mandatory application.
 - Prepare and issue general policies and specific technical standards which will provide the criteria for the design and implementation of

administrative and accounting methods and procedures for government accounting activities.

o -Medium-term Activities

- Design strategies and methodologies to provide technical assistance to departmental, regional and local entities in the preparation of their specific accounting policies.
- Provide technical training to staff members in the accounting divisions.

3. Accounting Characteristics, Processes and Procedures

- o The current government accounting system includes three components: budget, financing and capital assets, each of which is treated as an independent entity. This is the main reason for keeping separate accounting. Global information on fiscal and capital assets are available through the national accounting division, however, it is not possible to generate any information that permits the measurement of financial management in administrative entities.
- o The accounting structure of the national government includes five accounting levels: branch offices, the main office, the central accounting division within each office, the budget division and the national accounting division. This number of levels is regarded as excessive and results in the improper assignment of accounting functions to budget entities as well as "budgetary accounting" based upon a single allotment.
- o Classification within a chart of accounts is carried out through the use of a logical framework which provides quantitative information, primarily financial in nature, about economic entities. This information is intended to be useful in making economic decisions and in providing information for interested third parties. For this purpose, the chart of accounts should contain a sufficiently general list, adaptable for use by all the entities and organizations, clear and precise definitions, and rules for recording the operations as well as for the evaluation of balances at the end of the fiscal year. These characteristics are not clearly presented in the current national accounting system.
- o Supporting documentation provides evidence the nature, objective and results of a transaction and sufficient information for analysis. Therefore, the importance of supporting documentation and its purpose should be reflected in the administrative and accounting procedures manual. Although this concept is acknowledged, in many cases source documents are missing.

- o Financial statements should be prepared on the basis of accepted accounting methods and procedures, applied in a consistent manner and in accordance with generally accepted accounting principles. These statements should be prepared in such a manner that they present all of the information necessary to correctly interpret the results of operations, the financial situation, and changes in financial position and in the composition of capital assets. The information contained in the financial statements should be clearly presented in order to serve the common needs of the distinct levels of the government, the various officials, borrowing institutions and other users, with emphasis on information needs to make management decisions. Most of these attributes are absent in the current financial statements of the government.

- o For the reasons explained in detail in the area-specific report, the balance sheet as of December 31, 1988, does not fairly present the financial situation of the national government as of that date. This statement has not been prepared according to generally accepted accounting principles nor does its presentation permit adequate understanding on the part of the users.

RECOMMENDED GOAL

Development and application of a Government Accounting Manual to be used by the General Directorate for Accounting of the Ministry of Finance and Public Debt, as well as any other entities and agencies within the national administration. This manual, both through narrative and graphics, should document all the principles, policies and technical standards. Furthermore, it should be used as a term of reference for the design and application of specific accounting manuals for public institutions, government-owned industries and businesses, and regional and local entities in the public sector.

ACTIONS REQUIRED

- o Short-term Activities
 - Organize a working group in the Ministry of Finance, with representatives from the offices for taxation, budgeting, public debt, treasury, accounting, the Comptroller General's Office and any accounting divisions of the various ministries. This group will prepare a general manual for government accounting.

The work plan should take into consideration the following requirements when developing the manual:

- oo Inclusion of all principles and technical standards issued for this purpose.
 - oo Ensure that the accounting records of financial operations meet the information needs of those to whom the financial information is directed.
 - oo Keep the system as simple as possible.
 - oo Modernize the accounting systems through the use of computers systems.
 - oo Include all accounting activities. This would include among other things: strategies, concepts and conventions, chart of accounts with functional descriptions, basic registers, source documents, financial statements, instructions for centralized and consolidated accounting, examples of operational and practical application at the central accounting division level as well as at the lower institutional levels.
- Initiate application of the general accounting manual according to the approved work plan, following priorities set forth therein.
 - Design methodologies to provide consulting services and technical assistance at the institutional level for the public entities to start preparing the specific accounting manuals.

o Medium-term Activities

- Initiate use of the general accounting manual, evaluate its application and implement necessary changes as required.
- Provide technical assistance to public entities for the design and application of their specific accounting manuals.

F. Management

- o The current standards for civilian personnel management in the Executive Branch, which includes the General Directorates for Budget, Public Debt and Treasury, as well as the National Planning Department, are considered sufficiently comprehensive. The standards include a system for career paths, promotions and raises based upon merit and achievement of preestablished requirements, a manual for position classifications and pertinent evaluation of skills.

- o From the data collected in the institutional sample, it was concluded that there exists a very significant degree of professional skills and stability among staff members working in the General Directorates for Planning, Budgeting and Public Debt. This should imply favorable conditions in which to involve personnel in any efforts to improve and simplify standards, take steps to implement the plan for organizational development, learn and implement new financial management system techniques and take part in the design, evaluation and application of the new work methodologies.
- o However, there does exist a gap between the duties of certain positions in the hierarchy of the Treasury and the professional requirements of those positions, especially in view of the functions assigned under the new budget law. This gap may also be the reason for comparatively low average salaries.
- o The possibility of unifying personnel systems is theoretically possible though not feasible unless the government provides some types of incentives in improving employee conditions.
- o Nevertheless, there are various measures and incentives which could be proposed to achieve a greater participation by personnel directly "affected" by the new statute who shall inevitably be involved in its implementation.
- o Training could be one of the above-mentioned measures. However, it is important that it not be just training for the sake of training. Instead the training programs should be designed to meet concrete objectives, organized in easily identified levels. The content of the courses should be practical and useful for on-the-job application. The purpose will be to apply the new concepts, standards, methodologies and instruments inherent to good financial management.
- o The following recommendations for the training component are based upon the premise that there already exists an adequate "institutional infrastructure" to implement them, without having to incur significant additional expenses. The institutional sample used for this assessment demonstrates that it is possible to implement "customized" training in order to achieve an efficient and effective management of government resources, especially financial resources.

RECOMMENDED GOAL

Design and implement a comprehensive training plan to provide the institutional strengthening needed for an integrated financial management system. This includes coordination and integration of the closely related subsystems -- budget, public debt, treasury and accounting -- with planning and control elements, in order to have a better

and more competent group of professionals trained to meet the requirements of their jobs and prepared to face any professional and technical challenges necessary to guarantee efficient performance.

RELATED GOALS

- o Recruit a group of professionals with the necessary technical skills to staff the Directorate General for Treasury and the proposed Directorate General for Accounting.
- o Prepare, in coordination with specialized professional training entities and institutions, a training plan, by sectors administrative levels and geographical areas in order to achieve national coverage.
- o Prepare various types of training courses, defining specific objectives and goals, contents, instruction techniques and evaluation methods, and obtain the necessary resources.
- o Incorporate into the contents of the training plan all standards, policies, methodologies and procedures included in the manuals for budgeting, public debt, treasury and accounting.

ACTIONS REQUIRED

- o Short-term Activities
 - Determine the number, categories and levels of skills required for personnel in the proposed Directorate General for Accounting. Determine the requirements necessary to improve professional and technical skills within the Treasury in order to adequately carry out the mandated responsibilities.
 - Obtain from the appropriate institutions, the funding needed to recruit and appoint personnel.
 - Obtain from the appropriate civil service administration institutions, the corresponding position classifications for the new positions, including information about professional requirements, educational background and work experience necessary for each position.
 - Meet the requirements for the recruitment, selection and appointment of personnel.

- Assess training needs on the basis of the number of officials directly related to activities and responsibilities in budgeting, public debt, treasury and accounting, for all divisions within the Ministry of Finance as well as in the ministries, administrative departments, public institutions, government-owned industries and businesses, joint venture corporations and sectorial institutions. This assessment should include a classification by sector, administrative level and geographical area.
- Prepare the materials that will be used in the training courses. This should include training periods, standards, organizational development, information systems, administrative planning, and preparation of practical exercises related to use of the manuals. The preparation and implementation of the development plan, the monthly and annual cash forecast, operations of the unified bank account, application of the accounting system, and administrative procedures of the project bank are also topics which should be included.
- Conduct instructor training courses in the various specific activities using officials who will be performing such tasks in order to provide real and practical experience to their knowledge of the job.
- Carry out training activities in coordination with other proposed activities in the areas of standardization and implementation of the various components of financial management.
- Study the possibility, with prior consent of the government, of providing some type of incentive for those who participate in the training. The analysis of such incentives could include consideration of a "technical bonus" for those officials who participate in specific government-sponsored activities.

o Medium-term Activities

- Continue with the implementation of a training plan and evaluate the results obtained. Take into account the objectives and goals of the plan and certain parameters related to the actual improvement of various components of the financial management system.
- Implement, if approved, the incentive of technical bonuses for those participating in the proposed training plan.

G. Information Systems for Financial Management

- o From the point of view of the administration, information needs are defined as having available, at any time, up-to-date data on the actual situation and condition of the entity. Information is the indispensable support for the decision-making process that tends to modify such reality or adapt its use for the proposed purposes, objectives and goals. Therefore, available information should be useful, comprehensive, timely and reliable, for whoever the users may be, but especially for those officials and employees with responsibilities for the administration and control of public resources. The collection, production and use of information meeting such requirements is a challenge for any government financial management system.
- o The feasibility of implementing regulatory, organizational, procedural, technical and personnel changes depends on, among other important factors, having an integrated and comprehensive information system that basically meets the requirements of the users, who sometimes cannot clearly define what is needed. For this approach to be applicable and its administration to be feasible, it must be supported by a modular information system that would allow an interdependent relationship between the contents of each of the components of the government financial management system.
- o The organization of the information systems in the various general directorates of the Ministry of Finance and the Comptroller General's Office, as well as the existing infrastructure within ministries and their offices, is not adequate to supply needed information on the country's financial management activities to top management.
- o Although existing data are reconciled by the various sections of the entities producing such information, the reconciliations do not always agree with the data generated by the accounting units.
- o Information processed by administrative entities and units within the financial management system, is mostly of a non-accounting nature. Some of that information may be necessary, but it is essential to ensure that any specific data related to financial facts, as well as to budget execution, are processed applying rigorous methodologies as required by the accounting procedures, in order to be able to rely on the available information.
- o A project to integrate all the country's public entities by means of a computer network has been developed by a group of officials. Unfortunately, this group does not have enough authority to carry out all activities needed to guarantee

the success of this type of work. The action plan of this group also includes all financial areas.

- o The existing systems are not integrated. Just as the various processes are divided between different sections within the same body (e.g. budget, treasury, debt or accounting sections), so too the information and programming sections are divided. As far as information systems are concerned, this is not the best way to achieve efficiency. The fragmentation of such systems affects data integrity, design stability, ease of development and maintenance of programs, optimization of resources and users' operational capabilities. On the other hand, systems that are technically and scientifically well-developed incorporate the various requirements of users from any section. The results should be a data base developed on the basis of factual elements and their mutual connections, instead of isolated requirements originated by individuals. A structure of this nature is more stable and runs less risk of being influenced by changes in procedures and organization.
- o This assessment found that most public sector entities and organizations in the institutional sample analyzed do not have a strategic plan for information systems, a clear definition of the objectives of the various units or sections, priorities for the development of applications, or an accurate identification of any other tasks or activities to be implemented by them. The absence of such a plan is reflected in the quality of the information system services, frequent changes in requirements and personnel, insufficient time allotted for testing purposes, etc.
- o Several entities and institutions studied have taken steps to face existing problems in the information system area. Hardware and software have been purchased and new personnel have been recruited, especially at the management level. However, these entities and institutions have not been able to achieve their objectives because the organizational structure presently does not permit long-term planning.
- o There is an increasing trend towards the decentralization of hardware and software. Data input and data processing activities have been transferred to users by assigning terminals and microcomputers to most administrative offices within entities and institutions, either at the main offices or regional units. However, most of these solutions are short-term and improvised, and they usually lack the necessary controls to ensure data reliability.
- o Most entities and institutions are aware of the need to have portable systems. Most of the hardware selected recently uses UNIX-based software, which is well-known for its transferability from one system to another.
- o At the present time, most applications in the administrative and financial areas of the public entities analyzed are obsolete. The applications were developed many years ago, using hardware and software of that time. As inevitably

happens in any institution, the applications have been subject to many modifications. In many cases, the applications used are outdated, even though there has been an upgrade of hardware and software.

- o Technological advances in the area of microcomputers and the accessible purchase and user-friendly features of computers have fostered the procurement of microcomputers in all entities. Frequently, however, there are no controls on the acquisition and use of microcomputers. There is a tendency to look for quick solutions to immediate demands by means of an indiscriminating use of hardware. This creates a duplication of activities, discrepancies, the need for reconciliations, etc.
- o The financial applications are very similar, in that the contents of the inputs and outputs of the various applications are similar. However, every information system unit follows different process for implementing procedures and maintaining data. The features of each system depend on the processing procedures and the skills of the person assigned to implement them.
- o The various information system offices generally have no pertinent documentation available to support the systems being used. In the few cases in which documentation was available, it was out-of-date.
- o Programmers and system analysts are not aware of technological advances in the field, especially new developments in the processes of analysis and the design and development of systems. Furthermore, entities have no training plans for their information systems officials. There is a considerable gap between salaries paid in the private and public sector because there is no means of compensating professionals according to their skills.
- o Recruitment of personnel is not managed or controlled by the top officials of the information system sections. They do not have the opportunity to interview candidates for the open positions. In this area, it is essential to interview and administer tests designed to measure the technical skills of potential candidates.

RECOMMENDED GOALS

Implement a comprehensive master plan designed to meet the needs of the information systems component of an integrated financial management system. This plan should coordinate, interrelate and integrate all the various elements within the whole in order to meet any information system need of the National Tax Administration, the General Directorate of Customs, the General Directorates for Budgeting, Public Debt, Treasury and the proposed General Directorate of Accounting.

RELATED GOALS

- o Implement a master plan for a comprehensive information system aimed at achieving the following objectives:
 - Evaluation of the various alternatives possible to generate an infrastructure which would permit easy access to the financial data from public sector entities.
 - Establishment of required standards for procedures and storage of data in order to facilitate the processes of verification, consolidation and interpretation of data.
- o Design a comprehensive information system. The working group should include the joint participation of all general directorates of the Ministry of Finance and Public Credit, the Comptroller General's Office and other users involved in government financial management.

The strategic plan should:

- Include any new technological developments in the area of information systems, which will provide assistance to the users and ensure efficient use of the systems.
 - Effectively support the activities of the Ministry and be sufficiently flexible to incorporate any necessary changes in procedures.
 - Define the key information systems for selected areas and set priorities for each application.
 - Select the best strategy to implement and generate information needs (taking into consideration technological advances, applications, organization, etc.). The implications of the integration of system units in the various general directorates should also be evaluated.
 - Develop a plan to implement and supply guidelines for follow-up and update procedures, in order to guarantee a system that is current with the changing requirements of the Ministry.
- o Make available all necessary information elements (hardware, software and human resources) required to ensure compatibility, coordination and integration of the system.

ACTIONS REQUIRED

o Short-term Activities

- Form a working group with systems specialists from budgeting, treasury, public debt, accounting and planning, who will be responsible for the coordination of all integrated efforts.
- Compile an inventory of information system resources available in the above-mentioned five institutions and other offices for planning and budgeting within the various ministries, administrative departments and other related entities.
- Determine the information needs of the various users, the timeliness and usefulness as well as the means to follow up data processing.
- Find a competent firm to assist in the design and development process for the selected applications, using an appropriate methodology which includes the above mentioned standards.
- Implement a comprehensive information system using the current "installed capacity", according to the priorities defined by the above mentioned working group who in turn will coordinate any policies and provisions set by the heads of the respective offices.
- Provide training courses to the users of the new comprehensive information system.
- Provide efficient management in the procurement of information resources in order to avoid large expenditures or investments by the government offices.

o Medium-term Activities

- Continue the implementation of the master plan and evaluating the results. Make any necessary adjustments due to new requirements or the introduction of new technologies in the computer market that could prove advantageous to the master plan activities.
- Continually provide training activities for the users, covering systems already designed and implemented as well as new technology as a means of updating and upgrading professional skills.

H. Public Contracts and Control of Public Works

1. Standards, Policies and Organization of Administrative Contracts

- o The legal system of administrative contracting is primarily based on Decree 222 issued in 1983. This decree provides a general standard framework applicable to most public sector institutions (centralized and decentralized entities). Though autonomous bodies may have different standards for the regulation of administrative contracts, most of them have adopted the above decree and have not issued any individual standards.
- o Setting fixed amounts in local currencies, or equivalent sums in foreign currency, to define the type of contract, issue bids or request for proposals, determine deadlines, obtain favorable terms or amendments, etc., in a country which is subject to high inflation and continuous budget increases, in the short-term leaves the public entities with very limited margins or too many constraints in the contracting systems. Certain limitations are necessary and they should be present in the system, but more flexibility is necessary.
- o Instituting a "proposal registry" prior to the opening of bids is a practical process meant to provide agility to the contracting process. It allows the bidder to directly submit the financial offer. This registry implies the existence of standard registration, rating and categorization of proposals, and the grouping of bidders by technical, operational and financial capabilities. Nonetheless, as a single register does not exist and given that many of the qualifications are subjective, the disparity of criteria between one and another entity has resulted in different qualifications and classifications that, up to certain point, hinder the contracting process.
- o Ensuring that requirements such as prior authorization, favorable terms or amendments to the contract are crucial within a good system of internal control. However, these responsibilities are generally assigned to bodies or entities outside the executing agency, which in the end is the only one responsible for the contracting process. Delays in awarding and executing contracts are common and this certainly works against the timeliness and financing of the projects. In a random sample taken from a public entity, we verified that an international public bid was opened on July 21, 1983, the corresponding contract was signed on July 24, 1984 and finally executed on March 11, 1986. This contract was financed mostly in Japanese yen and U.S. dollars, therefore the delays had a significant impact on its value.

- o The possibility of writing "additional contracts" or "accessory contracts" in public works (Articles 58 and 114 of Decree 222) is not well defined. The following deficiencies resulted:
 - An overly easy process of writing contracts that notably increase the quantity as well as extending the completion date of the contract.
 - Administrative inefficiencies mainly in the area of planning, design, budgeting and supervision, further stimulated by the ease with which "additional" or "accessory" contracts are signed.
 - Loss of the initial concept of type of contract (public or private), as defined by the amount.

- o The excessive number of guarantees, the quantity and the expiration dates cause the final costs of public works projects to be higher than expected. It is logical for the contractor to add any bank commissions or expenses incurred for such guarantees to the cost of the project. Using the above mentioned contract as an example, it was determined that in addition to the offer guarantee (10% of the official budget), the following guarantees were required:
 1. Performance bond: 10% of the "fiscal value" of the contract. The bond was for the length of the contract plus 180 days or until final payment.
 2. Advance payment security bond: 100% until total amortization (the contract permitted 15% amortization on the amount invoiced in dollars for domestic goods and 25% on the budgeted amount in dollars for imported goods).
 3. Bond for payment of salaries and social benefits: 3% of the amount in Colombian pesos, with validity terms up to 180 days after completion of the contract, with the provision that it could be extended up to three years from its effective date.
 4. Warranty for the proper handling of materials: 100% of the value of materials to be delivered to the entity.
 5. Warranty for line stability and conservation: 5% of final amount of project, excluding the value of any imported goods supplied and the cost of national towers. It was to be valid for 5 years from its effective date.
 6. Quality and proper operation: 50% of final amount of any goods supplied and national towers, valid for two years from its effective date.

- o Every contract includes technical specifications, factory inspection requirements, supervision of performance with provisions to carry out tests, analyses and studies required to verify that specifications are thoroughly met. It is also

specified that labor contracts, payment of salaries, fulfillment of any social benefit requirements and settlement of labor conflicts are the sole responsibility of the contractor. However, if the contracting parties could share the mutual responsibilities during the execution of the contract, it might be possible to generate a feeling of trust that could render certain requirements that increase the final cost of public works unnecessary.

o With respect to the various types of contracts and their payment terms, some of them do not meet their principal objectives in spite of the specific definitions given under Decree 222 and thus they create a convoluted contracting system which results in more expensive public works projects.

- Contracts with a fixed price, according to Article 88 of the above Decree: "... are such contracts where the contractor agrees to be paid a fixed amount, in compensation for services rendered and goods delivered. Such amount includes any fees thereof, and the contractor is the sole responsible party for personnel relations, development of subcontracts and procurement of materials, activities that shall be carried out under the contractor's own name and at the contractor's own expense and risk; and the buyer of services or goods so delivered shall have no responsibility whatsoever over such activities." This concept contradicts provisions under Article 86, which read: "Regarding revision of prices: In the case of contracts for a global price or in unit prices, there shall be periodic revisions thereof whenever there may be variations in any determining cost factors."

- Construction projects generally make the use of a contract with delegated authority, which permits, in certain instances, quick resolution for the execution of certain public works. Nevertheless, whenever such a system is abused by becoming the main system of contracting for an entity with many geographically dispersed projects (such is the case of the National Hospital Fund), the entity carrying out such projects does not benefit for the following reasons:

- oo The contractor transfers any costs and risks to the contracting party, while keeping a percentage of the profits.
- oo Such transfer of costs results in projects being uneconomical and inefficient. Labor subcontracting as well as materials and equipment service subcontracts are handled too liberally.
- oo This type of contract requires strong supervision by the contracting party, and therefore, entails larger administrative costs. If such requirements are not met, the negative consequences are obvious.

Furthermore, in addition to the above-mentioned concerns, Article 58 of Decree 222 provides for unlimited additions to this type of contract.

- o Intervention by the Comptroller General's Office in the process of government administrative contracting comes after the fact. It is carried out when it will not affect or delay the execution of projects. It is an activity which supports the administration through ensuring compliance. However, there are cases where the contractor has begun to execute the contract immediately after it is signed. If, under such circumstances, a fiscal auditor has observations to make in reference to the contracting process, and if those observations result in a "fiscal suit," there will be a paralyzation of activities with damaging effects to the contractor, who will be unable to collect payment on the executed part of the contract, and on the contracting entity because of the standstill.
- o The structural and functional organization of national entities as well as decentralized institutions is adequate for public contracting purposes.

RECOMMENDED GOAL

Notwithstanding the undeniable "virtues" of the legal statute governing the public sector administrative contracting procedures, it is necessary to implement certain modifications, as well as to design and apply a more coherent policy toward the contracting processes. Activities should be more efficient and interventions or supervision (fiscal or public works supervision) by contracting parties should be more effective to speed up the contracting processes, especially those that because of their size require the participation of other government entities.

ACTIONS REQUIRED

- o Short-term Activities
 - To prevent a loss of value for amounts set in local currencies (or the equivalent amount in foreign currency), it is recommended that the statute establish percentages within the national budget or individual entity budgets. To that end, the following considerations should be taken into account:
 - oo Structure of the entity (organizational and functional criteria and capacities)
 - oo Budget development ratio for the last years (operation budget vs. investment budget)
 - oo Importance of the type of projects (priority to be assigned in the development of the country, planning strategy, etc.)

- There should be greater consistency of criteria for registration. Rating and classification of proposals, suppliers and consultants will only be achieved if a single register of proposals is kept, taking into consideration the following aspects:
 - oo The convenience of having this single registry updated by an entity that is not necessarily the executing agency.
 - oo Permit territorial decentralization.
 - oo Entries in the register should be valid for at least two year, with periodic updates or when required by an entity for the implementation of a specific project.
 - oo Establish classification by areas of specialization.

- In order to achieve a timely, effective and economical execution of projects efficiently, any other decisions, approvals and review activities carried out by collegiate bodies, authorities or organizations whose participation is required by current legislation with the exception of audit activities, should be performed before the execution of contracts, and the following requirements should be met:
 - oo Clear and responsible support by all public officials in the administration and execution of the contracting process.
 - oo Careful definition of the functions of the supreme audit institutions during the examination of the administrative contracting process.

- A clear definition of when additional or accessory contracts could be or should be used. This should be done taking into consideration the following:
 - oo Modification of the three fundamental parts of any contract: objective, period of time and amount.
 - oo Increase in the amount of work (contract by unit price), which does not imply any modification of the objective even though it does imply a change in the time period or quantity.
 - oo Inclusion of new items not included in the original contract.
 - oo Termination, amendment and unilateral interpretations (as prescribed by current Decree 222).
 - oo Need to supplement the objective of the original contract.

- With the understanding that guarantees and bonds are of paramount importance in any contract, it is important to revise the number of guarantees and bonds to be submitted, their amounts and validity terms. This could result in lower cost projects.

- While various existing types of public works contracts should remain the same, the "fixed price" contracts should be limited to special cases and

not permit any adjustments. An example of this type of contract would be a contract for art work. This type of project does not allow for an accurate description in terms of work volume and unit price. "Delegated authority" contracts should be limited to special cases instead of becoming a common contracting process. It is necessary to clearly describe the type of contracts and the well-defined constraints as well.

- There should be clear rules governing the use of arithmetic formulae for price adjustments. This could result in contract terms that are beneficial for both contractor and contracting party. The main elements should be as follows:
 - oo Formula determination, coefficients, number of terms and ratios to be applied, detailed definitions to be included in the bids and documentation on conditions for private bids and direct contracting.
 - oo Determination of a non-adjustable fixed coefficient which would be a part of the formula to be used and would usually be equivalent to the advance payment.
 - oo Define how to implement readjustments between the date of contract and the date of receipt of advance payment.
 - oo Determine specific types of rates and the institution that will approve them.
 - oo Regulate rates, which should also be officially published.
 - oo Include mandatory requirements on which the entity can base and support estimates with the corresponding budget registry.

- It is advisable to adopt the same contract clause adopted by many public sector entities: that a public works project should only start after the Fiscal Auditor issues a "writ of expiration" for the contract. This would prevent both the paralyzation of public works activities and any resulting damages to contractors in the event that there were objections made with respect to the administrative process. Since the prescribed deadlines for the auditor's decision are relatively short, this would not impose a hardship on the contractor or contracting party.

2. Standards, Policies and Organization for Controlling Public Works Investment Projects

- o By Decree 222 of February 1, 1983, the Comptroller General's Office is required to intervene only through post control by reviewing procedures and operations implemented during the process of administrative contracting. The purpose therefore is to verify that existing standards, rules and regulations have been complied with. This decree also defines post control as a type of control carried out when all administrative activities subject to such control have been implemented and terminated. Furthermore, it bans the Comptroller General's Office from intervening in any administrative contracting process, especially in

activities such as the preparation of terms and conditions, analysis of offers, award of contract, execution and liquidation of contracts. Such regulations preserve the independence of the supreme audit institution, though it does set limits to its control activities.

- o Resolution No. 09999 of May 9, 1983, issued by the Comptroller General, is regulated by Article 298 of Decree 222. It establishes the manner in which post control activities will be conducted, ratifies the processes of financial reporting, including the formulation of observations and the procedures for demands, if applicable. Resolutions 010500, 10501 and 10502 regulate the important control activities carried out by the various fiscal audit offices of the Comptroller General's Office located in the contracting entities.
- o Headed by the Deputy Comptroller General, a "technical team" has been formed with ten civil and electrical engineers and architects. Their main task is to control public works according to the terms set by Resolution 10522 of March 28, 1984. Their activities are directed by requests received from the Comptroller General and the Deputy Comptroller, fiscal audit offices and the Office of the Director General for Financial and Operations Audits, as well as trial requirements in the event of any administrative contracting being contested. There are no standards or procedures to conduct this external project control, which is not subject to any type of system nor planning requirements. Participating professionals have been sharing their experiences in an attempt to unify criteria to be used in implementing such controls. This technical group has already produced reports that are reasonably ordered and structured; however, work is still needed on the main conclusions and recommendations.
- o Professionals in this technical group have received general training in their corresponding areas. No specific training for project control activities is planned for the immediate future.
- o The Comptroller General's Office does not carry out any external control activities of public works, although they have the power to do so. They have reviewed only a small percentage of the numerous capital investment projects being implemented by the public sector.
- o Currently, post control of administrative contracting activities and receipt records and accounts are just reviews of an arithmetic nature. This does not comply with modern concepts of government control procedures which should be based on the following:
 - Systematization and specialization of public works and capital investment projects.
 - Evaluation of internal control systems applied by executing entities.
 - Verification of the efficiency, effectiveness and economy with which the public works projects are implemented.

All of the above aspects are aimed at modifying and improving administration activities, with the purpose of achieving efficiency, better quality in public works and effective handling of scarce resources.

- o -The absence of regulations that systematize public works control is a determining factor in the lack of consistent criteria and the absence of activity planning and scheduling procedures.
- o The lack of well-defined objectives prevents the integration and coordination of control activities by the various offices at the levels of advisors, coordinators and executives within the Comptroller General's Office.
- o The lack of specialized training prevents an appropriate use of the few but hardworking officials who are currently taking care of day-to-day public works control activities within the Comptroller General's Office.
- o The image of the controlling institution changes when they are able to provide timely advice through reports and recommendations on improving internal control systems, and the use of human, material and financial resources; in short, if they are able to provide advice to improve project management to the institutions being reviewed.

RECOMMENDED GOAL

Design and implement a system for the control of capital investment projects, using current standards that will be modified whenever necessary, reorganizing existing administrative offices and recruiting competent personnel, and clearly defining that these special types of control activities as part of the operational audit responsibilities of any supreme audit institution.

ACTIONS REQUIRED

- o Short-term Activities
 - Reformulate existing regulations under Decree 222, so that the control of capital investment and public works projects is carried out by the executing entity (pre- and post controls) as well as by the Comptroller General's Office (external post control).
 - Organize, in the Comptroller General's Office and in the financial and operational auditing units, the responsibilities of the professional teams of engineers with the objective of controlling the public works projects,

applying governmental auditing standards and techniques. This activity should also be carried out in the internal auditing units of the public entities.

- Prepare procedures for the control of capital investment and public works projects, to be included in the Comptroller General's audit manual. Those procedures should include the various steps to be followed, like collection of information, analysis and classification of data, field work, preparation of reports and comments, conclusions and recommendations, development of activities for each phase, reporting processes and integration of public works control with any other controls to be carried out by the Comptroller General's Office.
- Design and implement a program of technical assistance to be provided to internal audit offices of the various public entities. The purpose is to organize the activities of public works control as part of auditing offices external post control responsibilities.
- Design and implement a comprehensive training program for personnel responsible for carrying out control activities. Training and professional development courses should be systematized and given in sequential modules.

o Medium-term Activities

- Carry out public works and investment project control activities following priorities set by a comprehensive plan. For planning purposes in the area of public works control activities, it may be necessary to check any provisions by the project bank of the National Planning Department.
- Continue providing technical assistance to internal audit offices of public entities, both in the organization of work teams for public works control and in the preparation of procedures and standards.
- Given the importance of public works and investment projects in the development of the nation, expand the training programs for officials of internal audit offices to include developing skills to be applied to public works and capital investment project control activities.

I. Control and Auditing

1. Legal Basis

- o The efficiency with which public entities are organized largely depends on the existence of clear, basic, concise and harmonious legislation. Achieving such

legislation will contribute significantly to the role of the Comptroller General's Office.

- o The Constitution of Colombia, its main and basic regulatory document, does not contain any provisions that may be in conflict with the application of the conceptual model for controls and audits that is proposed in the second chapter of this assessment report. Using this model, the Comptroller General's Office will be the governing body for a national control system based upon two fundamental precepts: internal control activities should be carried out by the executing entity, that being the managers or administrators responsible for them, and external control activities should be implemented in an independent and objective manner by the Comptroller General's Office. Constitutional provisions clearly prevent the Comptroller General's Office from having any administrative functions apart from the ones inherent to its organization, which further supports the need for the independence element contained in the conceptual model.
- o Article 60 of the Constitution deals with the powers of the Comptroller General. It contains only one provision that may be considered in conflict with the conceptual model: that the Comptroller General "keep the book of public debt or Government Book," an accounting activity which is also a management responsibility for each entity or public institution. Therefore, it is understood that any powers referring to national accounting may continue to be part of the Comptroller General's responsibilities only in the regulatory sense, and to meet the requirements of the constitutional provisions banning the exercise of administrative functions, any bookkeeping should be assigned to the executing authorities. Thus, this provision is not in conflict with the above-mentioned conceptual model.
- o The issuance of Law 20 on April 28, 1975, represented a landmark in the history of the Comptroller General's Office, as well as for the country's fiscal control system. Not only did it set the organizational and functional basis of such an entity, but it also paved the way for the preparation of a series of decrees which regulated the operation of such an entity in many aspects.
- o It must be pointed out that at the time of issuance of this law in 1975, the Lima statement had not yet been issued (this was issued at the end of 1977). Therefore, many of those provisions were not included.
- o Article I of Law 20 states that there are other provisions with reference to the organization and powers of the Comptroller General's Office that have not been included or incorporated therein. This conclusion is mentioned in the article: "aside from current provisions, and whenever it is not otherwise prescribed by the present regulation, fiscal control exercised by the Office of the Comptroller General shall be implemented in compliance with standards, systems and rules provided herein."

- o As indicated in the description, Decree No. 295 of May 11, 1976 defines pre and post-controls. Its Article 2 clearly states that pre-control activities are to be carried out by the Comptroller General's Office. It is interesting to point out here that this is a secondary regulation; it does not result from a law and it is contrary to the independence that must be a paramount feature of the Comptroller General's Office. This regulation places the office as part of the same operational process that it is supposed to judge. Furthermore, it violates the constitutional provisions that prevents the Comptroller General's Office from exercising administrative functions that are not inherent to its own organization.
- o Article 77 of the recently issued new budget law is something to be concerned about. It fragments the exercise of control activities among various public institutions. It assigns financial and economic control of the nation's general budget to the Director General for Budgeting, evaluation of results to the National Planning Department and accounting and legal control to the Comptroller General's Office. Furthermore, Article 79 of Law 38-89 limits the activities of the Comptroller General's Office to fiscal control aimed only at verifying the observance of current standards, legislation, regulations and procedures. This is in direct contrast to general audit practices as prescribed by INTOSAI. The scope of a government audit by a supreme audit institution includes financial, operational and management audits, also known as the 3 E's rule: efficiency, effectiveness and economy.
- o In reference to the above-mentioned regulation, Colombian intellectual circles have made known their concerns in that regard through the media.
 - "Management control remains in the hands of the executive when, according to recent trends and successes in many countries of the world, this internal control function should remain independent in order to freely carry out its control and evaluation work. Therefore, an organization such as the Comptroller General's Office should perform the audit functions and report its findings to Congress.
 - Control functions are no longer faced with the inefficiencies generated by Decree 294-73 and Law 20-75. These decrees maintained an anachronistic and non-technical system of auditing continually reinforced by the argument for an arithmetic and legal approach to pre- and post-stages which degenerated into "in-situ" audits of all government agencies. Under the terms set by the new budget law, fiscal control faces the difficulty of conflicting competencies or ambiguities in the performance of responsibilities. This is caused by a permanent non-definition with respect to the jurisdictions within fiscal control functions. The new statute places the responsibilities in the Ministry of Finance and the National Planning Department for financial and economical controls and evaluation of results. This then questions the responsibility of the Comptroller General's Office to implement management controls with respect to the efficiency and economy in handling government funds and assets. By

allowing each entity to have its own internal control office, it permits the Comptroller General's Office to have more external control. This has demonstrated significant advantages in terms of the efficiency and timeliness in control activities. However, the general adoption of such systems entails a cutback of two-thirds of the Comptroller General's Office personnel. Though the final text of the new budget grants control over fiscal management cycles to the Comptroller General's Office, as in previous legislation, such a definition did not take into account or include control activities that have been carried out in an attempt at combining Decree 294-73 and Law 20-75.

- o Even though the sovereign rights of any country's administration allow it to adopt any control system of its choice, it is also true that certain concepts and ways of implementing control activities are more efficient than others; experience has shown some of them to have proven advantages over others. Therefore, the following suggestions are provided as goals to be achieved. Recommendations are made for the purpose of amending the above legal basis for the existing control and audit system.

RECOMMENDED GOAL

Establish a new approach to government control, in accordance with modern doctrines as formulated by supreme audit institutions worldwide. It should include the professional practice of internal and external controls and the operation of the most efficient internal control systems in each public entity. Furthermore, it should amend any legal basis to incorporate the requirements of this new approach.

ACTIONS REQUIRED

- o Definition and disclosure of the new approach in government control and audit activities, which should include the following: a) it should regard fiscal control as comprehensive system consisting of two constituent elements: internal control to be exercised by the entity itself, and external control to be exercised by the Office of the Comptroller General; b) it should institute the Comptroller General's Office as the governing body of any control system; c) it should use professional audits, both financial and operational, as its main methodological tool for control activities.
- o Compatibility of legislation (constitutional provisions, legal and regulatory standards) to comply with new approach and policies.

ACTIONS REQUIRED

o Short-term Activities

- Design a work plan and organize a working group to: a) prepare any constitutional reforms required to incorporate the new approach and its policies in government control and audits; b) compile the various existing legal regulations to have a basis for the preparation of a single law to regulate the new system.
- Submit these draft regulations for consideration by top level officials, and once approved, submit them to the Legislative Branch.

o Medium-term Activities

- Once constitutional reforms are approved and any new legislation is issued, prepare secondary regulations (rules and technical standards for internal control and internal and external audits, etc.) to facilitate the practical application of fundamental regulations and laws.
- Provide technical assistance to public entities for the preparation of specific secondary standards for the establishment and operation of internal control and audits.

2. Organization

- o All powers, functions and responsibilities within a government control should be distributed among the distinct organizational units. This distribution should consider the legal and administrative aspects as well as activity distribution requirements, organizational specialization and any other pertinent considerations. Consequently, it is necessary to identify the various units, prioritize them and assign the appropriate activities to each of them. This requires the prompt attention of the national government.
- o The structural organization of the Comptroller General's Office as a whole is compatible with the conceptual model. Top level units are supplemented by advisory units, such as planning, legal, internal control and training offices; support units that serve the entire organization, such as human resources, administrative, and financial offices; and, operational or line units responsible for compliance, such as the Office of Financial and Operational Audits.
- o In view of the number of powers and responsibilities that each entity currently has, such structural organization is clearly excessive to carry out the functions prescribed under the proposed conceptual model. According to this model,

there would be no justification for the existence of an administrative office responsible for national accounting nor those offices responsible for the examination of accounts within the Comptroller General's Office. The conceptual model would not include general audits, special audits, regional audits nor activities of the delegated review offices, which carry out pre-control activities in the various public entities.

- o A good strategy would be to organize internal audit units in each entity at the institutional level. Those units within the Comptroller General's Office that out-control activities would then be transferred to those where they are actually operating.
- o For the purposes of the proposed conceptual design, the unit responsible for carrying out financial and operational audit activities is extremely weak. Therefore, it must be strengthened in order to cover the entire institutional universe that is subject to control activities by the Comptroller General's Office.
- o Even though the proposed conceptual design does not include any specific mention of "the court of accounts," it is perfectly feasible to maintain those units responsible for such matters within the Comptroller General's Office.
- o Since the control and audit system described by the conceptual model provides the foundation for internal control, and given that the presence and operations of internal audit units at the institutional level forms part of this control, there is a need to find mechanisms that could facilitate the relation and coordination of these units with the Comptroller General's Office.

RECOMMENDED GOAL

Develop and implement a plan of institutional reforms to streamline and improve the internal organization of the Office of the Comptroller General. This plan should include the adaptation of the Comptroller General as the governing body of the control system as well as of the practice of financial and operational audits. This plan should consider the relationships of the proposed General Directorate of Accounting in the Ministry of Finance and the control and internal audit units of each public entity.

ACTIONS REQUIRED

- o Short-term Activities

- Organize a working group with the participation of officials from the offices for planning, legal affairs and the Office of Financial and Operational Audits in the Comptroller General's Office, as well as representatives from the various ministries. The purpose will be to develop a plan of institutional reforms. This plan should then be submitted for the approval of the Comptroller General of the Republic.
- Prepare a proposal to regulate the functional and operational organization of the Office of the Comptroller General, and obtain approval by the proper authorities.

o Medium-term Activities

- Provide technical assistance to the main public entities that are subject to control by the Comptroller General so that they can adapt their internal organizations to meet the needs of their external and internal control and audit offices.

3. Processes and Procedures

- o The procedures for related tasks, methodologies for steps to be followed in order to achieve a goal, justifications for each step taken and their relationship to others precise determination of implementation terms and processes and procedures to be used and levels of efforts needed, must be properly supplemented in order to cover every area of government audits to be conducted by the Office of the Comptroller General.
- o According to the description in the detailed report, the Office of Financial and Operational Audits in the Comptroller General's Office has responsibility for the processes and procedures for the practice of financial audits.
- o In fact, Resolution No. 09408 of 1982 made effective the Manual for General Procedures in Financial Audits where the standards for audit activities are included, among other standards.
- o These standards are specifically intended for financial audits practices; therefore, it may be necessary to supplement them so that they cover operational audit practices as well.
- o Since such standards must be used by audit units within the Comptroller General's Office as well as by the internal audit units of the various public entities, it may be more advantageous to issue them separately as a secondary regulatory instrument with a more generic nature.

- o Other parts of the above manual will also need some revision in order to include procedures for operational audit activities within the Comptroller General's Office.
- o Internal audit units within the various public entities need to have their own specific manuals.
- o The above-mentioned manual includes a section for institutional internal control. Since this is an important element of the control system, it may be more advantageous to issue internal control standards, as separate documents, for the regulation of internal control operations in public entities. Such internal control standards should emphasize the fact that internal controls are based on administrative operations, and that they are an integral part of the procedures followed at the institutional level. These internal control standards will be the parameters within which auditors should evaluate existing internal controls in each public entity, as a basis to determine the extent and scope of their audit activities.
- o Financial audits carried out by the Office of Financial and Operational Audits are highly professional in nature. Audit activities are carefully planned. Internal controls are evaluated. Audit programs are used. Activities are duly supported by working papers. Appropriate audit techniques are implemented. Adequate reporting procedures are used and current and permanent files are properly handled. However, the scope of application -- mainly credits given by international financial organizations -- is too limited, given the size of the public sector. Improvement in scope is needed.
- o There are no thorough operational audits being carried out -- only partial audits that are part of financial audits. Therefore, it is necessary to increase the scope of such audits.

RECOMMENDED GOAL

Develop processes and procedures for operational and financial audit practices to include internal control standards, professional financial and operational audit standards, a manual of audit practices for the Comptroller General's Office as well as specific manuals of audit practices for the internal audit units of each public entity.

ACTIONS REQUIRED

- o Short-term Activities

- Organize a working group for the preparation of "Technical Standards for Internal Control" which would also serve as guidelines for the design of the internal control procedures in each public entity. Submit these standards for the approval of the Comptroller General and after they are approved, circulate them to end-users.
 - Organize a working group for the preparation of "Standards for professional financial and operational audits," supplementing existing standards. Submit these standards for the approval of the Comptroller General and after approval, circulate them to the end-users. Such standards should refer both to internal and external audits.
 - Organize a working group to determine the necessary amendments to the current Manual of General Audit Procedures, so that it includes the requirements for the practice of operational audit activities.
 - Enlarge the number of financial audits of public entities, in order to ensure reasonable coverage of all entities subject to control by the Comptroller General's Office.
- o Medium-term Activities
- Initiate the implementation of operational audits practices and improve financial audit practices.
 - Provide advisory services in the design of procedures and mechanisms of internal control to public entities.
 - Provide assistance in the preparation of specific audit manuals to internal audit units of public entities.

4. Administration of Human Resources

- o The present assessment already contains a section referred to as human resources in government financial management. However, it is necessary to include this section since, according to the proposed conceptual model and to preserve the independence of the supreme audit institution, an autonomous administration for the control and audit systems is required.
- o The management of human resources, taken as a process intended to select, incorporate, develop and maintain a team of qualified human resources in the institution, entails great efforts to achieve the objectives that financial and operational audit practices require from the Comptroller General's Office.

- o The Comptroller General's Office has the proper procedures with which to meet human resources management requirements. There is a system for administrative promotion on merits, categorization of positions, minimum requirements to become eligible for recruitment, promotions and transfers, training and professional development programs, periodic performance reviews, etc. However, most professional employees, especially auditors, are excluded from the career system.
- o Not only does the Comptroller General's Office have a training facility for its employees, but it is also the seat of many training events sponsored by the Latin American Institute of Fiscal Sciences (ILACIF), which is attended by most officials from other Latin American Controller General's Offices. However, most of the training efforts are aimed at national officials performing pre-control activities, without having training programs for financial and operational audit practices. As training programs in these areas are implemented, the results will be significant.

RECOMMENDED GOAL

Develop a comprehensive training, specialization and professional development program to provide technical skills and knowledge to the employees of the Comptroller General's Office and internal auditors of public entities who need to efficiently implement financial and operational activities. This is the main mission of the Supreme Audit Institution.

ACTIONS REQUIRED

- o Short-term Activities
 - Design and implement a basic training program for the auditors of the Comptroller General's Office to carry out professional financial and operational audits in public entities.

This program should include a basic course with guidelines about new control policies and approaches. This course should be mandatory for all personnel at the Comptroller General's Office. It should also include a course in government accounting, a course in operational audits, a course in public works and capital investment project controls, and another one in training techniques to prepare instructors.
 - After meeting the basic training requirements of the office, improve and extend the implementation of training programs to benefit internal auditors of various public entities.

o Medium-term Activities

- Continue the development of training programs, incorporating courses in other specific areas, such as computer center audits, etc.