The International Consortium on Governmental Financial Management

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Consortium on Government Financial Management
School of Accounting, Florida International University
Association of Government Accountants
U.S. Agency for International Development
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James Scheiner, Director, School of Accounting
Florida International University

Jim Hamilton, President
International Consortium on Governmental Financial Management

Ladies and gentlemen, I would like to welcome you to this our Eleventh Annual International Conference on New Developments for Government Financial Managers. The Consortium is now entering its twentieth year and this is my third opportunity to welcome you to this conference. We are happy to continue our longstanding partnership with the School of Accounting of the Florida International University. We appreciate the continuing support for this conference from our cosponsors, the Association of Government Accountants, the U.S. Agency for International Development and the World Bank. Our members from the private sector have also been instrumental in making this conference a success. In this regard, I would especially like to thank Coopers and Lybrand for sponsoring our lunch today, Price Waterhouse for sponsoring our reception and banquet tomorrow evening and the Barents Group of KPMG for sponsoring our luncheon on Wednesday. You can see these conferences truly are a partnership of our major members in the private sector and in our government financial sector.

The conference will be for three days followed by two days of post-conference seminars. This year we have a strong program on new developments in integrated financial management systems and on combatting and controlling corruption and fraud, along with other challenging topics. We have a strong and influential cast of international speakers for the presentations and delegations from over forty countries. Our attendance is up to nearly 400. This year we have expanded the Exhibition Hall to eighteen exhibitors. You have requested exhibitors that are relevant to your work, and you'll notice we have a wide variety of exhibitors in the Exhibition Hall, including several well-known software firms. We encourage you to continue your stay for the interesting array of follow-on seminars making it a full week of professional development.

I believe it is fitting at this time to welcome Mr. B. Preston Rich, recently elected to our Board of Directors. Mr. Rich is Executive Director of FinanceNet at the National Science Foundation. He has been instrumental in the ICGFM's development of a home page and Web site within FinanceNet on the Internet, a worldwide interactive network of personal computers.

The International Consortium on Governmental Financial Management has been a partner with you and your organizations in the technological revolution in government financial management. We are entering the second year of our Internet Web site on FinanceNet where you can readily access our officers and directors by E-mail and read and copy our publications and announcements of upcoming events. The complete text of this conference will be posted there in English and Spanish for you to review and copy. You will also receive a diskette of this conference's proceedings. Once you are on FinanceNet, you will find it a strong source of government financial management information and publications.

I believe we are off to a good start, but I am concerned that we have not yet taken full advantage of the new technology now available to us at little or no cost, when you have a flat-fee connection to the Internet. This flat fee is widespread across the United States, but it hasn't happened in all countries of the world. I would like to outline for you the advantages of this new technology, what we have already done and my vision of what we can accomplish now and in the coming year or two.

The first major advantage of the Internet is the posting of announcements and documents for all to refer to and use. The ICGFM has been able to post the complete text of our newsletter and our journal, the *Public Fund Digest*, which Virginia Robinson edits. We have a new journal coming out which is being distributed today. We also post programs of upcoming Forums in Washington and Conferences in Spanish and English. I hope you are aware that this conference and the program, in Spanish and English, has been posted on the Internet for the last four months. So, if mails fail, if other communications fail, it is there for you to read and be aware of, and this is going to continue. The addresses and E-mail addresses of our officers and directors are there, as well as the complete text of our Conference presentations in Washington for 1995 and 1996 in English, and Miami in 1996 in both Spanish and English. These are on the ICGFM home page *"http://www.financenet.gov/financenet/inter/icgfm/icgfm.htm" ("http://www.financenet.gov/icgfm.htm")* available to all interested persons throughout the world who understand English or Spanish to read and copy as little or as much as they wish. The beauty of using the Internet in this way is, first, we minimize production costs by eliminating the enormous costs of printing and mailing the proceedings of our Conferences, for example, and second, it's much less of a burden on our members and other users: they don't have to carry around large and bulky volumes of conference presentations. The full text of the updated speeches and the questions and answers are there. Through the Internet, one can browse the table of contents of each individual presentation and copy only the presentations or pages of the presentations needed at that time.

The second tremendous advantage of the Internet is E-mail. For the ICGFM and other sister organizations, it provides the opportunity to send both individual and multiple-address messages. This allows us to simultaneously send messages and documents to all our members who have E-mail addresses with one keystroke. And the cost…no printing/publication costs…no postage…no long distance telephone usage costs…only the administrative time/costs of writing the message, article or recording the event remain…quite a bargain! Of course we will have to print and mail our official core publications when it makes good sense to do so. But this can be a dwindling cost as we put more of our collective energy where we can maximize our outreach and impact.

We are off to a good start. How do we get the rest of the way there? In addition to having our own ICGFM home page on FinanceNet, now our Secretary General, Audrey Dysland, is on the Internet, with the easy-to-remember E-mail address of *"icgfm@erols.com"*. This is largely due to Price Waterhouse, which donated a Windows-based personal computer and software to Audrey. Most of our officers and the directors are now accessible by E-mail. Their E-mail addresses are listed at the end of our home page. When you send us an E-mail message, we will add your name and E-mail address to our growing E-mail address list, to keep you better informed on a more timely basis.

How do we make the vision a living, working reality day-to-day? It already is becoming a reality for some of us in the AGA and the IIA. We're doing most of our communications here in the United States through E-mail. I believe, internationally, we have to rely on the younger generation who has grown up on the computer. We need a few experts, a few hacks, gurus, etc., in each of our member countries to build up E-mail lists in their country, region or city. These partial lists then need to be posted to a central list with our Secretary General and used in parallel with our mailing lists. Our computer gurus in each country can also help by providing news and the text of articles and upcoming events in their region, by E-mail. I know there are at least a few of you out there in each country who enjoy the advantages of this new mode of operation, both at work and in your homes in your spare time. I know I do, Jim Wesberry, Jim Kaplan, Preston Rich and other of our members do--but we need to get to know the rest of you. We need your help both in accumulating a growing list of E-mail addresses and to post and maintain announcements of upcoming events on our home page on the Internet. We need the collective energy of a group doing this to make our home page more artistic, more attractive and indispensable to our membership. Now is the time to reach out to the rest of the world, especially to the emerging democracies and economies in transition who need the timely information and advice that the ICGFM home page and E-mail network can provide.

Let us apply the principle of Partnership that we have been nurturing with the AGA, IIA, Australian Society of CPAs, NASACT and the other major organization members of our Consortium. I know personally that the IA and the AGA are moving toward building their E-mail mailing lists to eventually reach out to all their members. Why not share our E-mail lists or at least exchange the E-mail addresses of our members-in-common, so that we do not duplicate each other's efforts in this new venture?

That's all I have to say. The rest is up to you. I see this as one of our major challenges over the next few years. I hope you agree. I know the cost of a PC and Internet monthly connection fees is quite uneven from country to country, but I think over time this is going to be something very practical which we can take advantage of. Some organizations provide a PC and Internet connection to each professional and support-staff employee. Others do not. I hope the advantages and the competitive environment will encourage them to do so. In the meantime, most of us have a colleague at work or a friend or relative at home who has a windows-based PC and who are connected to the Internet. Try to share this resource as time permits. Let's work together to make this vision of a global interactive community among our membership a reality. That's my hope.

Don't forget to register for our upcoming conference in Budapest. As you know, over the last couple of years, we've pushed the concept of having regional conferences outside of Washington and Miami. We want to show we're really international in our outreach. With the help of Mort Dittenhofer and Jadish Narang, we had a big conference in New Delhi, which is international in its own right. We have a resident consortium working there. We had one in Pakistan in 1995. Information is available at this conference for the Budapest, Hungary Conference on Internal Control and Internal Audit, September 22-28, and for our International Conference in Washington on October 2-3, this year. They are both also posted on our home page on the Internet.

I sincerely hope you will enjoy the conference and follow-on seminars, and take home valuable information learned and warm memories of new friendships made here.

Charles Culkin, Jr., Executive Director
Association of Government Accountants

On behalf of Mitch Laine, our national president, it's a real honor and pleasure to welcome you all here to the Eleventh Annual Consortium Conference. AGA is certainly proud to be one of the sponsoring organizations. Standing before you here today, it is a real honor.

As Jim Hamilton mentioned, I am the new Executive Director of the Association of Government Accountants, and this is only my second week in office. In fact, this is my first official function as the AGA Executive Director. I am not new to AGA. As Jim mentioned, I have been involved with the organization for over seventeen years. Recently I was the National Treasurer before I was chosen to be the Executive Director. I've also been heavily involved in putting on conferences similar to what you have here today.

Moreover, I am not new to the international community. For four years in the early 1980s, I served in the General Accounting Office's Far East branch, headquartered in Hawaii, much involved in work with the new emerging nations of Micronesia and various foreign countries in the Far East. About two or three years ago, I worked with the State Department, in enhancing the Inspector General concept in the United Nations. In fact, the General Accounting Office right now is in the process of taking a look at how well that office is running.

As Jim mentioned, we are a partner with the Consortium, and have been for a number of years, and we're very pleased to have that relationship. We are looking forward, as you are, to moving forward in a number of different areas in the international community. Jim Durnil, who is here today, one of your Vice Presidents, and Bill Taylor, who is one of your Directors, are Chairing and Vice Chairing our International Development Committee to determine where we should be moving forward in the international arena. Also, we're in the process now of trying to form chapters in a number of countries. Canada, China, Bolivia, Japan and Korea have shown an interest in having the AGA in their countries.

Also, a number of AGA members as well as our Consortium members have been providing assistance to a number of countries. I saw Ron Points here earlier, before the conference started. He was telling me some of the things he's been doing with his firm.

Now, I couldn't go on without saying a few words about AGA's certification program. Today, we have over 13,000 members. We have nearly fifty international colleagues who have become AGA certified. A lot of thanks goes to the Consortium in helping those members become certified. In fact, at this conference, we have seventeen participants from nine countries who have their certification.

We'd also like to point out that receiving this designation has been recognized in at least one country. The Auditor General of the Republic of Kiribati was recognized by the president of his country for having received the designation, "not for yourself, but for our country," and I think that is very important.

Last October, Virginia Robinson and Jim Hamilton made some certificate presentations to the graduating class of GAO's International Fellows Program from a number of nations, which include Ghana, Greece, Saudi Arabia, Sierre Leone and Venezuela. So, the certification program is expanding internationally.

I'd like to echo the remarks that Jim made earlier regarding the Internet. AGA, in the past years, has been very successful in getting up on the Internet in a number of areas. We are putting a lot of things on the Internet, like Jim mentioned--publications, announcements about conferences, membership applications. We now have established links with thirty other accounting professional associations around the country. We are working with our own chapters. We have ninety around the country and the world, and are establishing home pages for each one of them. So far we have five and are moving forward. Shortly, we will be developing a membership Rolodex on the Internet, so anybody will be able to tap into our system and get information about a particular member.

Lastly, we put out a quarterly journal, as many of you may be aware, and what you're going to be able to do is, through the Internet, be able to get twelve CPEs by just answering twenty-five questions. We see the Internet as the wave of the future as far as delivering education within the AGA.

To close, I'd like to welcome you all on behalf of the organization, and I couldn't leave here if I didn't recognize a couple of our past national presidents that are here with us today. Virginia Robinson and Clyde McShan are two of our past national presidents, and you will have one here speaking this afternoon, Jeff Steinhoff.

Thank you very much for having me, and have a very successful conference.

James Scheiner, Director, School of Accounting
Florida International University

Good morning. On behalf of the School of Accounting at Florida International University, I am pleased to welcome you to the Eleventh Annual International Conference on New Developments in Government Financial Management. Florida International University, founded in 1972, is the fourth-largest university in the state university system. The School of Accounting, founded at that same time, has been very successful in placing our graduates, and doing research and teaching that we're expected to do in providing service.

Perhaps the best way to illustrate that is to consider people like Mort Dittenhofer who have had an outstanding career as an academic, who have been noted providers of information to the profession and to academia, and have served the profession well.

This is the Eleventh Annual Conference. I trust you will find the conference informative and enjoyable, and that you will have the opportunity to meet new friends and renew old friendships.

I believe it is appropriate to thank two special people for their efforts: Jim Wesberry and Mort Dittenhofer. Jim and Mort have worked tirelessly through the eleven years in developing the concept in presenting each year's conference. They started small, and have carefully nurtured the conference to its present size. I asked Mort yesterday as we were getting ready for today if he ever thought the conference would be this large, and he said no. We owe both of them a debt of gratitude for their efforts. Since starting they have continually adapted to the changing environment. In fact, Jim and Mort have been able to anticipate a substantial number of these changes, and had them on the program before they ever occurred.

Again, welcome to the conference.

Implementation of Integrated Financial Management Systems

James P. Wesberry, Jr., Principal Advisor, The World Bank

First, I would like to give you a warm and cordial welcome to the third millennium. Some centuries after the birth of Christ, a calendar was established based on the year of His birth. Unfortunately, that measurement of time was rather deficient. The experts now say they made a mistake by four or five years, and that we are probably already in the third millennium, but no one is really sure.

We have another problem with time. For example, what time do you have? I have 9:18, but I was supposed to begin my presentation at 9:00. We're already late in the program. We had a time change on Saturday. Here in the United States we moved our clock forward one hour. Surely some of you got to Miami thinking that it was one time, and you found out that it was another time.

We have problems in measuring time in conferences like this. We have problems determining the days in months, because sometimes February has an extra day and, therefore, we have problems measuring days in a year, and we also have problems measuring the centuries.

I do not know exactly what time it is, and we all have watches with different minutes at this moment. If we're not sure what day it is, and we're not sure what month, what year or what century it is, and we don't even know what millennium we're in, how are we going to solve the financial problems that the different governments have?

It is relatively easy to count to 2000 for any of us who are controllers. However, only the accountants know the technique of counting with their fingers and their toes 100 times to reach 2000. The situation is such that we have problems with measuring 2000 years. How are we going to measure thousands and thousands and thousands and thousands of millions of dollars, pesos, escudos and all the different types of currency, if we have problems measuring days, hours, minutes and 2000 years? Well, that is a task that is quite difficult.

I am an accountant. I know that there are three kinds of accountants. Please listen to this, it's quite complicated. There are three different types of accountants: Those who know how to count and those who don't. Think about that.

We do have officials from different countries of many different disciplines other than accounting, and many of you are tasked with carrying out the administration of finance in the third millennium, which apparently we are already living in. These days, at least we have integrated systems for administration and financial management in almost all of the countries of the Western hemisphere, as well as in many other parts of the world, some of which are represented here with us. We'll be talking about the other hemisphere this afternoon. I hope we have a chance to discuss and exchange experiences concerning the implementation of such systems at this conference. This is the topic that I have been given to discuss with you this morning.

There are nine basic principles for the development and implementation of an integrated financial management system. First, a radical change must take place for the administrators of financial management systems. There must be a reinvention of the mechanisms and of the processes of handling public finances, taking advantage of the latest technology to improve the quality of management decision making.

The second principle is political will. An integrated system requires the support of the different sectors of the government, the community and the different professional associations within that country. That is why, when we introduce a system such as this, we have meetings with the different organizations together or separately. For example, in Guatemala, we had seminars separately with the two political parties in order to be sure that both parties were in agreement with the idea, because the worst thing that can happen is that you start implementing this under one government, and then another government comes along and says, "This is theirs, you have to start all over." Therefore, one has to have the political will for a number of years.

The third principle is to realize this is a long-term commitment. You need political will and the financial resources for support. It has to be available in a consistent manner through several decades and several different governments.

The fourth principle is leadership, and this is perhaps the most important. The leadership has to be able to implement and to institute. It requires a leader, a charismatic motivator, with a vision that can create a sense of enthusiasm for change. It also requires technical leadership with a wide range of experience in the different concepts and in the practical application of the system, as well as a knowledge of experiences in different countries. One example of this was presented to us at last year's conference by the Comptroller of Bolivia, a charismatic leader for the project. We will listen this year about the experiences of Argentina, when the ex-Secretary of Finance, Ricardo Gutierrez speaks on Wednesday about his vision for the integrated mission.

The fifth principle is to break down the barriers. One serious problem we have is the conflicts or barriers between the different territories--i.e., between groups of officials within the Finance Ministry. A multi-disciplinary group of people in accounting and computers is required to eliminate problems that could occur from segregation, such as duplicative systems and functional unit specialization. There must be a means, at the highest level, to solve the differences of opinion that cannot be solved by the officials of the technical departments.

Sixth is economy and administration. The managers of each entity must obtain a greater autonomy in their operations, and be able to make decisions simply within the parameters that have been established.

Seventh is personnel. It is important to have the right personnel. The technical advisors and experts must know about financial systems in different countries to adopt the best practices and avoid mistakes that have already been made in other countries. The local personnel must also have professional preparation as well as appropriate knowledge and experience to get the system going and to maintain it.

Eight is improvement and continuous training. Once started, the system must be improved in a consistent manner, and this includes a program of training for personnel.

Finally, the ninth principle is the interchange of ideas, experiences and requirements. One has to share new ideas and experiences across borders, both nationally and internationally, and share the programming of the different computer systems. Obviously, this last point is why we are here today in Miami, the State of Florida, in the United States of America, and why we have carried out eleven of these conferences. It is why the International Consortium exists today and tries to carry out the objectives that Jim Hamilton, the President, mentioned in his opening statement.

There are four points that I wish to discuss with you in the rest of my presentation. These are points that are indispensable in understanding the implementation of the system. Number one is to pursue accountability relentlessly. Number two is to get a feel for the objective and control the technology. Number three is to adopt a systemic focus that is practical and integrated to the reforms of the administration. Number four is to take advantage of the integration of the technology that is available to strengthen the faith of the citizens in each government. We are going to discuss each of these four points and I'm going to repeat them several times during the rest of my presentation.

First, to pursue accountability, I will use the present Administration here in the United States as an example. They talk a lot about reinventing government. Reinventing government is more than the reinventing or the reengineering of the government, the interrelationships and operations of the different entities that compose the public sector. The cornerstone of reinvention of any activity of any type, whether social or economic, is the reinvention or reengineering of the people. We must review, reinvent and reengineer the people who are administering these systems. It doesn't matter what technology, it doesn't matter how much money, it doesn't matter how much support, it doesn't matter how much leadership we may have, because the cornerstone is the people. We have to reinvent our personal integrity, our character, our spirit, our life and our attitudes as part of the effort of reinvention. In other words, we have to reinvent our accountability for our new President, the duty to respond before a superior authority and, therefore, resources that we are in charge of.

Financial accountability is very simple to understand. Those who handle an amount of money or other resource has to present a report, usually in writing, and it can be audited. How was that resource utilized, and what balance is left? But the term accountability goes farther than that in today's world. Inevitably, the search for the reinvention culminates in the determination of a better way to act and to respond.

The World Bank, on the first page of its Accounting and Auditing Manual, defines accountability as follows:

> "accountability effectively responsibility with the investors as well as the credibility of the countries that the loaning companies toward the Bank and with its own internal groups that may be interested. By accountability, we understand that every act or action should be transparent, subject to the law, its rules and regulations and all of the participants are responsible for their own actions, and all acts or actions are subject to revisions and impartial auditing, and the results should be available to all interested parties."

This is how we see accountability in the World Bank. It is difficult to define accountability, especially if you do not recognize that it should be applied to you yourself. The persons who do not understand, or do not want to understand, have great difficulty in understanding their accountability before the people, the government, the employer or their own neighbor.

Again, the first point of this talk is to pursue accountability relentlessly. My favorite definition of accountability is one that I have shared with you before at one of these conferences, but I like it so much that I'm going to repeat it. In Charleston, South Carolina here in the United States, there is a Black, Jewish gentleman named Reuben M. Greenberg who said, "Accountability is not difficult to define. It consists of the concept that each individual is responsible for his own actions. He has to answer for his consequences, and he has to give an accounting to someone if his actions cause damage to others. The values that are sewn into the fabric of civilization are honesty, kindness, elasticity, generosity and virtue. I really, truly believe that accountability could be perhaps the value that is most important. Without it, one cannot exist with respect and confidence. Without it, society cannot exist."

Mr. Greenberg said, "My job as a police officer is to impose accountability over the people who reject it, or who have never learned to impose it upon themselves. We try to give strength to those outside of the law by motivating them to agree with the law. But how does any policeman, financial officer, auditor or whatever, change the behavior of the people? The external controls are less effective than internal controls such as culpability, dishonor, the fear of punishment and the reticence to face the public wrath or the ostracism. The sense of culpability or remorse has disappeared. At one time it was associated with the commission of a felony or crime. We exonerate the guilty party even partially of the right of responding, of being accountable. We will become a society of eternal excuses in which no one is willing to accept responsibility for anything." During the years that Greenberg has been Chief of Police in Charleston, crime has dropped enormously, and he has become a legend in his area. Many times he has been called to be an advisor to other governments.

Point number two of this talk is to feel for the objective. In this conference we're going to talk about integrated systems for financial management that must have the support of the state. In this century, great changes in government have occurred but a few times. These changes have been motivated or pushed by wars, vast changes in technology or serious economic and social crises such that those of you from Latin America know very well. As financial managers from different governments, we have to strengthen the integrity and credibility of the state by guaranteeing accountability and giving information that is truthful, transparent and opportune to support the informed decisions made by the public servants.

Also, as we discussed in a conference last week, the technology has advanced faster than the technicians. Each general manager has to know computers. The day is close when there will be a computer expert in each financial office. Every auditor, manager, accountant and officer must have a working knowledge of computers, and must keep current in the field. Point number two is to look at the technique and to control the technology.

The third point is that a framework exists whereby we do not trust our governments. Every so often, throughout history, the people lose faith in their leaders and their forms of government. This is a phenomenon that is very normal. How do we overcome this? Number one, to those who govern, I say that enemy number one is the credibility of the government. Enemy number two is the political party, the kleptocratic party, the groups of corrupt parties. Enemy number three is a lack of accountability, or rejecting the duty to be accountable. Enemy number four is not making informed decisions, allowing disinformation, ignoring information, not having any information or having wrong or false information. This enemy number four is what I wish to discuss in the short time that I have left. Financial information is the most important thing for a company or a government. In companies, financial information is the highest priority and they dedicate great effort and resources to obtain the best information for finances and accountability. Governments, though, do not care anything about this. We have to change the priority in government.

The last point is to take advantage of integration of the available technology in order to strengthen the faith of the citizens and its government. The following words are attributed to the ex-Attorney General of the United States, Robert F. Kennedy, who was murdered two decades ago, but whose words can guide us, "Some people see the world as it is and ask, why? Others see the world as it should be and ask, why not?" The reinvention consists of seeing our world as it should be. We can accomplish that and then say, "why not?"

Twenty-eight centuries before Kennedy someone said, "Some day there will be national leaders who will govern with justice. Each one of them will be a refuge in the storm. He will be like streams in the desert and will have his eyes and ears wide open in order to listen to the needs of the people, and will not act hastily, but will act with conviction and will speak with clarity and will not trick people. The swindler will no longer dominate. The corrupt will not be called honest. Everyone will know who is bad, and the hypocritical politician will not fool anyone. Their lies will be in the open for all to see. They will discover inequities, the tricks of the wicked as well as the lies of those who are oppressed, the poor, and those in the government, and in the courts. Even in justice, the person who is honest, the person who acts in rectitude and maintains himself firm in what is correct, and justice will reign all over our nation. There will be peace and security for always because the entire world will do the correct thing."

To sum up the four points: pursue accountability, look for the objective and to dominate the technology, adopt a systemic focus that is practical and integrated for financial management and take care of the integration of technology that is now available to strengthen the faith of the citizens and its government.

At the beginning of this talk I said that we had to reinvent our personal integrity, our character, our spirit, our lives and our attitudes as part of the effort to reinvent. We have to remember what the master of the reinventors said, to paraphrase, "No one can see a perfect government unless he or she herself is being reinvented or has been reinvented. That way you reinvent the government and that way we improve public administration."

God bless all of you and all of your countries.

Development of an Integrated Financial Management Accounting System in the U.S.

Ron Young, Former Director, U.S. Accounting Standards Advisory Board

Good morning, ladies and gentlemen. It is a pleasure to be with you today. Two years ago, the last time I was here, I was talking to you as the Executive Director of the Federal Accounting Standards Advisory Board. I was letting you know where the federal government stood in terms of implementing the new accounting standards. That work was completed as of June 1996, and the federal government is now moving to implement those standards.

I have since left the federal government, and I wear a different hat. Before, I was working in the role of a policy maker, telling the agencies what they were going to have to do. Now, I have moved into a new role, trying to help and assist the agencies in implementing the things that we told them to do. You see the other side of the coin when you start doing this. There are a lot of practical problems and practical issues that have to be taken into account when you do this type of work.

There are about eight areas that I would like to cover this morning with you. I did prepare a paper, and rather than read my paper, I will try to highlight the areas that I think are most important.

The points that I want to cover: First, the notion of integration and what it means. Second is where the federal government stands in the process of implementing and integrating accounting-based financial systems. I want to tell you a little bit about the preeminent role of the budget in the federal government and why it is important to integrate the budget process, and the accounting process, in order to make it all work in terms of getting better information to managers for decision-making purposes.

We are moving, in the federal government, to a more businesslike approach. I want to give you some insight about where we are on that. When I was with the government's Federal Accounting Standards Board, rather than simply adopting accounting standards from the private sector, we had a strategy for developing standards that could be incorporated into accounting systems so that we could truly integrate the decision-making process. I will come back to this issue later.

I would like to talk today about the integration of budget and financial accounting, which is very important in our country. I presume in all of your countries that is a key thing that has to be done as well, in order to improve the information that people have at their disposal to make decisions.

Another point is the importance of cost accounting. It is something that is very new in our federal government. I presume that in the not-too-distant future, if it is not now, it will become very important in your governments as well. As resources shrink, it is important to know the cost of delivering government goods and services. That is the only way you are going to be able to make changes.

Then I would like to tell you about the federal government's standard general ledger. It is a government-wide general ledger, and I will describe the role that it plays.

I will cover all of these points and then, if you want, talk about any of the accounting standards that we developed.

Clyde McShan, who is a speaker later today, will be talking about integrated systems. He will be talking about that from a different perspective than me. I am going to be talking more about the integration of budgeting and accounting, what users need, and how you get all that information together to make it useful to people. I think Clyde will be talking more about the requirements of integrated financial management systems. There may be a little bit of overlap, but I do not think there will be very much.

I have been around in the government for a long time, and I have heard this word "integration" used over and over and over, but many people do not really know of a universal definition of "integration." It means different things to different people. When some people talk about integration, they talk about financial accounting and budgeting. They talk about integrating those functions together. Other people who talk about integration think in terms of taking all of the financial management systems, the core accounting systems, and integrating them into one seamless system that is there to answer all your questions by just pushing a button. So "integration" means different things to different people.

On the one hand, financial accounting and budget integration, to some people, means simply being able to reconcile the differences between, let's say, a cash-based budget and an accrual-based accounting system, and to explain what the differences are. To other people, integration means actually bringing them together and making them one, whether you go to simply all cash-based (which most good financial managers do not seem to agree with), or you move to an all accrual-based (which accountants seem to think is the key to all of our problems). Whatever it is, bringing them together in some way is an important thing. I want to talk about how we approached that and how we hoped to accomplish it.

The other notion about integration is on the systems side--that is, bringing all of the systems together in a seamless, unified system. I have yet to see any place in the federal government where all of these systems have been brought together into one single, seamless system. That is where you can press that button and get any answer you want. More likely than not, you are going to find that it is a bit of an eclectic approach. You have systems that will interface with one another and will provide good information, but it is not going to quite reach that ideal that we are all looking for. Someday that might happen, but I don't see that happening soon. Anybody, in my opinion, who suggests that one can install such a system, unless you have a very small operation, into your agency or department or government and expect that to happen is fooling himself. There are too many problems involved with doing that, not only the technical problems, but the cultural problems, the user problems, and so forth. Clyde will probably talk about some of those issues later.

What I have learned about integrated systems, especially in the federal government, is that you need a more practical approach to the concept of integration. That, to me, is the notion of striving for what I will call a robust database, where differences between financial accounting and budget accounting are narrowed to conform with accrual-based accounting principles, where appropriate. But you still have to allow differences where they are needed to distinguish between the unique aspects of a governmental environment. You cannot simply rubber-stamp what the private sector does. Some accountants do advocate this. They try to put those into your systems and expect users to find that information valuable. It does not work quite that simply.

I know a lot of accountants feel that way, and I am an accountant. I am a CPA and I am a Certified Government Financial Manager. But I think you have to take your accounting hat off sometimes and look at the realities of the world and see how people really use information.

So I see integration of accrual-based financial accounting and budgeting processes as the focus. Narrow the differences. Those areas that add dimension to the way policy makers analyze programs and understand programs should be incorporated using the same accounting standards. This type of integration should improve the decision process. It should also offer program managers, administrators and elected officials what I call a multidimensional view of events and transactions. That is, it should be able to give them the cash-based information, the financial information for financial reporting purposes and the cost information. It should all be somehow linked together within this robust database.

This can be done. It takes times to do it. The question then becomes: What is the information that we really need? I will come to this later.

To me, unless financial accounting information based on accrual concepts finds its way into the "management information system" of program managers, administrators and elected officials, the power of the information cannot be internalized into the decision-making process. Once done, though, then you have total integration. You have to really think about what it is the users--not the accountants, but the users--need and want. That is not to say that the accountants and the financial people cannot influence or enlighten them, but if you simply say this is the way it ought to be, you are going to find your users running away from you. I do not know how many people in here are accountants or financial managers or auditors, but I want to make that point because I have learned that, at least in the federal environment, this is very important. You always have to keep your audience, the users of information, in mind. Who are they?

The U.S. Government has been working toward achieving integrated financial systems. They have been working on it very seriously for the past six years. They have talked about it for many, many years, but in the past six years they have worked on it very seriously, and they are making a lot of progress.

What started all of that? The first thing that happened was that the Chief Financial Officers Act was passed in the federal government. When that Act was passed, it basically established an infrastructure of financial officers and deputy chief financial officers in all of our government departments and agencies. These people have jobs where their sole reason for being is to improve financial management in the federal government. We never had that before. We used to have budget managers, program managers, and assistant secretaries for financial management. Many were political appointees. Many had no knowledge of financial management systems or financial processes. People who are now being recruited into these new jobs established under the CFO Act have to be very qualified in their field. They are similar to comptrollers in big companies. That is their job.

The bottom line of the CFO Act was that these chief financial managers were being put in place to create a database of financial information and performance measures that managers and elected officials could rely upon to assess the cost of performing government services and the performance related to those programs. To sum it all up, that was the key thing that these chief financial officers were put in place to do. Our hope is that the database of information that we are creating will provide the added dimension to the cash-based information that is presently being used. Decision makers (and when I say decision makers, I mean elected officials, secretaries of departments and agencies, people who run programs) should be able to rely, and want to rely, on those data for making decisions and allocating resources to different programs, rather than simply using budget data.

Besides the Chief Financial Officers Act, we also created a piece of legislation called the Government Performance and Results Act, (the GPRA), shortly after the CFO Act. (And, by the way, I do not think legislation solves all your problems. You might pass the legislation, but you really have to implement it in a common-sense way.) Basically, what the GPRA did was establish several pilot programs within the federal government where agencies are supposed to establish performance measures and track them. The idea is that we want to see whether they can identify meaningful performance measures that relate to what the programs are supposed to accomplish down the road, and whether they will be useful in better managing programs or better assessing how well programs are doing. The Government Performance and Results Act and the CFO Act are very closely related. You need good financial information to have good performance measures.

While these things were coming into place, the government also established our Federal Accounting Standards Advisory Board, which we call FASAB, to come up with federal generally accepted accounting standards. They created a board and a mechanism for doing this. Basically, the board was a forum where accountants, budget people, program managers and others knowledgeable in government programs were brought together to deliberate on what would be a good body of accounting standards for our federal government to use for financial reporting purposes, as well as good cost-accounting standards. One of the things that we found when we talked to members throughout our government, whether they were legislators, chairmen of major committees that had oversight over our large federal programs, or even program managers, was that they are not interested in a balance sheet; they are interested in good information that can be useful in finding out how much it costs to deliver goods and services to the American citizens and taxpayers. How much do these programs cost? We have never had good cost accounting before. So you have to relate the financial accounting standards to what you need in terms of cost information. You have to think about both of those together.

Our work was completed in 1996. Now the federal government is in the process of integrating the accounting standards into the accounting systems. I will come back to this shortly.

Before I go any further, though, I would like to say something about the preeminent role of the budget in our federal government. I do not know a lot about the budgeting process in your governments. I suspect it is very similar to ours. I did work on a committee called the International Federation of Accountants, which worked to establish International Accounting Standards. I found that at least the European countries operate mostly on a cash-based system for budgeting purposes. I suspect many of you do as well. Maybe I am wrong about that, but I would be surprised. I would like to learn about it if I am wrong.

For years the budget in our country has been cash-based. To oversimplify, it is basically operated like your checkbook: How much cash do we have? How much cash can we spend? How much cash can we borrow? How much can we pay off? Basically, that is it. There has been little concern for the economic cost of a program or a service. That is basically how much of the budgeting is done in the federal government. All of you who are financial managers or accountants or economists, who come from a broad financial background, know that decisions can be made today where there could be no cash outflow, but there could be huge losses years from now that the taxpayers are going to have to pay. Many of our legislators choose to ignore these losses and costs because they focus on the short term for purposes of reelection. This is basically the way our budget has worked up until now.

We are in the process of changing the way things are budgeted. When we created the Federal Accounting Standards Advisory Board, we worked with the budget community. We had budget leaders on our board. There were areas where the budget community believed we could integrate some of the good ideas that come from the accounting profession into the budget, so that the budget could reflect the losses or the costs of programs. We could put those costs or losses in the budget now so that decisions could be made about whether or not to proceed with those programs, to cut them off, or maybe to look at radical ways of changing them to make them more effective.

Now that we have our accounting standards complete and they are being integrated into the financial management systems, our budget leaders are starting to work to try to integrate many of those standards into the budget systems. I will mention some of the areas that are of special interest.

Before I go on to that, though, I would like to emphasize that our government, at the same time, is moving toward a more businesslike approach in managing its activities.

The CFO Act fostered the notion of moving to a businesslike approach. It fostered the desire to look at the economics of programs--to analyze a program's cost structure. Government leaders are interested in making the government operate more efficiently. In some cases we may be dismantling entire programs. In some cases, with good cost information, we will probably be able to say these are the things that are costing the most money. Why can't we find ways of reengineering them to reduce the costs and still deliver the service? This is happening in many organizations within the federal government. Our Internal Revenue Service has experimented with cost accounting and reengineering. There have been some areas where they have found different ways of collecting taxes or processing returns that could reduce the cost and save hundreds of thousands or millions of dollars. There are other departments and agencies, such as the Federal Aviation Administration, where a cost accounting system is being implemented. The Customs Department, which collects all of our excise taxes, is working on installing an activity-based cost system. There are many areas where people are working on improving processes, reducing cost through business process analysis, cost accounting and reengineering.

The notion of cost accounting in the federal government is a requirement for all agencies. Even those that simply write checks and deliver checks to citizens have to ultimately be able to perform cost accounting.

The federal government is moving to a more businesslike approach. It is downsizing agencies. It is establishing enterprise funds, which will be operated in a business-like manner. It is out-sourcing activities. The federal government is modernizing and integrating the federal financial management systems to improve financial reporting, cost accounting and performance measurements. These are all tied together.

What was our strategy, in terms of the accounting standards, for doing all this? In New Zealand, the approach was to install the full accrual accounting model of the private sector in their budgeting system, and run their government on that basis. This may work for New Zealand. They are a small country. They have a unicameral system, where they have complete control over the government. They also have separated their managers in many areas from public services, where they simply give them contracts. I think they are five-year contracts. They establish the budget, based on the full accrual basis, and they say, "Here's what you have to manage. This is what you're going to get paid. If you don't achieve these results, your contracts won't be renewed in five years." They can do that. We cannot do that in our country. We have separate branches of government. The politics do not allow for doing exactly what New Zealand did.

But what we did do was to talk to all of the key people in the executive and legislative branches of the federal government. The program managers run programs. They are involved in the day-to-day process of making decisions about programs. We asked them what kind of information they needed to run their programs. We tried not to talk about it in accounting terms. We gathered all of that information and used that as the basis for developing our accounting standards. We did not simply rubber-stamp private-sector accounting standards. But we think that what we have is something that will be more powerful and will be used, because it will provide, we hope, the information that the users need. If we have made some mistakes along the way, we can go back and rectify them. But I would say we probably hit the target, if not the bull's eye.

Some of the areas where the budget community and the accounting community came together and integrated, or will be integrating accounting standards are the following, and these were considered the more important:

(1) To recognize either future costs or losses of programs such as federal pensions and post-retirement benefits, rather than creating a budget based on what the cash flow is going to be over the next five years. We will move to an accrual-based system and, in the budget, we will show if there are large unfunded liabilities, for example, for pensions and post-retirement benefits of our federal workforce. That cost would be reflected in the budget today, so we will know now what will be needed to pay for these programs over the next several years, how much will be needed to fully fund these programs.

(2) Federal insurance and private-sector pension programs: Our federal government insures deposits in many private banks, and banks fail and the federal government covers those losses. Up until recently, those losses were never acknowledged until the banks actually failed. Now we are trying to estimate those losses and include them in the budget, so we have a provision for those losses. We can say that they may not have happened yet, but we can estimate that there is a reasonable assurance that this much is going to be lost and we should plan for it in our budget process. This way we don't have unexpected losses that have to be covered on an emergency basis. The government also insures private pension programs. When a company fails that has a pension program, the federal government will cover those pension programs up to a certain amount. That would be reflected in the budget under these new accounting standards as well.

(3) Contamination and hazardous waste cleanup costs are also a major concern. We have laws that say the federal government has to clean up sites where there is nuclear waste or other contaminants. But it is never shown in the budget until such time as the government decides it is going to spend the money. Now the rule requires looking at all of the sites and estimating how much it is going to cost the government to clean them up and then allow for it in the budget. We have integrated the accounting and the budgeting, because that information will be in financial statements and it will be in budgeting statements.

(4) Accounting for federal loans and guarantees is another area. Our federal government guarantees many billions of dollars of loans, and it even makes loans. In the past, the losses on those have never been reflected in the budget until such time as they actually occurred. Student loans are one example, where money has been loaned to students by banks but guaranteed by the federal government. Losses do not show up on the federal government's books until the students default, which may be many years from now. Now, it is important that that information be incorporated in the budget when the loans are made. An estimate is made of how much the government will lose. The loss is also reported in financial statements. So we are integrating those in the accounting and financial management systems.

Those are just some of the examples. There are many others, but these are some of the bigger examples. I will give you one more. When we launch nuclear submarines, twenty years from now we have to retire those submarines and we have to decontaminate them. That costs a lot of money. Up until now, we did not recognize what it was going to cost to decontaminate those submarines twenty years from now. We worried about it twenty years from now. Now we are going to accrue for that in the budget, as well as in the financial statement.

This is all information that the users said they wanted. Now let me tell you something about the information the users did not want. We did not try to force it upon them, because that would not have achieved integration.

We have vast amounts of federal lands. Some people think we should take the value of all those lands that the federal government owns and put them on a balance sheet. The people who manage the lands ask, "What would we do with that information if we had it?" They are not in the business of selling land. What they do need, though, is information about quantities, information about any problems with the land, for example, if there are problems with erosion that will have a material cost. In some cases, contamination problems exist. In some cases, deferred maintenance exists. They wanted information about these kinds of things, and it will be provided, in some cases in the accounting or budget system itself, in other cases, simply in footnotes to the financial reports.

The users want to capitalize assets, such as buildings, communications equipment, rolling stock, things of that nature, if used in terms of delivering government goods and services. They would like that depreciated and made part of the total cost of delivering government services. However, they are not interested in things like depreciating our national monuments or depreciating our military weapons systems or submarines or anything like that. Depreciation is meaningless to them in those areas, but there is other information that they want, such as the deferred maintenance associated with those assets, where it is significant. By accounting for those things in the accounting systems and in the budget, we are integrating those, and that can be included in the data system that we are talking about for financial management purposes.

By doing all of these things, you will find that the users will be more interested in what you have to offer. Integrated financial management systems that bring this kind of information together will, in my opinion, truly add dimension to the cash-based information that people have today. They will be able to see not only the cash basis, but the financial implications, and they can also get the cost of performing government goods and services within that database.

You do have to have accounting systems and cost-accounting systems that bring it all together. In the cost-accounting area, first of all, there are financial management packages that can give you the basic data that you need. You need to take those packages and work with them to provide the information that your users want, which in some cases means you have to restructure your own general ledger of accounts. In addition to that, if you want good cost information, you do not always have to go out and create a whole new cost-accounting system. There are cost-accounting system software packages that you can buy at low cost that can be interfaced with your accounting systems so that it can flow the data out of your accounting systems or your financial management systems into your cost systems.

I do not want to oversimplify that. That is a mechanical feat there, and that part of the job is easy. The part of the job that is difficult is sitting down with your people and analyzing your business processes to determine what it is that you want to determine the cost of--what kinds of information you need. If you want to use an activity-based costing system, what are the major activities of the organization that you want to determine the cost of and be able to trace? Once you have done that analytical process, you can build that into the software I was just telling you about. But don't expect anybody to sell you a piece of software that you put in the computer and it is going to cost out your services. It is not quite that simple. Human intervention has to come into place between making that software an effective tool and bringing that information from your standard general ledger into that cost-accounting system. You have to work on that. That is a process that requires management involvement. You cannot shove that off onto the accountants to do. You have to have management involved in that whole process. Otherwise, the cost information you get may not have any significance.

As I said, I just wanted to cover the high points. I would like to conclude by emphasizing that the integration of accrual-based accounting standards into systems is more than a mechanical feat. It is a systematic approach to developing standards that must meet the needs of the users. If these needs are satisfied, the integration is achieved when the users, the program managers, the budget analysts, the elected officials and the citizens use the information to manage programs, control costs and influence the allocation of resources through the budget.

Thank you.

MR. RAVINDRAN (India): You were mentioning that you have to provide for future expenses. For instance, if you have a nuclear program, you have to provide for liabilities which could happen in the future, in the environment and other forms. You were also saying that any loans which are guaranteed by the government should also be provided for. In the case of other expenditures, you can always anticipate a definite cost, but you cannot predict that loans will be defaulted. For the sake of providing for the future cost, do you give a percentage of the loans and say that a finite percentage will definitely be defaulted in the future? How do you account for a bank loan which is guaranteed by the government?

MR. YOUNG: We have experience rates from year to year, where we can see, based on the amounts of the loans that have been made, what the defaults are. We have also developed rather sophisticated models that will say what the economic conditions will be that economists forecast, let's say, five years from now or ten years from now, because those do affect whether somebody defaults or not. Based on those economic conditions, they can make estimates of, say, having an eighty to ninety percent probability of those loans being repaid.

Our Office of Management and Budget in the United States has developed rather sophisticated models that do that. If you are interested in it, we can put you in contact with them, to see how those models work and how they have been built. They are always being refined. It is based on not only the quantity of the loans made and the loans guaranteed, the experience in terms of losses, but also projections of what the economic conditions are.

MR. BERKMAN (United States): Correct me if I am wrong. It is my understanding that the Senate of the United States has never been audited in its entire history and that only recently the House of Representatives was audited for the first time. Are you doing anything in that area? I understand that the audit of the House showed up some very poor accounting practices. I am wondering whether anything is being done in both houses of Congress to bring them into the twentieth century before it is over?

MR. YOUNG: I am probably not the right person to answer that question. I do not honestly know whether our Senate has been audited, to tell you the truth. I know that it is the responsibility of the General Accounting Office. Jeff Steinhoff is going to be speaking later this afternoon. He is with GAO. He could probably answer that question.

I will say this, though. Many members of the Senate are very interested in seeing that the federal government, the agencies and the executive branch is more accountable. I remember when

I started off the project on federal accounting standards about six or seven years ago. We had people on Capitol Hill, in our Congress, who were trying to block our efforts to improve financial management, mainly because what we were doing would shed light on programs that were their little playgrounds, and they did not like that. But the American taxpayer has gotten fed up with the cost of government and the size of government. As a result, you will notice that many of our newly elected officials, both Democrats and Republicans, are more concerned about better financial management in the federal government. Whether the Senate has decided to have itself looked at or whether anybody has looked at it or not, I do not know. I know the House has, as you have mentioned. But, as I said, Jeff Steinhoff could probably answer that.

MR. BLOT (Haiti): (As summarized by translator) What are the implications of these issues in a situation where you have an enormous budget deficit and no way of increasing resources?

MR. YOUNG: The whole reason, I think, why good financial management and good cost accounting was viewed as critical at this juncture in our government in the United States was because we had an enormous deficit, and we no longer could simply write checks to spend money. We had to become cost-conscious, just like in a family. If somebody loses a job, you have to scale back and you have to look at different ways of buying clothes or driving your car, or whatever it is. Now that we are downsizing and using fewer people, we have to improve technology with computers and so forth, we have to improve financial systems and we have to improve the information that we have at our disposal to make better decisions, because we do not have the expanding unlimited resources we have always had. So it becomes more critical. That is the implication. The information does begin to be looked at. As you start to say you are going to cut out this and you are going to cut out that, people start scratching their heads and saying: How can we do this differently and still do it in a more cost-effective way?

That is what is happening. Actually, that is what happens in a competitive environment, in the private sector, where you have businesses competing with one another. They are always trying to reduce the cost of doing business so they can compete on price. We do not have prices in the federal government, but we do have deficits, and I suspect many of your countries do as well. That is why this becomes a very important tool to better manage the government. Otherwise, if you had unlimited resources, you could just spend money and not worry about it. That is what we used to do. But we cannot do that anymore.

An Integrated Government Financial Management System in Latin America

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I have attended these conferences for three years and realize I have been involved in the development of systems and modernization of programs for the government for a long time. Modernization programs in government financial administration in the last few years are all very similar. They have the same methodology, the same focus and a series of products to be implemented. I began to think, is change really necessary? Other people will come and say, "Well, you did the best you could, but we can do it better." That is human nature. There is one paradigm that takes the place of another paradigm. The question we have to ask is, should we change the modernization of programs? If so, what should we change? Should we modify to adapt to certain values, certain concepts or even change the very principles on which modernization programs are based? This is going to be the theme of today's presentation. We are not going to provide solutions and tell you what to do. We are going to leave you with questions that you will need to answer.

First, let's see what has been done in the past, and what modernization really is in the financial administration of government. The first thought has to do with systems which we all know, such as the budget, accounting, the treasury, public credit, purchases and inventory, fixed assets, works and human resources. If we read all the documents from Panama, from Bolivia, from Argentina, from all the countries represented here, they all aspire to modernize in these areas. Of course, to talk about each of these points would be boring. We have all talked about these common things.

On the other hand, automated systems cover areas such as central administration, decentralized administration, the states and municipalities, the state-run companies. They not only cover all areas of administration, but all the aspects of the whole country, and they try to be systems which are integrated. There were strategic considerations as these systems were developed. The matter is not just one of technology. Are people capable of facing the problem of modernization? Will they change their way of doing things? Nevertheless, technology is an important part of the solution, because technology obliges us to do things a different way. It changes the way we think.

I also include components which do not have an overt technological orientation. There are components which we could categorize as non-technological, but we know that technology is present in everything we do. They require a multi-disciplinary approach. They are not just accounting, not just administration. Surely, they are limited by the political tradition and culture of each country. Politics influences a great deal. That is why political commitment is very important. In the components of less technological orientation we find legal reform. That is why we need lawyers and reorganizational restructuring for the administration and, perhaps, more people. We need to reassign and cross-train people so that they can be prepared to face the changes which are taking place. They need knowledge in the different areas, and they need to share their knowledge so that we can better carry out modernization in these areas. This multi-disciplinary approach includes all of these skills; lawyers, administrators, accountants, auditors and people from telecommunications. They are not always the same people. Telecommunications experts do not always understand accounting principles. So the problem is how to gather together all these skills.

In regard to the political tradition, we can say that a system has imprinted within itself the political and traditional culture of those who direct. I have to believe the system is greatly influenced by politics and tradition. Politics also controls the focus. Tradition limits a great deal of what can be done in the modernization of a system. Each of the organizations has some control depending on the degree of development of the system. This is inevitable.

Finally, the implementation of the system. Who is going to operate it? Who is going to budget for it? When we talk about integrated systems, there are several organizations involved. Normally, only one organization is going to operate the system. In some countries it is people who manage accounting, and in others it is someone else. But in any case, it is tradition, and those in political power will determine who is going to operate the system.

Now, what are the institutional factors which will promote integrated systems of financial administration? One factor, without any doubt, is understanding the theory of systems. There are people who have integrated systems who have never attended this conference. We cannot say that we have not integrated our systems because our country is unique. There are systems which are available and suitable for everyone.

There is something which has pushed reform programs more than any other factor. That is the macroeconomic reform adjustments, and related reforms which have been applied in our countries in Latin America. This is a very interesting thing because the macroeconomic program and microeconomic adjustment and the traditional institutional reforms have a philosophy. It would seem that the institutional reforms in the various governments do not take into account those principles. Beginning with the microeconomic adjustments, there have emerged modernization programs in the government financial administration and, of course, the driver is multilateral financing. In all countries which have embarked on modernization programs, there has been multilateral financial programs. It doesn't work without it. It is the real driver. It will work in the public sector, as well as in the private sector.

There is also a growing interest on the part of companies and individuals in pushing for change on the part of the government. Of course, governments and the union organizations are also pushing. They are convening to discuss how we should carry out programs. Also, companies competing for our business continue to push their technology. Of all these factors, I would say the competition and the unions are going to keep us ever changing and improving. We will, at least, be trying to do things better.

So, what is the philosophy of the adjustment and institutional reform program? We want to show that in spite of the good intentions of this modernization program, they are not in conformity with the wishes of the program of adjustment. An adjustment should promote deregulation in economic activity or decentralization of functions and institutions. We should be trying to promote competition, to get rid of monopolies, and a very important thing, to broaden the role of the market in the allotment of resources. They should occupy themselves with laws and safety and certain things which are social.

What has been the experience of modernization programs in Latin America? For this, I took a work which Alberto Ramirez did. Mr. Ramirez is the Regional Director for Improvement Programs and Government Financial Administration. He writes of the integrated projects and those which he qualifies as completely integrated--in Argentina, in Bolivia, Guatemala, Nicaragua, Panama and in Venezuela. These projects may have problems in Brazil according to the study by Mr. Ramirez who traveled to Ecuador, Salvador and Paraguay. What makes these projects common? What makes them common is that they all have a systemic focus, that is, they have been thought out in terms of the theory of the system. All of them have certain basic principles--the budget, accounting, treasury, public credit, internal and external controls. Accounting is the central axis of the information system. They also have a common or central databank. I question this because I am sure that not all of the material in databanks are common. There are other options which are better.

I have noticed many organizations continue to do the same things but they do it now with computers. They prefer internal development and operation of their programs. They do it with their own personnel, who are contracted to do it. They integrate systems, projects and suggestions. There are different methods of integration. I say that institutions and projects are difficult to integrate. The reasons are, and Jim Wesberry focused on this earlier, not everyone has a steady vision. There is conflict in functional competition and administrations. Some are doing the same things others are doing, or want to do. They develop internal organizations from which they can control and dominate. There is a lack of symmetry and an institutional weakness. There are some organizations which are better structured and developed than others. There are influencing political interests. So really, to integrate a project within an institution is something that is very difficult. To integrate systems of information is easier. The reason is that it is a technological problem that has already been resolved. The software package is completely integrated. So, the technicians work by themselves, and we let them do their thing. They do good integrated systems. Problems occur when the politicians interfere. Integration is up to the technician, not politician. The software industry knows it is in their best interest to provide a viable product. This way, there is value added, and they can sell their product at a higher cost. A lot of the politicians think backwards. We won't integrate because we want to buy things cheaper. Everybody has his own system.

There are numerous companies that do this as a business. They promote development of integrated systems. Finally, the integrated system has become widely accepted. Everybody here has worked with integrated packages at home doing letters, doing data sheets for presentations like this. It has become a common practice.

Now, let's talk about the consequences of covering the functional areas of the modernization programs all at once. When I studied computing at the University, I learned that if you plan to set up a system, one has to do things simple. Keep it simple, not complicated. This philosophy works just as well in the software company. I always start with something simple, which gets more complicated as they bring out newer and newer versions. Sometimes we do try to do everything at once. First, what would be an approach? Again, taken from school, select the functions that are least interrelated, that depend on external requirements. For example, public credit. The public credit system depends on the type of financial instrument that international markets offer to the different countries. Therefore, we can take it up in the first version of the system. Fixed assets. This is an absolute traditional application of fixed assets for both the public and private sector. There is no difference. Public works. Public works are not done by the government; they are done by private enterprise. Human resources. There is a group of people who handle this type of software. Let's not do it then. Let's let the private companies continue to do this.

Now, we are down to functions that are common to financial management practices in the government. We have to have a budget. We have to have accounting. Although it is true that many countries have not had a budget and they have worked. Argentina had three years without a budget before the reform. They had no accounting, either. Some countries continue to this day with no accounting. Treasury does work, more or less, because people have to be paid. If we don't pay them, the government doesn't function. These three systems--budget, accounting and treasury--are the nucleus of this system--nucleus of all financial systems. The other thing I eliminated, purchasing, we can leave for another presentation. This is a strategy to follow, a logical approach, to develop a financial system. Do things the easy way, and then take on the more complicated ones.

Now let's talk about what we consider a common centralized database. Well, the centralized database has advantages and disadvantages. It requires very little reorganization. That is its main advantage. It has many disadvantages. If the database is big and grows a lot, response time becomes exceedingly slow. When something fails, everybody loses access to the database. Everything stops. Let us look at other approaches. The replicated database has many advantages. Each processor has access to the database without contention, because the data has been replicated. Response time is quicker. During failures of the disk, copies may be obtained of that database. The disadvantages are the high cost of duplication. One has to update copies immediately. When you do, you have to update all the other copies, otherwise you lose your system. Of course, there is the high cost of reorganization. The problem is that the partition database, while of minimum storage cost, requires that administrative reports be obtained from different databases. This is similar to what was mentioned earlier. The speaker talked about the different rules required to get information on the Federal government here in the United States. He said the important thing is that information is displayed in a concise and understandable fashion, so that the user can utilize that information for decision making.

I am trying to go as quickly as possible on the subject of databases, because I feel it is very important and because in most of the documents of the modernization programs in Latin America, the database always says common and centralized. Again, I say why have they not thought of other ways of organizing it? A centralized database is good and trustworthy. But as it grows, the risk of overload is high. However, the administration of the database has great advantages. It can be administered easier and the integrity is excellent, because there is only one copy; everything will be integrated. Concerning the replicated one, there are two systems but we can talk about only one. It can be trusted; growth is good; and the risk of overload is from low to medium. However, it complicates the administration and the integrity.

What other things are changing? Many things are changing. A recent trend is the reengineering of processes, process reengineering or process analysis. Do things differently. Identify activities that don't provide sufficient benefits. Eliminate duplicative efforts. Make dramatic changes in the way you are doing things. This is reengineering. We have done some studies in reengineering, basically in information systems. An example of reengineering is flexible budgets. From what I have seen in different modernization programs, countries continue to utilize the same technique they used to establish a budget now as they did in 1960 when it was first set up. Consultants, who directed the modernization program in Argentina, were also consultants in Venezuela for ten years, and they gave us the idea to do a flexible budget. Argentina and other countries have been spreading the word, but now there are other ways of doing things. In fact, consultants in Venezuela told us that we have to work with a flexible budget for many years to see its results. Sometimes change does not make it better. I leave that question to you.

Dynamic financial programming. This concerns not only honoring our commitments, that is, making our payments, but how well we are utilizing our money. The private sector places great emphasis on money management. We need to follow their example.

Automatization of payments. Many of us already have a system of automatic payments. While this is quite an advanced process, we are doing it well. We are using the international standard utilized by banks. This is a question we have to ask each other. If we know that a process works well, why are we all not utilizing it?

I know this is a difficult subject, because many of us and our constituents feel the need to maintain our financial history in paper. We have to become paperless organizations. Our financial history should reside in the information systems of Latin America. Otherwise, we are not taking advantage of and using today's technology to eliminate repetitive work or paperwork. We continue to deal with problems that we can eliminate through a paperless system.

Now, this brings us to something we have to incorporate into the information system. Work flow is a technology necessary to the government because with work flow we have controls. The accounting office is very interested in this, because they know where the document is, when an activity stopped, and when an officer did not do what he was supposed to do. With work flow, we have to thoroughly analyze our processes to incorporate controls into our information system.

Why can't we conduct our bidding process via the computer? We can avoid all the tedious paperwork back and forth. Bidders will know the bid of their competitors and bid a lower price, if possible. Transparency. Technology helps with transparency. This type of process will help us to have transparency.

Now let us look at the last point. One of the ways to develop a system is to develop internally. Develop only those things we need. We know what we want.

A better way is to subcontract them out. This is the latest trend. Use software packages. How many software packages are there truly being utilized in modernization programs and government finance? The big companies are using software packages and they are creating a new market in modernization of their own systems. These software organizations have system departments that are quite large with great capacity, a lot more system capability than most Latin American countries. I ask the question, "Is the government capable of doing software packages?" We complain that we are incapable of providing basic services such as delivering the mail. One has to think of utilizing these software packages and one has to do things in such a way that those packages can be developed in a competitive market.

Several speakers besides myself have discussed the out-sourcing of system development. We should allow others to do the job which is not our specialty. I go further. Out-sourcing the operations. Why can't the daily operations be performed externally? Why do we think that only the government can handle its day-to-day operations and its own information system? We can let others in the private sector do this.

In summation, we have to reform the reform. We have to integrate systems instead of doing projects. We have to concentrate on basic functions, and develop a version for the integrated systems. We have to develop a first version, then a second version, and develop them well. Develop them technologically and in a simple way. We have to apply reengineering. We cannot just automate the processes we have been doing for a hundred years. We have to change. We have to do things better. We have to promote the development of packages based on functional specifications. As mentioned by the previous speaker, and as I have noticed, we are like two worlds in this conference. What is done in the United States is very different from what we are doing in Latin America. The promoters of government modernization have never developed a system, a package to share with everyone. They provide specifications so that each country must develop a package. We should all be working with the same basic system. We come here to get together with our colleagues in the United States, colleagues from other countries, but we do things our own way. As a point of reflection and I hope my colleagues will not get offended by what I say, but I believe we have to get closer to the private sector. We have to promote private initiative. This is a philosophy of the program in Venezuela. In Venezuela we say, what is good for the goose is good for the gander. We have to promote the concept of out-sourcing, both for system development and for operations. In other words, reform the program so that individual competition will be the new factor to promote the integrated systems of administration in Latin America. Thank you so very much.

PARTICIPANT COMMENT: I would say that the existing difference between the applied systems here in the United States and Latin America could be due to the financing in Latin America by the World Bank, and by the Inter-American Development Bank.

MR. UZCATEGUI: The gentleman who preceded me, Mr. Young, thought that integration is not a mechanical thing. Integration is done by the users according to their own needs. Therefore, I feel that in Latin America we are expecting the systems to give us all the answers. That is impossible. This is something that needs work, especially because some people want one thing, others want another. For example, I never saw a program in Mexico outside this conference. However, none of the packages discussed in the conference is a Mexican package. For example, the government. It was done by a private company. In my country, it is very similar. Many companies buy private development packages for the different institutions, and they are not to do those packages. However, you can't cut off their initiative. If you do a package at the international level, it will force all the institutions to utilize this product, killing private enterprise. Excuse me, at the risk of reality, you are selling a package through BID and through certain institutions to Latin America. Also, in customs, we are using a package that can be used all over the world, and it is easier too. This is an activity that is absolutely being established worldwide. There is more economic benefit to having a package like that, but I was addressing only the financial government systems.

PARTICIPANT QUESTION: I am interested in the system of financial integration. Where can we obtain information concerning that model, and its implementation? Does it use previous auditing or does it have integrated controls?

MR. UZCATEGUI: There are many different types. We should ask these questions. What is out there? How do I get brochures, other information? The financial integration system is not a package. It is not a mechanized system that can be acquired. It is simply a number of principles that try to modernize government finances in the different Latin American countries. It tries to accommodate the different cultures and traditions in Latin America. Perhaps I am not the appropriate person to speak about this, because there are colleagues here like Jim Wesberry and others who know a lot more about this than I do. Please address that question to them.

PARTICIPANT COMMENT: You commented that Latin America basically has been developing its own integrated system, but because of the way things are being done in Latin America, we are not creating an integrated system where we can measure the results of the government program. Basically, we have merely integrated several years' budgets.

MR. UZCATEGUI: Yes, in Venezuela there is an article by an economist who analyzed our budget process. He recommended that Venezuela change to a multi-year program. This was not the traditional practice in Venezuela. People who handle the budget are resistant to change. It is very difficult to change things. There is an article that I would like to provide to you so you can better inform yourself as to what we have tried to do in Venezuela. There are laws that keep us from changing the budget. I believe this is something truly serious. Imagine what would happen if all the private companies, such as IBM or whatever, have a budget and there is a change in the market situation. They are convinced that at the end of the year they are going to have a great loss, and they can't change their budget. I truly believe this is a problem. It does not make any sense. I am sure that a private company wouldn't allow this. The question is, why does the government allow it? Perhaps we need to change the administrators.

Integrated Financial Management System--Ghana: A Demonstration

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Ladies and gentlemen, I must confess that when I received the invitation to come here and do a demonstration on the integrated financial management system in my country, it was with a great deal of trepidation, because I was here last year when one of our colleagues from a Latin American country tried to demonstrate his system. Fortunately, for me, I don't find myself in that situation, because we haven't reached the stage yet where we have to do a live demonstration.

I am indeed privileged to be asked to make this presentation here on the recent developments in governmental financial management in my country, Ghana, and more specifically to share with you a demonstration of the integrated financial management system in Ghana.

Much as this topic is as relevant and important for our efforts at improving the efficiency of the public financial management system in our country, it will be more helpful to rephrase it to make it more poignant to our circumstances, because, as I've indicated, we haven't as yet had the system going, so it will be almost impossible to do a demonstration.

First, Ghana has not implemented an integrated financial management system yet. Therefore, we cannot demonstrate a system that is operational. The government of Ghana, however, is currently engaged in an attempt to implement an integrated financial management system. We are in the ninth month of a two-year program to implement this system. We are cautiously applying all the rules in the book to ensure that the system is successfully implemented. However, we are also concerned about the unique circumstances under which we operate, and are therefore paying particular attention to the peculiarities of our environment and how they will make or break our system's implementation process. Thus, what I will be seeking to do in my presentation this afternoon is to share with you our experiences during this implementation phase. I think that "The Development and Implementation of an Integrated Financial Management System: A Ghanaian Demonstration" would be a more appropriate topic from our experience.

In order to do this successfully, it will be necessary to give a brief account of our country's experience preceding this effort at an integrated financial management system implementation from the perspective of key issues and earlier initiatives to address those issues. Thereafter, I will share with you the current program that is designed to introduce the integrated financial management system in Ghana, from which I will attempt to enumerate some of the peculiarities of the Ghanaian situation that are of relevance to this topic. My conclusion will contain some recommendations on how we think some of the most common pitfalls can be avoided.

I would like to start by explaining our country's experience, the Ghanaian antecedents, to help you understand some of the critical issues which have affected the Ghanaian public financial management system, and those attempts which have been made in the past to try to address the issues. This, we hope, will enable us to put things in perspective so as to better appreciate our present efforts.

I'd like to start by giving you a background of the economic situation in our country. Ghana, like many non-oil-producing countries, suffered greatly from the energy crisis of the mid-1970s. The astronomical price hikes by OPEC countries led to shock waves in non-oil-producing countries, causing them to scramble for scarce foreign exchange to be used in meeting oil import requirements, thus leaving other sectors of the economy which equally needed foreign exchange to lag behind. The oil crisis destabilized the hitherto steadying Ghanaian economy in such a serious way that it could be regarded as the last straw which exacerbated the latent structural problems and managerial-related inadequacies.

The long-standing existence of a command economy, with its controlled prices, high subsidization of services and consumer products, a bloated and growing state-owned public sector, and over-employment all contributed to a heavy public sector burden on our national resources. Coupled with these was the mismanagement of the economy which was greatly facilitated by the absence of reliable information and policy formulation.

The oil price hikes therefore set in motion a series of serious problems which worsened the state of Ghana's economy and kept it declining. The distorted prices, the shortages of imported goods due to scarce hard currency that led to import licenses rationing among others, resulted in hyperinflation, while on the other hand, caused ongoing capital projects to wind down and the existing infrastructure, as well as the institutional framework, to break down. These trends occurred between the late 1970s and early 1980s. Over this period, the management of the public sector was anything but rational. The heavy public sector burden on national resources, the lack of information for macroeconomic management, the accounting and auditing lapses, etc., were common knowledge to all who cared about the government's financial management system.

In order to salvage the economy, it was necessary for the government to adopt an economic recovery program (ERP) in 1983, under the auspices of the World Bank, IMF, and also funded was a structural adjustment program (SAP) to try to stabilize, and subsequently to reverse, this downward trend.

The SAP helped to institute more market-oriented policies to relieve the government of the burden of subsidizing a bloated public sector. Specific measures included loosening price controls, liberalizing trade, devaluing the national currency (the cedi), downsizing the public sector and privatizing and divesting government of its interests in most of the parastatals. These measures effectively halted the decline of the economy and stabilized it. Thus, Ghana was once again on the path to beginning to control its public finances and managing the system rationally.

The recent experience of Ghana's economic problems, along with the public expenditure reviews conducted by the World Bank between 1985 and 1990, helped to identify a number of critical issues without whose resolution, efficiency and effectiveness in the country's financial management system would not be realized. The poor budgeting system, the size and structure of the civil service, the personnel and payroll problems (and most of us in the Third World countries know of phantom or ghost employees), the ineffective auditing, the lack of expenditure reporting, the incomplete aid and debt management information, as well as the low capacity of professional accounting personnel, were among some of the major issues which were featured and still continue to be featured in our country.

However, the weakness in identifying these issues clearly seems to have been in the isolation of both the issues and the attempts to address them in a piecemeal manner rather than as part of a whole. Measures were often adopted by each ministry seeking its own solutions to its problems. This piecemeal approach of remedying the problems resulted in a proliferation of accounting systems introduced and funded by international donor agencies, which were concerned with safeguarding the funds that they were putting into our country. The donor agencies made arrangements with ministries, departments and agencies to introduce systems that they thought would safeguard their aid to our country. But to compound this problem, each of these agencies brought in computer hardware which, for the most part, could best be described as mid-grade PC's which were not appreciated in some cases, and largely remote and incapable with interfacing with each other or providing solutions to our problems.

Weaknesses in the budgeting system were handled first with an attempt to deal with the capital budget and later with the recurrent budget. In 1986 for example, a public investment program (PIP), which is a multi-year programming of the capital budget, was adopted as an attempt to rationalize the capital projects' selection to match the capital expenditure with resource availability. Later in that same year, a task force was set up to develop norms for recurrent expenditures and later to computerize the budgetary process.

The bloated personnel costs account for about seventy percent of the total recurrent budget. In our attempts to put a cap on this system, we introduced, with the assistance of the Overseas Development of the United Kingdom, a civil service reform program to address these issues, hoping to be able to reform policy, restructure the service and help reduce the staff cost burden to the nation's resources.

With modest gains and a growing awareness of the need to continue to improve all aspects of the country's economy, a World Bank program known as the economic management support project, designed to further improve budgeting, auditing, expenditure reporting, tax administration and payroll/personnel management, was instituted.

The program supported efforts to implement a broad-based budget system and to streamline the personnel database system, by integrating it with payroll on a computer platform. Thus, a budget improvement working group was set up to implement the broad-based budget concept and a computerized integrated personnel payroll database system, which we call the IPPD in Ghana. The former would ensure that all donor funds, including grants, aid and loans, as well as internal flows, are reflected in the budget to make it comprehensive, while the latter would help government eliminate 'ghost names' from the nominal role and be able to control spending involving staff costs.

To address problems in the national revenue sector, the government established a national revenue secretariat to coordinate revenue-generating activities and policy. Efforts also continued in other areas such as the establishment of a debt recording and management system. A financial sector adjustment credit also sought to reform the banking sector, while making provisions for improving the level of skill and competency of the accounting professionals in the country.

All these initiatives were as well meaning as they were needed. However, the results in all cases were limited, essentially because they were not considered from a holistic standpoint. Thus, the impact did not transform the government's financial management system and did not help to implement an integrated system.

As part of the assistance from the World Bank, and emanating from a consultative group meeting in Paris between our government and donor agencies, we instituted what we call an annual public expenditure review system. Under this system, we tried to identify all the weaknesses in our various expenditure systems, recommended proposals for addressing these issues, and then implemented these recommendations. The result of the intervention from our donor community was a program which came to be called, in our country, the EXTRACON, which basically was an expenditure tracking and control system. We hoped that, with the implementation of this system, we would be able to effectively monitor and control all aspects of our expenditures, as well as capture all commitments and actual expenditures. Unfortunately, this project did not succeed, because it was just a capitalization of the system that we had, and did not address the systemic problems that resulted in some of the inefficiencies that created the problems.

The 1984 public expenditure program, for example, concentrated on the development of the capital budget, identifying systemic problems in the preparation and implementation of the development budget. Together, these two public expenditure reviews (PERs) summed up the problems affecting the public financial management system in Ghana as follows: weak budgetary framework; lack of proper accounting; ineffective auditing; lack of reliable, accurate and timely information for decision making; ineffective public expenditure monitoring and control; and lack of budget ownership. By this, I mean a system where each ministry, department or agency thinks that the budget belongs to the government and then, because it was produced from above and they were not involved in the preparation, there was no commitment at any of those levels to ensure the success of the targets we set in our budgets.

With these recurring problems, the government of Ghana thought it wise to consider a more comprehensive and integrated approach to resolving all these issues. The idea of a public financial management reform program (PUFMARP) was thus conceived and deliberated over. The consensus was that the integrated approach was the best way out and, therefore, financing should be sought to implement that program. At the same time, a national institutional review program (NIRP) was also being conceived to address the governmental framework and policy formulation process. Later in 1994, NIRP was launched as a public sector reform program.

Without the formal adoption of this new, comprehensive and integrated initiative, the government could not stop its continued search to improve financial management. Thus, in 1995, it introduced the first policy-guided budget hearings to relate resource allocation to policy objectives.

In 1995, another public expenditure review was carried out which sought to show the way forward and formally helped launch the public financial management reform program, which was our first real attempt to implement an integrated financial management system in Ghana. With this formal launching, however, PUFMARP was not formally established until 1996, with the recruitment of a project management team and the establishment of a secretariat. This program was launched with the active support of our head of state and by the Minister of Finance of Ghana, at a forum in which all the key government spending agencies and ministries were in attendance.

I will discuss the program that is currently pursued by the government of Ghana to help implement an integrated financial management system known as the public financial management reform program. PUFMARP is a bold and comprehensive, medium-term, strategic program aimed at revamping and integrating all aspects of the government's financial management system and computerizing it. It takes a holistic view of the issues identified in the public expenditure reviews, and is set to deal with them in a complete manner. It is multi-donor funded, but led by the International Development Association of the World Bank, who provided a borrowing of \$14.4 million, and special drawing rights of about \$25.9 million U.S. There are other agencies that contributed, or are helping us to fund our system. Our own government is providing \$3.1 million. The ODA of the United Kingdom is providing over \$1 million U.S. The European Union is giving us assistance of \$2.7 million and, together with the IDA loan of \$20.9 million, we are spending a total of \$30.8 million over the next two years to implement this system.

The main program objective is that we hope to develop an integrated public financial management system in Ghana. This is an interrelated set of subsystems which plans, processes and reports upon financial resources, covers a broad spectrum of the financial management areas, and is computer-based. The principle factor of this integrated system is a common, reliable, unified database, to and from which all financial data flows and which is available to all financial users.

The ultimate objective of PUFMARP is to enhance the efficiency, accountability and transparency of the financial management functions of government so as to enable government to attain credibility and maintain macroeconomic stability.

The program is divided into a number of components to ensure that all key aspects of the system are provided for. The core component is the budgeting and public expenditure management system (BPEMS), which is aimed at reforming the budgeting, accounting and financial reporting subsystem, and to provide for a computerized platform to run the entire financial management system.

This morning, Ron Young said that any country that thinks they can jump into an integrated financial management system in a complete and total manner will be deceiving themselves. We have decided to try it. We don't feel we are deceiving ourselves, because we think we have the commitment of our government and all our donor agencies, and we think that we can succeed.

The other components are those described as satellite subsystems, and they include revenue management and the reform of the revenue agencies. We have cash management, aid and debt management, national procurement, comprehensive auditing and fiscal decentralization. Each of these subsystems are subject to reviews, assessments and implementation, designed to interface well into the core budget and public expenditure management system subsystem.

In designing our system, we had an exercise of activities in which we invited all interested international consulting firms to bid to provide a consultant service to enable and implement the various components of our system. Now, we have a whole continuum of events that make up our integrated system, and each one of these various activities is at a different stage. As I indicated earlier, the main crux of our program, so far, has been the system design, which Price Waterhouse International is doing for us. They won the international bidding and their draft system design was submitted to us in December last year. It carried out a series of review materials of all stakeholders in the country, and we came up with a series of recommendations for review, which we have submitted back to Price Waterhouse. The next stage is for them to give us a final output. The Price Waterhouse consultants are in the budget management stage.

The third element in our system, as I indicated earlier, was funded by the ODA, and that has been operational under the system that we have come to call the integrated personnel payroll database system. Interest has been taken in various aspects of the program by the Canadians, who are interested in fiscal decentralization. It is almost impossible to go through all this, but this continuum serves as what we think, when we have achieved, will enable us to implement an integrated financial management reform program.

The subsidiary objectives of the subsystems include the following: "Budget preparation" is to enhance the efficiency, accountability and transparency of the financial management functions of government. "Budget implementation" is to ensure an orderly and smooth implementation of the budget, while providing adequate flexibility to the ministries, departments and agencies to manage their programs and projects, as well as enable the ministry of finance to maintain oversight that is in conformity with the requirements of macroeconomic stabilization. "Accounting" is to promote a system of accounting that shows the effective utilization of the financial resources of the country, and to provide a window to the public to ascertain the financial status of the government, and to serve as a major instrument in the formulation and implementation of government policies. "Cash management" is to achieve an efficient provision of the cash resources of the government while avoiding the immobilization of resources and minimizing the costs of borrowing. "Aid and debt management" is to strengthen the management of the acquisition, servicing and retirement of public debt. (It may interest you to know that, in our country, in our final account just published, the expenditure that we incurred for debt servicing was as much as 400 billion cedi, and that is progressively becoming a very worrisome problem for us to handle.) "Revenue management" is to promote systems of tax administration aimed at achieving greater taxpayer compliance and convenience, and to increase the efficiency of revenue collection, reporting and forecasting. "Comprehensive audit" is to promote the timely and effective audit of transactions to ensure that resources are being used for the specified purpose. Finally, "procurement" is to streamline the procurement of goods, works and services and establish an effective monitoring and tracking system for public procurement.

The management structure of the program includes a steering committee as a policy-issues resolution body, which also has responsibility for directing the entire implementation exercise that is managed on a day-to-day basis by a permanent staff of highly qualified professionals known as the project management team. To show the political will and commitment of our country, the PUFMARP steering committee is headed by our deputy minister of finance, and is composed of the chief directors who, in our country are the civilian heads of almost all the ministries and all the key operations in our country. As I indicated, the steering committee and the project management team are involved in the day-to-day implementation of the program. They liaison with the project management steering committee for policy guidance, liaison with the consultants for implementation, and they work together with Price Waterhouse.

Now, at the consultant's level, we have government of Ghana counterparts to enable appropriate technology to be transferred by Price Waterhouse associates and the project's management team who have hired professionals who are not part of the system and who may be involved in the system after it has gone live. Therefore, we have a team that put in all the key ministries and departments.

While project tasks for the budget and public expenditure management system components are initially planned to be undertaken over two years, improvements to the system and the completion of replication to non-pilot areas is intended to be carried out over a five-year period. We have six key ministries which account for over seventy percent of our expenditures, both in terms of recurrent and development. Now, we think that, within the two years, this system will be operational in the six key ministries. Then, over the next three years, we will be able to replicate the other national, regional and district levels. To ensure a smooth implementation exercise, the tasks have been planned over three phases: Phase I, Phase II and Phase III.

The major activities planned to ensure that the system is well overhauled include studying, developing and defining a new set of functional processes, transaction documents, forms and information flows relating to the budgeting, accounting and financial reporting functions of the government's financial management system. The envisioned deliverables to ensure that the new system meets standards includes, among others, a revised budgetary classification; a functional design for an expenditure monitoring and information system; specifications for software and hardware and related facilities; a new chart of accounts; complete transactions documents; application systems; and technology architecture with specifications for hardware and software communication systems. The implementation will include computer installations, testing, customization, piloting and replication over seven out of twenty-two ministries.

The regulatory framework, organizational issues and capacity enhancement areas are essential to the success of the program. Thus, a system high-level design, to show the new institutional arrangements and legislative reforms needed, would precede the system's specifications and implementation. The training will be part of the implementation exercise and will be based on the development of manuals, guidelines and departmental instructions.

In our efforts to develop and implement our integrated financial management system, two key questions remained utmost in our minds. First, we wondered how we would ascertain the achievement of component objectives, and second, how to ensure that the needs of all components are not only sufficiently reflected in the implementation activities, but that they would interface well with each other and in the integrated system. Other matters of concern were the non-technical issues which affect the implementation process. Thus, our implementation strategy made provision for the resolution of all such issues. We had to take care of the technical requirements and the Ghanaian peculiarities that would enable us to adapt these things to suit our systems.

The role of international donor agencies in the financial management system of the government of Ghana has been found to be important. In the past, donor agencies have been known to fund the implementation of accounting systems for the ministries, departments and agencies in a bid to track the use of their funds, and thus caused a proliferation of accounting packages and hardware throughout the system. Now, some of these donors are interested in funding some of the components of PUFMARP. And, as I've indicated, CIDA is taking care of the fiscal decentralization.

The implementation of an integrated financial management system in Ghana, therefore, anticipates both technical and nontechnical factors that could make or break the implementation process. The political will and commitment is needed to provide the necessary support to ensure that the nontechnical issues are resolved appropriately to facilitate implementation. The foregoing notwithstanding, creativity on the part of the project team and sensitivity to ministry, department and agency's needs are also important in ensuring success. Ghana is making efforts to ensure that all these aspects are featured sufficiently in its program's implementation.

Ladies and gentlemen, I would like to conclude here in the interest of time. What I set out to do this afternoon was to share with you a demonstration of the Ghanaian experience which is currently ongoing. I have in the process also tried to give you a sense of the background factors which led to the need to develop and implement an integrated financial management system. The references made to the PUFMARP initiative were intended to enhance your understanding of the areas of focus of PUFMARP, and what is involved in its implementation exercise. It has been shown that, although the earlier initiatives were found to be helpful, they did not solve the problems in a comprehensive manner.

I have acknowledged in my presentation the need to ensure that the core technical components of the integrated financial management system have to be adequately provided for in order to call a system an integrated financial management system. These include the budgetary system, the treasury, and public credit and accounting. The legal framework, human resource development and information system constitute other essential, but non-core, parts of an integrated financial management system. These, I did state, are adequately provided for in the Ghanaian attempt at developing an integrated financial management system.

However, I have also emphasized that there are important nontechnical factors which have a direct bearing on the chances of success of an integrated financial management system implementation. These, in the Ghanaian example, include a healthy relationship between the executing agency, the ministry of finance and other governmental agencies; the political will and commitment; the role of donor agencies; the competence and commitment of responsible consultants; an incentive program to motivate and retain competent qualified staff to manage the system; and an effective and creative project management team which would use a participatory mechanism to ensure that ownership of the program spreads to all stakeholders and that its utility is shared by all.

Ghana does not yet have an operational integrated financial management system. However, it has found the need for it and has taken steps to implement one, applying all the rules in the book and utilizing more pragmatic measures. It is not certain how successful Ghana will be. While we invite those who have done this to come and share the benefits of their experience with us, we also welcome those that are yet to attempt it to come and observe what we are doing, so that they can avoid the pitfalls which may jeopardize their future efforts. We hope next year we'll be here to demonstrate a totally reformed and computerized integrated financial management system to you.

Thank you.

PARTICIPANT QUESTION: At the end of the two years of your project, or the five years of your extended project, how will you know if it has succeeded or not? What do you expect the signs of success to be?

MR. TARA: We expect an integrated, interrelated, fully functional system. That is, we want to capture both the commitments and actual expenditures, and provide information for all the user agencies. We expect this information to be online and it should be available to everyone who is interested in having information on the expenditures of the government. It will enable us to achieve transparency in the allocation and utilization of the country's resources, and enable the general population to have more confidence in our government. If we achieve this, then we think we have been successful.

MR. BALGOBIN (Guyana): I would just like to raise three concerns, because my country is also thinking about establishing an integrated financial management system. First, you say that the government and the donors are in full support of the system, but I haven't heard any clear statement that the users are as enthused as the donors. I'd like for you to address how you've been able to simultaneously enthuse all the sectors, the budgeting office, audit, debt management, all of those sectors, to follow the project.

My second concern is the management or the administration of the project itself. You did say that you have a project implementing unit, which I understand would be dissolved at the end of the project. What happens if those people who know the inner workings of the system and who have been involved in this implementation and know the difficulties of it are not there to keep driving it? Is it a good thing to demobilize that unit at the end of the project, or should you be thinking possibly of keeping that unit?

Third, is it not too ambitious, and I know you made the statement, to move in all the departments and all the sectors simultaneously? I fear that you're talking about the jigsaw puzzle falling into place at some point in time. In the real world of the organization, I don't see it working that way. What about incremental development of the various components, and working out the possibilities of how it can be integrated in the long run?

MR. TARA: It is no wonder our countries have the same problem, because Guyana and Ghana sound alike, so it's no wonder we have the same problems.

On a more serious note, your first comment was that I did mention donors, but I didn't talk about users. I think I did state that the project management team is below the steering committee, and I indicated that in the steering committee all the administrative heads are the key spending agencies in Ghana. I also indicated that all of those people that we have involved in the project management steering committee comprise eighty to ninety percent of the country's expenditures. If you count development expenditure, you are talking virtually ninety percent of the total expenditure involved at the steering committee level. With steering committees, we also have special activity subcommittees that coopt members from within the system. We have the auditor general's department represented, the two deputies are here. The Bank of Ghana is represented. The revenue-generating agencies are represented, as are the stakeholders, to make sure that there is commitment at the very highest level. Our government is so committed, that if there is anybody who is sitting on the fence hoping that the system will not work, we have given the signal that this is the system that we want, and anybody who is not prepared to be a part of it can opt out. I said the project was started in 1996 with the appointment of a steering committee, but the background has been worked upon since 1994. We've held discussions with all stakeholders and we think that there is absolute commitment all across the country.

To your second issue, I indicated that the project management team is a team of very well-qualified professionals. In our country, we have a system where the salaries of those people who are working for international agencies may be five to ten times the salaries that are earned by the normal, ordinary working citizen in our country. Now, the problem is this: To get the very best from the system, you must be able to pay the very best. We don't want a system where we create a moral problem. We don't want a situation where everyone will be working then somebody thinks that he's getting ten times what the other person is getting. Having said that, we have not set any hard and fast rule as to the timing. We have indicated that we expect the system to be operational in the six key ministries in two years, and to be replicated to other areas in another three years. The project management team, depending upon our satisfaction with their performance, or their satisfaction with our performance, we may renew the contract. The technology must be transparent to the users of the system. That is why we have counterpart staff close at hand from the start, so we are hoping that the technology will be transparent enough to enable us to be self-sustaining.

The last issue, this jigsaw puzzle issue, we are at different phases in our development. We have had a look at some of the problems that have confronted us. When we could not get expenditure information, we set up an expenditure monetary unit. When we could not collect revenues, we set up a national revenue secretariat. When we could not do budgeting properly, we set up a budget task force. When we were having a problem with ghost names and phantom workers, we had an integrated personnel and payroll system. When we were finding it difficult to monitor our daily cash balance, we introduced a cash management system. From this, you can see that we have tried at different times to look at the various components of our economy. What we haven't done before is to look at them in totality, and that is what we are now trying to do. So, we have different stages for different programs to address certain specific issues. But, like I said, they were ad hoc, and they were mostly in reaction to problems. We want fully planned, well-integrated systems.

Risk Evaluation in Development Projects

Gary Byllesby
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Good afternoon everyone. I hope that you are enjoying Miami and the conference.

I have been asked to talk with you about assessing risks in development projects. More specifically, I will discuss two of the techniques used at the U.S. Agency for International Development, USAID. I will also provide information on how we manage development activities and identify risks, and then I will offer some suggestions on how to apply this information to your work. This is a very distinguished group, and I hope my presentation will stimulate discussion of this important topic among us.

Let me begin by asking: What is risk? I hope you are all familiar with an American movie with a very famous scene. "Butch Cassidy and the Sundance Kid" have botched their getaway and find themselves on a cliff 200 feet above a fast-moving river. With the lawmen at their heels, they consider jumping, but Sundance refuses because he cannot swim. Butch laughs as he leaps with Sundance in tow. "Are you kidding? The fall will probably kill us!"

While this may be a movie scene, the story shows that there are always trade-offs one way or another. They were probably going to die, but they could not agree on the choice of how to die. Risk is in the eye of the beholder. With analysis, we can try to better understand things that we cannot control, and try to reach agreement on what the risks are for a development project.

Assessing risks is something that everyone here does every day in various ways, so some of the techniques are familiar. I am just going to put them in a different context to apply those same techniques to evaluating risks for development projects. Most of the time we do not think of normal, everyday actions in terms of assessing risks, but we are assessing risks all the time. For example, you are doing a risk assessment when you: cross a busy street; listen to the weather report and evaluate whether or not to take an umbrella with you when you go outside; exceed the speed limit on the highway; or look for a new car and you evaluate the various models available to you based on your needs. Ordinarily, most people would think of all the risks when making an investment in stocks or buying a house. They may even do more analysis of the potential for appreciation of these investments in written form--the pluses and minuses.

There are several points I want to emphasize. First, the amount of analysis should be consistent with the level of risk. I once had an analysis done for me by a staff member that consisted of seven complicated spreadsheets, with twenty or more lines of information on each. There was no disagreement that there was runaway inflation in that country at the time, and that it posed a considerable risk if goods were purchased in that country. However, the items being purchased under the project were from the United States, and the financing was in U.S. dollars, so the risk of high inflation or currency fluctuation for those costs was minimal. So, in this case, we were overwhelmed with analysis and information that we did not need.

Second, risk analysis is used to make decisions. Once the decision has been made, the analysis has little value except as a learning tool and for project evaluation purposes. Once we purchase the car or the stock, we have made the decision.

Third, a lot of analysis is based on subjective information, and we need to keep that in mind when making our decisions. We have to use the best information available to perform our analysis, but we have to keep in mind that the information we use is not based on perfect information. Sometimes people allow the analysis to take on a life of its own. It becomes more important than it is.

Fourth, because we do risk assessment as part of life, you already have a lot of the skills needed.

Finally, risk is something that, by definition, cannot be controlled. It is possible, however, to understand risk and to try to minimize its impact. For example, in agricultural projects, we cannot control the rainfall, but we can predict what the production might be, given the average or median rainfall during a growing season. Of course, sometimes it is more important when the rain comes, rather than how much. Flooding at the end of a growing season may ruin the crop. Normally, we do not try to analyze catastrophic events such as droughts, floods and earthquakes that may occur. Since they would have such a dramatic impact on the project, it would not be worth the effort to try to demonstrate the impact of such an event.

Even though these may be simplistic examples, they are quite common, and financial managers can understand the impacts of these sorts of risk.

Why is risk analysis important? Development is inherently a risky business with many variables beyond our control. There are several reasons why assessing risk is important. For one, the activities we finance can have a significant impact on the well-being of a country if designed and implemented properly. We need to identify the risk so that the managers can minimize those risks to maximize the benefits of the project to the beneficiaries of that project. Likewise, if the design or execution of a development project is lacking, there may be no impact from the project or, as we have seen in some cases, a negative impact. Resources are limited, so we must make the best use of them. Hopefully, by analyzing the risks carefully, we can also improve project planning.

Some of the most beneficial financial management work being done at USAID today is in the area of project design and implementation. Where financial managers have been active, we have seen the benefits of their participation in better design and resolution of problems. While some of the credit belongs to these financial managers, it also reflects the benefits of using a blend of skills when designing and implementing activities through teams. Looking at an activity from different perspectives, and as a team, increases the likelihood of success.

In order to put the risk analysis into context, let me briefly describe the development process at USAID from a financial manager's perspective. The financial manager (usually a financial analyst) is an integral part of the design effort. He or she brings a unique perspective to the process, and can add considerable value to the design process.

Step one of the development process is problem identification--the same thing that you do when you assess risk for yourself. USAID is looking more broadly at development than it has in the past. We look at an entire sector with our partners so that we may apply our expertise and resources as part of a combined effort. These partners are those providing resources, like the host government, other donors and non-governmental organizations. In doing our analysis of the problem, we look at the entire sector, be it education, health, agriculture or the economy, and we identify the key constraints to effectiveness in that sector. We try to engage all parties in doing this analysis, including the beneficiaries themselves. I realize that's an odd concept, that we might ask the people we're trying to help what they might want, but we try to do this, to make sure that we understand the constraints, existing activities, the potential solutions and other possible resources available. We take into consideration legislative and policy constraints on our funds, and those of other organizations, and we try to identify the gaps and duplication through this process of problem identification. In the past, we tended to quickly identify those areas of USAID interest and develop a project around our concerns, not necessarily those of the host government and the beneficiaries. It is important to note that, in this analysis, we try to reach a consensus of all parties as to the nature of the problems, the constraints and the resources available.

Most importantly, we try to focus on results. For example, previously we would count the number of vaccines we ordered and delivered as a way of measuring our impact. This, of course, is inconsistent with the government management acts that we now have, emphasizing that we do focus on results. But by measuring the number of vaccines, of course, we had an easy way to measure, and it was identifiable and verifiable. However, today, we are more concerned with the results--the number of children actually immunized. This is not as easy to measure, but it helps us to focus on the delivery system and the children, and not just the procurement of the vaccines.

The second step in the development process is problem analysis. From this analysis, agreements are made on what resources and expertise USAID, the host government and other donors may be willing to provide in a concerted effort to minimize the constraints on that particular sector. An analysis needs to take into consideration what the government is doing as well as other organizations so we can be supportive of those efforts. We want to minimize competition and duplication in our efforts. A classic example of this is where different organizations operate clinics for specialized needs. In the far corners of an underdeveloped country, basic medical services need to be made available to all the people. However, as an example, in one country I was in, one donor may operate a clinic in a village only for women and children, and the men have to go to another location to get medical treatment from a government clinic.

Step three is development of the technical solution. From this tentative agreement, USAID develops a technical approach to meet its part of the overall agreement. The emphasis in the technical analysis is on identifying what measurable results we are trying to achieve, and how we plan to achieve those results. In the past, we tended to focus on identifying the inputs that we expected to provide, and not always linking those inputs to specific results.

The fourth and major step, of course, is to do what we call the financial analysis. Once the technical analysis is completed, the financial manager starts the financial analysis of the proposal. It is very important that the financial manager does not wait until this step in the process before getting involved, for two very important reasons. First, it would be very difficult to understand the context of the technical analysis and the underlying assumptions. Second, as a participant in the formation of the proposal, the financial manager can provide invaluable and practical insight to help enhance the potential for success. The financial manager brings a different perspective to the process and it has been our experience that this diversity of talent leads to a much better product.

A financial analyst is assigned as a member of the team developing the proposal. Working with the design team, the financial analyst normally prepares the budget both on a cash-flow basis as well as an expenditure basis. This flows from the technical analysis and is developed with help from other team members to make sure that the cost estimates are realistic. This analysis will become part of the basis for our risk analysis later.

Another significant part of the financial analysis is the development of the value of the benefit flows to the individuals or the sector.

Sometimes the analyst also performs an economic analysis of the benefit to the economy, and an analysis of any reflows to the project from sales or as part of a credit program.

The financial analyst reviews the technical analysis to identify the critical assumptions. We generally define as critical something that could have a significant impact on the cost of the project or, just as important, the value of the benefits received. A review of the cost, benefit, economic and reflow analysis is performed to identify the critical assumptions that could affect the analysis. Typically, inflation and exchange rates are two critical assumptions that can have an adverse effect on the cost or the benefit stream. Another example is tax rates, such as sales tax, income tax and duties, which could have a negative (or positive) effect on the activity. In those cases where there are loans, or there will be reflows of cash to the activity, a separate risk analysis is undertaken to determine the impact of a reduced reflow (bad debt, slow payment, etc.).

In all of our analysis, we must keep three important points in mind. First, before starting an analysis, we should make a decision as to the value that the analysis will add to the decision-making process. We are not making the decision. Our analysis serves to assist management in making an informed decision. We are not making the decision. If our analysis is not going to increase their knowledge, or is going to confuse the issues, then we probably should not waste our time preparing the analysis.

Second, the process of doing the financial analysis is fluid, and is one of constant refinement and improvement of the information as we receive better information. Working as part of the team and sharing information, we continually refine our analysis until we feel comfortable that we have identified the critical assumptions and have appropriately evaluated the associated risks.

Third, in the course of the analysis, we need to clarify exactly what resources are being provided by the other parties. We need to minimize the number of variables. When there is a lack of clarity or information, guidance from the design team leader needs to be requested.

Step five is putting the proposal together. When the team feels that all components of the proposal are ready and consistent, they prepare a draft of the proposal which includes the analysis, the identification of the significant constraints, and the financial analysis with the evaluation of the financial impact of those risks for the consideration of management and our partners. After receiving comment, further analysis is done, as appropriate, and a final proposal is submitted for approval. After approval of the proposal, the activity is transferred to the implementation team to execute the project.

Now, some of you may think we're done, but we have found that project implementation is just as important. At USAID, a financial analyst is usually assigned to support the implementation team. The analyst performs reviews of grantees, and can also provide additional analysis on issues raised by the implementation team. These resources are used by the team to make adjustments to the implementation plan and to analyze the financial impact of alternatives being considered.

Let me give two examples of risk assessments using two techniques and the results of the analysis.

Example #1, Small Farmer Project. This is an example of how important it is to do an accurate analysis of the benefit stream. An African country had a desire to become more self-sufficient, and wanted its farmers to start raising their own pigs to sell locally. Considerable analysis was done during the project design on the benefits to the economy and the agricultural sector as a whole for such an activity. Little attention was paid to the impact on the incomes of the farmers, or beneficiaries, that were selected to raise the pigs.

The farmers were happy to be selected, and actively participated at first. However, after the initial period, farmers were reluctant to expand their pig-raising activities or, in some cases, even continue. Because of these problems, and a request to expand the project to even more farmers, an analysis of the situation was requested.

Performing a financial analysis (with cash flow, budgets, etc.) using sensitivity analysis, which I will describe later, brought out the fact that, even under perfect conditions, the farmers could not make a profit. The local cost of feed was too high. Also, raising pigs to be competitive required economies of scale. The farmers did not have the capital, experience or expertise to handle the economy of scale required to be profitable. Therefore, those farmers who participated in the project suffered significant financial losses.

Had this analysis been performed prior to project approval, these risks could have been identified. As a result of the analysis, the government did not increase the size of the project and initiated a subsidy to support those farmers that continued in the project. The end result: The government and the farmers lost money, and the economy was not strengthened.

I have a sensitivity analysis example in an electronic spreadsheet type of format. It is a very simple model, using an analysis of cash flows for a period of ten years. There is a field for the single discount rate and the number of cash flows is the number of years. As a result, whenever we change that single discount rate, the spreadsheet recalculates, and we have a new net present value. The net present value is a simple net present value without taking into consideration compounding. When we take into consideration compounding of the net present value, it does make a significant difference. Basically what we have here is one variable in this example, which is a discount rate. If we change the discount rate, then it will change the calculation and the benefits. You can have any number of variables in this sort of analysis and, as you change the variables, it will automatically recalculate it.

This is a great use of spreadsheets. It also helps people to understand the range. Typically, we cannot predict what inflation might be, or other factors, but we can use these sorts of analyses to predict what effect a tax rate increase or tax rate decrease might have on a particular project.

Sometimes we are fortunate that we have several technical analyses to compare, or we have several competing activities that we want to compare. What we would use is what is called an internal rate of return, which basically brings the net present value down to zero. What it basically tells is the rate of return on a given activity. We would use this only when we are comparing activities.

One of the things that is easy about this is that the formulas are displayed underneath the numbers. The trick here is to name the block in the spreadsheet, for example, "inflation," or whatever it is, and use that name in the formula. So, for every variable you have, you would have a block where you could change the number, and the name would be what you put in that formula. If you change the inflation rate, or tax rate or rainfall rate, it would automatically recalculate the spreadsheet. For instance, when you are doing an analysis, and you want to say, "Well, what would happen if we increase the tax rate from ten percent to twenty percent?" The spreadsheet would be set up with all the formulas built-in. It would automatically do a recalculation, and you and the team could see what the various options would be before making a decision. You could use the same thing, for example, if you wanted to calculate your mortgage. You could change the mortgage rate and it would automatically recalculate it. Again, the real trick to sensitivity analysis is naming the block that you're going to use to put the number in, and as you make the change it will automatically recalculate your spreadsheet.

Example #2, Increasing Private Sector Employment and Income. In an Asian country, unemployment was considered a major constraint to economic development. There was a strong consensus among all parties that the private sector was the place to expand employment. This was a major change from previous employment stimulation activities that emphasized increased public employment. A good analysis of the risks involved in providing assistance to this objective was undertaken and provides some examples of some of the risks that can be evaluated in a development project. Some of the major constraints and risks identified were: the large government deficit that absorbed most of the available credit for private sector expansion; inconsistent application of government policies; government restrictions on importation of capital goods and technology; considerable regulation of the agricultural and manufacturing sector of the economy; high inflation; and infrastructure bottlenecks (roads and other transportation networks in poor repair).

As a result of the initial analysis, it was decided that, in order to increase employment in the private sector (agricultural and manufacturing), the emphasis of the project should be on removing the barriers to growth in the private sector. The analysis of the constraints, using sensitivity analysis and other techniques, led to identification of the critical changes required. The assumptions were identified. The risks of those changes were evaluated so that the policymakers could see the potential impact of those changes--tax rate changes, infrastructure changes. It is important to note that this was an intense process that involved participation of government officials, members of the private sector, and other donors to agree on the constraints, and assumptions, and to develop changes that were acceptable.

Based on the analysis and the host government's commitment to making the necessary changes to liberalize its policies and increase investment in infrastructure, funding was provided by USAID for the activities. The process of identifying constraints, evaluating critical assumptions and analyzing the risks was essential to the understanding of all parties of the changes that were required.

In this case, the use of the "with and without" analysis was essential. Simply stated: The cost and benefit analysis was prepared for the case where the project and policy changes were implemented as planned and then compared to the estimated cost and benefits without the project and policy changes. Using this simple technique is one way to assess the cost and benefits of the projects.

We use this technique in our daily lives on a more simplified level, but the principles are still the same. For example, when we consider the purchase of a second car, we think of how life would be different if we had two cars in the family. We also think of the additional insurance, parking, maintenance and interest costs. If we think that the benefits of having a second car are greater than the costs, then, assuming we have the resources, we purchase the car. Of course, our analysis of a project would be more complicated, but the principles are the same: Compare all of the costs to all of the benefits and, if it is positive, it is a good deal.

In summary, in order to do proper planning, we need to do risk analysis on those critical assumptions that could make a difference to the desired results of a development project. This analysis should be fully integrated into the project design by scrutinizing those critical elements of the project through analysis of the proposed budget, analysis of the estimates of benefits and analysis of cash flow in those cases where there will be loan repayment or reflows.

The level of analysis should adequately provide the decision makers with the information they need to make a decision on the project. To quote my boss, "There are no extra points for additional work beyond the minimum." Do only the amount of analysis necessary to understand the risks and their potential impact on the proposed project.

The steps in the process of risk analysis for a development project are: problem identification (making sure we clearly understand the result we are trying to achieve); problem analysis (making sure we understand the way we are approaching the problem); development of the technical solution (knowing how the proposed solution is going to function, in view of all the other resources and assistance being provided); financial analysis of the costs, benefits and reflows (taking into consideration the net present value and sensitivity analysis); development of the proposal with an integrated financial analysis; and project implementation (providing analysis to projects during their implementation).

The two most common methods used to analyze risk are sensitivity analysis ("with and without" analysis) using an electronic spreadsheet (the example of the mortgage), and comparing the cost and benefits with the project against the cost and benefits without the project.

The skills needed to do a risk assessment in a development project are easily developed. If you understand the goals of the project, are an active team member and carefully identify the risks that need to be evaluated, you will have no problem with the analysis. Thank you.

MR. PIENAAR (South Africa): When you prepare a financial analysis that brings into account the time value of money, such as the example shown, how do you determine the appropriate discount rate?

MR. BYLLESBY: Typically, when we do a financial analysis, we break it down into a local currency and also into dollars. A discount rate we might use with the U.S. dollars would be the United States Treasury rate, which is what we borrow at. At the same time, we would take into consideration what the local government is borrowing at, if they have bonds or some other sort of rate. You know, in some cases, of course, it could be twenty-two percent. But, typically, you have one analysis that deals with the dollar cost, a separate analysis that deals with the local currency cost, and then you use a discount rate based on what the government is borrowing the money at.

MS. ROBINSON (United States): Gary talked about the technical aspects of risk evaluation, and he told us a lot about sensitivity analysis. I'd like to know a little bit more of the political aspects of risk evaluation, if you will, please. It's not possible to work in a government agency without considering other than the economic analysis, specifically, economic benefits. Who gets to have the last word on the extent of trade-offs that will be made when you're looking at a particular development project? Is that within the purview of your work? Or is there some tremendous coordination that goes on before the final decision is rendered? I remember how it used to be in my organization, but I'm especially curious how it is in these development projects.

MR. BYLLESBY: USAID is normally a government-to-government donor, and the politics are not just of one government, but two governments. Normally, the host government itself has its stated priorities, and typically you would not work in an area government has not stated is one of its priorities. So, yes, there is a political influence on all of our activities, but not just from a U.S. Government standpoint. We have to work with the other government that we are engaged with, and we have to look at their priorities. We also have our own priorities, politics, and we also have legal restrictions. For example, we don't finance weapons and don't finance a lot of things that host governments may consider to be among their priorities. So, in the initial design phase, you're going to find out very quickly, especially working in a collaborative fashion with the host government and other donors, exactly the lay of the land, exactly where the land mines are, what things are very sensitive and what is possible and not possible.

However, I will tell you that I have also been in countries where we have done projects that the host government was not very happy with, but they have allowed us to go ahead and do those sorts of things. We are the government agency that gives economic assistance to other countries, and through nongovernmental organizations to other countries. In some cases, where the political environment is not necessarily the best, we might run the assistance that we give through private, volunteer organizations.

But, management is going to make the final decision. We are aware of that. Management is politically attuned. Management is going to look at what is going to be possible, given the mandate that that particular USAID mission in that country has been given as far as priorities. Normally this is not as big a problem as it may seem, because both the host government and USAID and other donors have limited resources. So, typically, we can agree on most of the priorities. It is something we do take care of, but I think during the process of negotiating, of discussing what we want to do, we can discover very quickly what is going to be possible for both parties.

Internal Control Self Assessments in the U.S. Government

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It is a pleasure to be able to share my thoughts with this group today. I congratulate the International Consortium for its important leadership. Today I will focus my remarks on the challenges of ensuring strong internal controls and the importance of the internal control self-assessment process to the U.S. Government.

Over half of the members of the U.S. Congress have been in office for less than four years. We see a new set of players, many with dramatically different ideas on the role of the federal government. Many came from the business community or state and local government and were not accustomed to the paper-driven processes at the federal level. They came to Washington with a view that the federal government was broken; let's fix it.

Compounding this are the difficulties of balancing the federal budget with all the competing financial demands. It is a very tricky thing. Deep down inside, it is not human nature for people, in this case the public, to want anything cut they directly benefit from; but, at the same time, they want the federal budget balanced.

The U.S. Government is being dramatically downsized, or right-sized, depending on your viewpoint. The voice of the American public, the ultimate customer, is loud and clear. They are telling public officials that they expect a lot more for their tax dollars, and they expect full accountability for cost and performance.

An August 1996 survey of U.S. teenage students found that seventy-nine percent believe, and I quote, that "government corruption and dishonesty are widespread." Let me repeat that: Seventy-nine percent of teenage students polled stated that "government corruption and dishonesty are widespread." These are teenage students, so, it stands to reason that, in all probability, they reflect their parents' views as well. Thirty years ago, this number was reversed, and seventy-six percent of Americans, when asked, said they trusted their government to do the right thing and felt their government was accountable to them.

In today's environment of change, federal government managers must assure that each and every tax dollar is well spent, and that assets are safeguarded. This is where internal controls play a critical role.

I would now like to spend a minute or so to define what I mean by internal controls. This definition has evolved over many years, and people have different perspectives as to what it really means. In short, I see internal controls in the broadest possible context--all controls within an organization, covering an organization's entire mission and operations. It is not just financial controls. In my view, it is everything you are trying to achieve. I fully endorse the concepts of the Committee of Sponsoring Organizations of the Treadway Commission, COSO. You will be hearing about its report tomorrow. The system of controls must provide reasonable assurance that an organization's objectives are achieved through effective and efficient operations, reliable financial reporting, compliance with laws and regulations and safeguarding of assets.

The federal government has long recognized that good internal controls are management's responsibility. Certainly the auditor, certainly the chief financial officer, certainly the people in this room, play a very important role in achieving good, solid internal control systems; but the ultimate responsibility rests with the managers running the programs day to day. In 1982, fifteen years ago, the U.S. Congress enacted the Federal Managers' Financial Integrity Act. This Act makes clear this responsibility. It took a number of years to get this Act passed. Ron Points, who is here today, was involved in that effort back in his GAO days.

The Act is on two pages. It is one of the simplest laws you will ever read; but it makes clear the responsibility of management. It requires the top manager, the head of each federal government department and agency, to attest each year, to sign their name on the dotted line, to say whether or not their entity has reasonable assurance it has adequate internal controls in place and operating. The Act states that they must make this attestation or this assertion based on a self-assessment; meaning managers are responsible for knowing the condition of their internal control systems. There is no excuse not to know. Management has to know day to day, and they have to publicly report to the President and the Congress once a year. If you were the head of a U.S. Government department, you would have to sign your name as to whether or not your controls meet the internal control standards promulgated by the Comptroller General of the United States under the Act, on the basis of a self-assessment that meets the letter, or at least the intent, of the self-assessment guidelines issued by the federal Office of Management and Budget (OMB) under the Act.

Over the years, this self-assessment process has greatly evolved from initially being very prescriptive. People wanted to know exactly what they had to do. They wanted a safe harbor. They wanted all the i's dotted and the t's crossed. OMB gave them voluminous guidance. It has gone from being very prescriptive to, today, providing for management flexibility. OMB Circular A-123, "Management Accountability and Controls," was last revised in June 1995. The 1995 version reflects thirteen years of experience--some good experience, some not so good experience. Simply put, OMB requires continuous monitoring of controls, which, together with periodic evaluations, provides the basis for management's annual assertion and report.

OMB provides a range of sources of information that management can use in assessing controls, with the recognition that management's judgment is key here. If you go back to those initial years, OMB prescribed that you had to segment agencies into assessable units, you were to do vulnerability assessments in a certain way, and you were to do internal control reviews in a certain way. If you look at the guidance today, what OMB is saying is that the number one item that you can use to decide whether you have adequate controls or not is management knowledge based on daily operations; management knowledge that they gain using their systems day to day. What OMB is saying is that managers know their internal control strengths and weaknesses because they are working with these systems each day, all the way down the line. Think of it this way: What makes your stomach hurt a bit? When you go home at night, what do you worry about? When you come in in the morning, what are the areas that cause you some concern? Those are probably your most vulnerable areas. Those are probably the areas where you need to assure that you have proper controls in place, and you should know this through daily operations.

The second source of information cited by OMB in Circular A-123 are management reviews expressly for the purpose of assessing controls, or a review where assessing controls is the byproduct of the review. Management is looking at its operations all the time. The government agency might have a midyear review. It might have a special assessment of some kind. It might not be doing it for the purposes of the Federal Managers' Financial Integrity Act. It might be doing it for another purpose, like managing its operations well day to day. But a byproduct of doing this is an assessment of controls.

Next, the OMB guidance talks about audit reports. I remember being asked a question many years ago. Someone in the audience said, "We're doing a very elaborate self-assessment of our control system. Can we use the GAO report that was just issued on this system?" I stepped back and said, "Yes, by all means, you should leverage and use that report, which was in essence a review of controls, as part of your self-assessment. Why are you redoing what was just done? Your focus should be on fixing what is wrong, and not necessarily just assessing something so you can say you have assessed it again."

Finally, the OMB guidance calls for the use of program evaluations, investigative reports, inspections, financial statement audits, systems reviews and hotline complaints. In other words, use the full range of available information and, based on management's own judgment, fill in the holes through special evaluations.

Self-assessments should not be a checklist process that results in a blizzard of paper. This is exactly what happened in the U.S. Government during the early years of the Federal Managers' Financial Integrity Act. To comply with the Act, people focused almost one hundred percent of their attention on creating a paper trail to prove they had evaluated every nook and cranny of their operations. If you wanted to see a piece of paper that showed they had evaluated something, they would produce reams of paper. I remember one of the military services having something on the order of 40,000 to 50,000 assessable units. It was not uncommon for government agency assessable units to send in thirty-, forty-, fifty-page reports discussing their controls, and then these reports were summarized all the way up the line. There were hundreds and hundreds of people involved; some whose full career was moving these pieces of paper around. People did not really, in an adequate manner, leverage available information and, most importantly, day-to-day working knowledge.

You need to always keep in mind that the purpose of this two-page law is not to perform a self-assessment. The purpose of the law is to ensure that adequate controls are in place and working effectively and, where they are not in place and working effectively, that people fix what is wrong in an expeditious manner. We found that there was insufficient attention placed on fixing what was wrong. It just simply became primarily a paper-driven process, with hundred-plus-page annual reports commonplace. It is important that you not fall into this trap, or you will end up at the end with a paper blizzard and few tangible results for the money spent. People thought they should get an A+ for generating paper, for showing they were compliant with the self-assessment process, whereas the bottom line is getting adequate results, improved controls. To do so, management must be able to effectively sort through exactly where it stands.

The U.S. Government has found that establishing a senior management council can be an important tool--to sit down and first evaluate control risks and then solve problems. Top management, if they are doing their job, should know what the most important areas are, should know day to day what the things are that cause their stomachs to hurt a bit, what the things are they worry about, where the risk is. The last speaker spoke about risk. Management needs to know where the risk really is. These management councils can be very important in sorting through the important from the unimportant, sorting through the critical issues when control problems are found, and making that bottom-line judgment as to the important control problems.

Next, they are in a position to establish the necessary corrective measures. They are in a position to change what is being done today. They have to then step back and make an assessment: Have controls actually been improved? Have problems been rectified? With a senior management council that is actively engaged, you have the mechanism in place to do those things.

In assessing controls, whether you are the manager who has the ultimate responsibility, or the auditor who might come in and assist management or might be doing an external review or reviewing controls as part of a financial audit, you have to have a very practical view and a broad perspective. I would now like to focus on what I believe are the five major issues facing governments around the world today in assessing and strengthening internal controls and in fostering accountability.

First, we have to step back and ask ourselves fundamental questions. And we have to ask ourselves these questions on a constant basis. Just put yourself into the shoes of the manager, the chief financial officer or the auditor. All three should be asking the same questions. Are we focusing attention on the right things? Are we by force of habit calling for more and more controls, but not the right ones? Historically, auditors have had a tendency to say that the solution to almost every audit finding is more control--this broke down, so we need a control. I am not sure that more control is the answer to every problem governments face today. Instead, I think we have to step back and see whether we have too much control, whether we have the right ones, and whether we are promoting the management of risk instead of promoting cumbersome fail-safe systems. I call the preoccupation with too much control as focusing on the ten-cent error on the travel voucher.

I saw a case where a federal employee went to New York City on government business for five days and four nights. This employee got wrapped up in the limelights of the Big Apple, really lost perspective, and had the nerve to come back and try to claim on a government travel voucher four more pennies than the maximum per diem the employee was entitled to be reimbursed by the government--four more pennies, less than one penny a day. I can tell each and every one of you here today that the controls were so good that the error was caught, and the employee's senior manager was sent back five pieces of paper explaining that this error had in fact been made.

My question is not: Why did the employee make the error? My question is: Why was it even being looked at in this manner to begin with? You can pay travel using an automated system that has all kinds of edit checks in it and automatically makes corrections. If it passes those edit checks, you pay it. You take a small sample each year that can be projected. You establish the tolerance for error; in other words the cost of this control. If you find a significant number of errors, you expand your sample. If you find someone cheated you, you take appropriate disciplinary action, maybe even fire the employee. You do not send the person's supervisor five pieces of paper over four cents. You take action if you find an abuse. If you find an error, you just rectify the error.

What I am talking about is promoting the management of risk. There is risk in everything. What I all too often see in the U.S. Government is a lot of focusing on small controls--ten-cent types of errors, where at the same time billions and billions of dollars go virtually unchecked.

Ask yourself this question: Are you supporting experimentation and change, and avoiding a mentality that pays a high premium on compliance with arduous policies and procedures and looks askance at things that do not follow traditional ways of doing things? I believe it is important that governments assure the proper balance and focus of controls, and always keep cost effectiveness in mind. As governments are being downsized, at least at the federal government level, this becomes very, very important. It is always easy to find what is wrong. It is oftentimes not easy to actually do a cost-benefit study. Oftentimes, people do not measure the cost. The cost may be more than the direct cost of the control itself; so you have to really address that in a very broad manner.

Second, governments must look for creative solutions to longstanding control problems. For the U.S. Government today, I do not think we have to focus as much on identifying what is wrong. For the most part, across the U.S. Government, people have acknowledged that things are broken. You have fifteen years of experience with the Federal Managers' Financial Integrity Act. You have a litany of GAO and Inspector General reports. You have many consultant studies. You have agencies' own evaluations and self-assessments. Top managers know what is wrong. There is no shortage of control weaknesses to work on. The true measure of a self-assessment program is whether or not the identified weaknesses are effectively corrected in a timely manner. That is what we are going for here--the goal of a self-assessment program. We are not going for a process that perpetuates itself for the sake of having a process. We are looking for a process to fix what is wrong.

Today, for the U.S. Government, finding solutions is really the issue. And the solutions must get to the root cause. An internal control assessment may identify a cause, but must go deep enough to isolate "the" cause. This is a very important distinction. Management and auditors should not shy away from the more esoteric causes, such as corporate culture, which we all intuitively know may be the most important stumbling block to change, but may be difficult to address. Maybe controls will never work well with the existing culture a government agency or program may have or the existing way they operate day to day. Fundamental changes will first be required.

More than ever, recommendations from self-assessments, whether they be management's own self-assessment or an audit assessment, must have context sophistication, or the assessment team risks being viewed by top management, whom they are trying to influence, as being shallow or unrealistic. We have to put ourselves in their shoes. We have to think of risks the way they think of risks. We have to understand exactly what drives top managers to act and what they are facing day to day. Today more than ever, self-assessment teams must be able to show, clear-cut, the cost-benefit relationship of internal control recommendations and solutions. They must be able to make what I call a business case. Ask yourself this question when you call for a control: If it was your money, would you pay for this? Many times, you would not. You would not pay for what you might be calling for someone else to do.

In assessing controls in today's environment, we must always keep in mind there is only so much money and not a whole lot of flexibility. So the controls themselves must demonstrate a value. We must zero-in on what will engender action by top management. We have to think very creatively in framing solutions, presenting options and alternatives, but thinking much more creatively.

Third, in performing internal control self-assessments, we must be prepared to examine business process reengineering initiatives and benchmark against best-practice organizations. The future is not about fine-tuning existing internal processes and control systems. They must be totally reengineered for the most part. I am not talking about incremental change or fine-tuning. I will give you a couple of examples.

We found several years ago that the Social Security Administration, which pays out billions annually in Supplemental Security Income to disabled recipients, was taking an average of about 155 days to make an initial determination as to whether someone was disabled or not. I am talking about the initial determination. There could also be appeals following that. But you come in and say, "I'm a disabled person. I would like to collect Supplemental Security Income." From the time you filed your request to the time Social Security said yes or no the first time, it was taking an average of 155 days. We found that Social Security was planning to spend several hundred million dollars to modernize its computer system to speed up the determination process--to do the job more quickly and reduce the growing case backlog. We then stepped back and looked at what that job was--what entailed making a disability determination. We found that this initial "Yes, you are disabled" or "No, you're not" went through twenty-six different people and was worked on a total of thirteen hours over those 155 days. We said, "A new computer system is not going to appreciably speed this up. You have an exponential growth in the number of cases you have. You have a system that is not working. Whether the Social Security employee, when they get to that file, can bring it up in five minutes or two minutes does not really matter, because this thing sits in queue for 155 days, less thirteen hours. You have to reengineer the process you have." The Social Security Administration has now studied this and has identified a reengineered process which they think can get the job done in about fifty days.

We found in the Department of Defense (DOD) that, for every dollar it spent on travel, it spent about thirty cents actually filling out all the forms--the control system. We benchmarked DOD against best-practice companies and found that most companies do it for six to ten percent. Looking at DOD, their travel regulations were 1,357 pages; in best-practice companies, two to eleven pages. So it was not about putting more controls in place. It was about looking at the current control systems and actually reengineering the way business was being done. What the Joint Financial Management Improvement Program working group found was that there were a lot of unneeded requirements, some legal, with respect to government travel. Someone had abused the system in a certain way at some point in time and a rule had been put in place. The U.S. Government had archaic, arcane rules and a philosophy that in essence said, "Don't trust the employee." U.S. Government agencies were chasing nickels, dimes, quarters and dollars, and spending a lot of money doing that.

The need to assess business process reengineering initiatives requires a different set of skills. GAO now has a business process reengineering job series. We have developed an assessment guide which outlines the steps that you should go through in actually assessing your business process reengineering. I have provided a reference list to the conference participants which I will be referring to from time to time. The reference number for the business process reengineering guide is GAO/AIMD-10.l.15, Version 3, April 1997, and it is entitled "A Business Process Reengineering Assessment Guide."

Fourth, technology is the key to the reinvented government the American public is demanding today. We are in an age of information technology, an age for which, in my view, the most dramatic changes are in the future. Ten years from now, I believe there will be little or no paper, which has been the bread and butter of control systems in the past. Instead, internal controls will be embedded in an encrypted computer chip, which someone with an IQ of 200-plus has developed. Trust me, just because a person is real smart does not mean they were not born with larceny in their heart or, when finding weak or non-existent controls, will not succumb to temptation.

There are people who are very smart who will try to take advantage of weak control systems. I think adequate computer security ten years from now, if not today to an ever greater extent, will become synonymous with safeguarding government programs and fighting fraud. The future is technology. That is where criminals will get the money. They do not have to go rob a bank anymore. They can do it with no fingerprints, with no weapons. In every assessment GAO has done of computer security controls (every one, and we have audited some of the most sensitive organizations in the federal government), we have found serious internal control problems and have been able to penetrate or get into those systems. We issue special reports on computer security with very limited distributions; maybe five copies are made, because of the sensitivity of the report's information. I will say it again, computer security is the future of internal controls in my view.

This year the U.S. Government will spend $25 billion on information technology. In the past decade alone, over $200 billion has been spent. These projects will be heralded as the solutions to longstanding cost, control and service-delivery problems. A person will say, "I have the answer. It's system XYZ." Unfortunately, the immediate past is littered with one system development failure after another. As a result, last year the U.S. Congress passed the Clinger-Cohen Act, which is the information technology version of the federal government's Chief Financial Officers Act.

Now let's look at a few quick examples of this. We did a body of work at the Internal Revenue Service (IRS). They have what is called tax systems modernization. Right now IRS has a paper blizzard. Millions of tax returns and a wide range of tax information forms come in each year. If you visit an IRS center, you cannot help but step back and marvel that they are able to move that mass of paper. But IRS, and anyone else who has seen the operation, has long recognized that this is not an efficient, effective way to do business. IRS realizes it is drowning in paper, which also runs up costs and impacts service delivery. IRS has spent a reported $3.4 billion on tax systems modernization. A recent study done by GAO, as well as IRS's own studies, has shown that this initiative has been fraught with serious problems. GAO has designated tax systems modernization as a high-risk area. The IRS recently testified before the Congress that it is going to have to write off much of the investment and redirect the program.

The Federal Aviation Administration (FAA) is spending an estimated $36 billion to modernize its air traffic control system. We have found from the outset that FAA has had serious problems managing initiatives of this scale and have designated this modernization initiative as a high-risk area.

We reviewed a computer modernization initiative at DOD where the Department was spending an estimated $1 billion on a logistics system. Do you know what the rate of return was? This is using their own numbers, which I do not think were modest. Their own numbers showed that the rate of return on a $1 billion investment was less than three percent. If you talk to people in the private sector, they will not do anything in this arena for less than twenty-five percent and, in some cases, may expect to get even much higher returns, especially where there is major reengineering of antiquated processes--one hundred percent is not unheard of. This is an age of high technology, an age of changing the way we do business. To take on a high-risk investment of $1 billion, with all the things that can go wrong along the way, for a rate of return of less than three percent, does not make much sense at all. DOD has now redirected this effort.

The new Clinger-Cohen Act has basically stated that the U.S. Congress wants best practices in information technology to be followed at the U.S. Government level. In developing the legislation, the Congress has used a best-practices study that GAO did a couple of years ago, where we went out to both government and private sector organizations. We found out what worked the best, and we said, "Here is a cookbook to follow, at a very high level. There is a lot of judgment involved. But if you do not do these things, if you do not have these kinds of investment controls, your chance of success is about nil." The reference for this study, which is entitled "Executive Guide: Improving Mission Performance Through Strategic Management and Technology--Learning From Leading Organizations," is GAO/AIMD-94-115, May 1994.

Building on that best practices study, we developed a guide called "Assessing Risks and Return: A Guide for Evaluating Federal Agencies' IT (Information Technology) Investment

Decision- Making"(GAO/AIMD-10.1.13, Version 1, February 1997). This assessment guide can be applied at any organization. I am sure every one of the governments you represent here today is investing heavily in information technology.

One other thing GAO is doing as part of its audit work is applying the Software Engineering Institute's computer software development and software acquisition maturity models. These models can be used by management as self-assessment tools. The Software Engineering Institute is associated with Carnegie Mellon University and has received funding from DOD. The computer software development and the software acquisition maturity models are accepted, proven methodologies. Whether an entity that is investing in information technology is designing the software themselves or contracting for software development, a six-person assessment team gives the entity a rating from level one to five and ascribes descriptions, established by the Software Engineering Institute, to each rating that say whether or not the entity can get the job done.

Level one is the lowest level: By definition, you are chaotic and haphazard in investing in information technology, both in your ability to develop software and your ability to manage a contractor who is developing software for you. We have even found cases where federal departments actually contracted for level one work, meaning they were paying for work that by definition would be most probably chaotic and haphazard. I do not think you want to spend a whole lot of money that way.

These models are synonymous with controls. These models and the guides I mentioned today are a means to help self-assess whether your investments in information technology are going to net something at the end or not. In applying the computer maturity models, members of the assessment team have an academic background in the hard sciences. We are not speaking about accounting and business majors like me; we are talking about people who come from the aerospace side, the engineering side, the hard computer sciences side. They go to the Software Engineering Institute at Carnegie Mellon. They are trained. They are certified. They go out with six-person teams. The Software Engineering Institute may even directly observe or review the work.

GAO applied the software development maturity model at the IRS. The IRS was involved in the effort. It was not something that we just sneaked in one night and did. IRS had people involved with the process, had people observing what we were doing. We found that the IRS, which, as I mentioned previously, had spent a reported $3.4 billion on tax systems modernization, on its way to spending an estimated $11 billion on this initiative, was level one--chaotic and haphazard. Would your government invest in something that, based on a self-assessment with the organization involved, was a level one? We found FAA's process for acquiring computer software was also immature.

Beyond ensuring that you have adequate investment controls in place, you need to safeguard against the threat of somebody getting into your system. At DOD, they themselves, in their own self-assessment, found that there were approximately 250,000 computer attacks last year. They had a model for projecting the number of successful attacks and estimated that 65 percent got through in some manner. Lots of these folks were probably just kind of surfing the Internet, having fun; but what it shows is that DOD's non-secure systems were open to malicious attacks.

In looking at how systems are designed today, let me tell you about another federal department we were reviewing. Do you know how we got into the system? We called their self-help desk and said, "Gee, I'm having trouble getting into the system. What do I do?" On the phone, the self-help desk told us exactly how to get into the system. Once in, we found they had made this thing idiot-proof. They had designed the system so that it was user-friendly with help screens prompting you on how to navigate through the system.

We also find that the security over computer centers themselves is typically very weak. I am talking about computer centers with some very sensitive information. There is not the type of security that would protect the centers against attack.

Computer security reviews are a key part in every financial statement audit we do in GAO. I think this is one of the most important facets of a self-assessment process. Managers--and managers have the ultimate responsibility--should be scared and should assure themselves that they have adequate computer security, or they are going to wake up one day and find they have lost critical informan; either an unauthorized person is using it or erasing it, or there are losses of huge sums of money or other assets. I heard a speaker last year who said that over a fourteen-month period he had consulted with eleven private-sector clients, who each had computer frauds involving more than $300 million.

There was a recent case in the United States where a school system had locked itself out of its own information. It could not get access to its computerized student files and grades. This was a serious problem since it had to start sending this information off to colleges for its senior students. The school system hired one of its students, a sixteen-year-old, and paid him $25 an hour to see if he could get into the system. It took this student thirty-five hours to hack into the system. Imagine if someone had wanted to get into the system for malicious reasons, to erase all the grades, wipe out the database or change their own grades. It took this kid only thirty-five hours to get into this system.

The final computer technology challenge I would like to address today is the Year 2000. Businesses and governments around the world must address the Year 2000 problem, the millennium. Most computer systems were set up with two digits to represent the year. For this year, the system will show 97 for 1997. In the year 2000, the system will not know what 00 means. It just will not know. Look at the way computer programs are designed. Some applications are table-driven. If 97 is entered, the application goes to the 97th position. Some programs compare various factors, such as dates. Others may do a calculation based on a date. What we are going to find is that these systems, which will not know whether the date is 1900 or 2000, will compute erroneous results, reject legitimate transactions, or simply will not run. Many of these systems were written in old computer programming languages. The people who actually wrote the software may well have retired; in some cases, perhaps offered early retirement because there skills were considered obsolete. In many cases, perhaps in most cases for the U.S. Government which has a lot of old computer systems, the system's documentation, if it ever existed, cannot be found. No one knows exactly how the program is written.

The stakes are very high. I mentioned Social Security earlier. Its systems drive off the date of birth; they drive off a two-digit year in paying the range of Social Security benefits which totaled about $360 billion to 50 million people last year.

We have developed in GAO an assessment guide, which can be used in performing a self-assessment of the Year 2000 issue. It is called "Year 2000 Computing Crisis: An Assessment Guide" (GAO/AIMD-10.1.14, February 1997 Exposure Draft). The assessment guide provides a structured approach for assessing Year 2000 readiness and a checklist to aid in planning, managing and assessing Year 2000 programs. It outlines what people have to do to prepare so that when the Year 2000 comes, they are not down the tubes. Trust me, if governments are not fairly far along now, they are probably in real trouble.

In my view, self-assessing internal controls in a high-tech age is the greatest changing expectation and challenge, one that governments cannot afford to underestimate today. Management and the audit community will have to dramatically broaden their skill base. In GAO, we have a chief scientist for information technology and have on board a core team of staff with heavy expertise in the hard sciences and in computer technology. But in my view, in looking ahead to the future, we have just scratched the surface. And management's job is much greater, because they are the ones who are ultimately responsible for ensuring that good controls are in place.

Some may think I am overreacting here, but I fervently believe that if governments do not meet the technology challenge they run the risk of dramatic reductions in service delivery, much worse than it is today, and a total loss of control. In my view, the U.S. Government is not even close to where it needs to be today in getting that job done. Governments have to harness technology, which, at its heart, encompasses internal control. This is the future, in my view.

The previous speaker mentioned the Government Performance and Results Act, now commonly called the Results Act. This is the fifth and final point I want to quickly address in the few minutes I have remaining today. The ultimate goals of the Results Act are to actually move the U.S. Government toward full performance reporting, ties to the budget, and an accountability system based on outcomes and results. Under this Act, every major U.S. Government agency has to step back and ask itself fundamental questions: What is our mission? What are our goals? How will we achieve them? How can we measure performance? How will we use information to improve performance? The Results Act requires agencies to set goals, measure performance and report on their accomplishments and results. Again, GAO has developed an assessment guide that can be used as a benchmark in performing a self-assessment of your own government's efforts to move toward a performance-based system. This guide is entitled "Executive Guide: Effectively Implementing the Government Performance and Results Act" (GAO/GGD-96-118, June 1996).

In the end, I view results and performance as what controls are all about. You want to meet mission goals at the least possible cost. You want to provide quality service. You want to provide accountability. That is what internal controls are really all about. As governments around the world move to more results-oriented management systems, it will be very important that it be done in a very effective, thoughtful manner.

In closing, in my view, the ultimate expectation of government is to provide something of value to the public it serves, with full accountability for results and effective stewardship. In the U.S. Government, we must turn around perceptions that government operations are not well controlled. An effective internal control, self-assessment process, combined with innovative solutions to identified weaknesses and full recognition of the challenges of the technology age, is key in establishing what the American public is calling for today. It wants its national government to be a financial steward second to none and, at the same time, provide world-class service.

Thank you very much for your time today. I appreciate being invited.

PARTICIPANT QUESTION: What impact does the appropriations and budget process have on the chaotic and haphazard purchase of information services by the IRS and the FAA?

MR. STEINHOFF: In looking at the appropriations process, you have to first look at the nature of what was being purchased. In considering an appropriation request for tax system modernization, the U.S. Congress rightfully was looking at the need. There is certainly a need at the IRS to modernize its whole tax collection system, which was developed back in the 1950s. There is clearly that need. I think, in making those decisions on appropriations, they focused on that need, and they focused on a number of projects that made sense in terms of trying to move ahead to a more modern system.

What IRS did not have in place was a set of investment controls that provided the agency some type of benchmark to actually make the determination as to whether they were really getting an adequate return for this large investment as well as the capability to successfully develop the new system.

I will add that the much of the work GAO did was for the appropriations committees. We reported that these projects were not working out well, that it was not looking very promising, from a number of fronts. We told the Congress that, despite making a substantial investment and having over 3000 people in its information technology operation, the IRS really had little chance of getting this job done well. The IRS acknowledged that there were serious problems. Once that happened, you saw the Congress, in essence, say, "We're not going to provide the amount of money requested for this project until the problems are sorted out. We have to invest in tax system modernization. We have to get the job done, but we have to make the investment in a manner in which there will be a rate of return so that, at the end, IRS will have the system it needs in place." You saw the funding stop or be limited to specific needs in reduced amounts. You saw a number of requirements placed on the IRS for various studies and various actions to be taken--sort of "until you do these things, we're going to limit the money being spent on this initiative."

My view is that as people are making spending decisions, they should have at their disposal good investment information. The Clinger-Cohen Act, passed late last year, requires, for every federal IT investment, the application of defined investment controls. The U.S. Congress wants to know certain things. U.S. Government agencies have to follow what I would call a benchmarked system for doing this. We have learned what works well and what does not work. We want the federal government to do these things, to have these investment controls in place. If you have a good investment control process in place and then the people ultimately making the decisions on funding are demanding to see the investment information and are then looking at these things, I think you see a totally informed decision being made. It is not so much a question of whether a government invests in new systems or not; it is a question of getting a good return on the money being spent, because that is what we ultimately want to do anyway. That is what the IRS wanted to do. They did not want this system to fail; but they probably had no benchmark to measure themselves against. When we applied the Software Engineering Institute's computer maturity model, for example, we found, using a scientific measure applied in government and the private sector, that this was level one effort, haphazard and chaotic. When we found that these projects were not well managed and said here is an example of a lot of money spent with little return, you saw the funding being pulled back or conditions being placed on future spending for the project.

I submit that decision makers have to have good investment information at every stage of the process, so you have the necessary control system in place as you are making the key choices.

PARTICIPANT QUESTION: You mentioned that a key point is that managers have to be aware of internal control every day. Is there a way to let the managers know what internal control means? Normally, internal control is a function given to the auditors, and a manager does not have this aptitude.

MR. STEINHOFF: One of the things we did in the U.S. Government is call internal controls "management controls." I know that is a distinction in COSO. They use that term in a little bit different way. We use the term management control. We spent a tremendous amount of time saying to the managers: "This is your responsibility. Here is what management control means to you."

You have to work with the managers, you have to have a shared level of understanding, and you have to put things in their terms. In explaining a management control problem, you would not use a financial control example. You would take some kind of programmatic control. You would say, "How do you ensure that the right students are getting the student loans? You want to give your loans to certain types of students. How to you ensure that is being done?" You want to put it in the managers' terms.

There is an educational part to this. I think there has to be more discussions of the concept of management controls in the colleges and universities. It has to be included in all types of government management training. Managers have to understand that it is their fundamental responsibility.

Another key part to this is requiring management to sign their names on the dotted line each year, to actually assert or attest that they have good controls in place. From the audit side, at one time, we would go out and evaluate the processes they had for assessing controls. We would say the processes were not good, and the managers would say, "I don't care about the process. That's that paper blizzard." What we do now at GAO is to say the controls are weak and, by the way, management has a fundamental responsibility, under law--the Federal Managers' Financial Integrity Act, a law that has been in existence for one-and-a-half decades--for knowing whether adequate controls are in place and working effectively.

I think when you do it that way, you get through to managers. But this concept has to be constantly reinforced. It is not easy. Your next speaker, Clyde McShan, might have another perspective, having come from a federal agency. U.S. Government agencies have new political appointees and top managers coming in all the time. It is a constant educational process. But it has to be drummed home. I feel this very, very strongly. Control is really at the heart of what people are trying to do to do their jobs. They should view controls as a management system, and they should want to assure themselves that the management system is working in an effective and efficient way. But it is a difficult task. If internal controls are just viewed as being the auditor's or the accountant's job, you are in a big hole. You have to jump out of that hole and attack the root cause, and that is getting management to assume its responsibility.

Thank you all again.

An Integrated Financial Management System for a Federal Government Agency

Clyde McShan
Former Financial Management Officer, U.S. Department of Commerce

Good afternoon. It is a pleasure to be here with you today.

We have heard a lot about integrated financial management systems today. I have been asked to address that subject from the standpoint of the federal government. I have been involved in this area for a long time, having worked at the National Finance Center for twenty years and at the Department of Commerce for about four years. So I do have some experience in it.

I think there is good news today. We heard a lot about the CFO Act. The CFO Act set the stage for us to improve financial management in the federal government. Until recently, federal financial management has not really been in good shape. We are now making a lot of progress, I am happy to tell you. The CFO Act of 1990, which is now seven years old, set up the organizational structure that we needed in the federal government. It set up the Controller of the United States, the Director of the Office of Federal Financial Management, as an advocate group for financial management in the federal government. It also set up the CFO for the federal government and the CFOs and deputy chief financial officers in all major agencies of the federal government. This set up a group of people who were going to push for improved financial management.

We also had, as a result of that Act, a group set up called the Chief Financial Officers Council. The Chief Financial Officers Council was made up of the CFOs and the deputy CFOs from the major agencies of the government, and it was headed by the CFO for the government. So we had an organization now that was going to serve as a group that was going to make sure that financial management was well planned and that it did, in fact, happen.

In addition to the CFO Act, we heard today about the Government Performance and Results Act, which now says we want to measure performance, we want to measure outcomes and we want to tie those outcomes to dollars associated with the performance. That was important. That came about in 1993.

In 1994, we had the Government Management Reform Act. This Act called for the establishment of pilot franchise funds. Franchising is encouraging agencies to service one another, rather than everybody doing their own payroll, travel, accounting or computer operations. We had the Government Management Reform Act which said that we should have franchising. It also said we should have more streamlined accounting reporting. It also said we should have audited financial statements. The CFO Act said we should have audited financial statements in the government for commercial activities, trust funds, and certain other funds, revolving funds. But the Government Management Reform Act set up the requirement in the government that each major department have audited financial statements and each sub-component of that organization have audited financial statements, and the United States Government have a consolidated audited financial statement. By having a requirement for audited statements, we put in the discipline necessary to assure that we would have reliable data.

The Debt Collection Act, most recently, and also part of the Government Management Reform Act required more electronic payments, too. I will talk some about that today.

So by these various Acts, we had an organization that was put into place. And, the CFO Council put into place a plan for how we were going to have all the agencies of the federal government actually drive toward a good, solid, sound financial management system. Part of that was our development strategy.

Today we are going to talk about what an integrated financial management system is. Ron Young talked about the integration features. He gave you his definition of an integrated financial management system. I will give you my definition of it. What we are talking about is having all financial management done in an agency in a particular system. I am going to define that as I go along today. We are talking about having financial entries as byproducts for the program managers who actually are responsible for managing the programs. We want them to actually be responsible for inputing the transactions that go into the system, responsible for assuring that they get the outputs that they want. But we want that to be a byproduct. We do not want accounting to be in the back room, and financial managers not really using the accounting results to get their results.

So we want point-of-origin entry. A transaction originates, for example, with a requisitioner. A requisitioner is a person who is actually requisitioning goods and services. We want that transaction to originate at the requisitioner. We want the transaction to flow electronically, eliminating some of the paper flow. We want that transaction to flow electronically, where value is added along the process. The requisitioner actually requisitions the goods. The approving official, or the supervisor, would be the next step in the flow of the transaction. He would add value by adding an approval, or rejecting it back to the requisitioner. The next step would be the second-level approving official or, in some cases, the actual organization responsible for the procurement of the goods and services. All of that would go electronically.

The procurement people would, in effect, send out a request for goods and services electronically to the vendor. When the vendor ships the goods, again the receiving organization would electronically state that they actually received the goods and services. The payment would be done electronically as well.

We wanted to have a system that had reliable data and timely information. Again, by having the managers responsible for inputing the transaction, they had more confidence that the data were there, rather than putting the transaction in the mail, sending it to an organization that was responsible for just doing the accounting. Instead of that, we had the managers actually entering the transaction, making sure the transaction was correctly entered, and therefore they are more accountable for the results.

By having this reliable information, we want the data to be at the fingertips of the managers. Not only do they enter the transactions, but they have access immediately to the information. We want them to have the capability of producing *ad hoc* reports, and we want the *ad hoc* reports to be in whatever format they want. We also want to have an executive information system that would be, at a high level, providing information to the managers on how they are spending their money, or what kinds of results they are getting for their goods and services they purchased. I am going to talk about an electronic executive information system as I go along today.

Our goal is to have no paper. I know that today we are probably not going to totally eliminate paper, but we want to reduce that paper and have electronic signatures, electronic approvals and value-added processing.

We also want to have control of funds. Control of funds can be done in a couple of different ways. By establishing your budgetary accounts, when you execute orders for goods and services, it reduces the amount of funds that you have available, and therefore gives you a balance. Some fund-control systems that people establish totally reject transactions when the system shows they have no monies available. Other fund-control systems just give you a warning message saying you have exceeded the funds, you should take action, but we are not stopping the transaction. There are a lot of different ways to handle fund control. That is really up to the manager of the organization. Fund control is the responsibility of the program managers. We want to give them the tools they needed to get that job done. So fund control was essential.

That basically paints what we want in the federal government. Let me talk for a few minutes about Commerce and the way we went about it.

First of all, Commerce had eight different accounting systems in place. In fact, the Department still has eight different accounting systems in place. That is not very efficient for an organization of some 35,000 employees. We went about changing that. We wanted to have one system in place for Commerce. We heard Major Tara earlier talk about a steering committee. We formed a steering committee in Commerce, and that steering committee was made up of the senior managers within the Department. Each Bureau of Commerce--whether the Bureau of the Census or the National Oceanic and Atmospheric Administration, which is responsible for the weather as one other function, or the National Institute of Standards and Technology, which is another large agency, or the Patent and Trademark, which is another large agency of Commerce--established its own chief financial officer as head of financial management for that sub-component. This group of people became a steering committee to a development project.

Why did we want a steering committee? We wanted a steering committee because there are always turf battles when you are trying to consolidate something. Rather than have Census or the National Institute of Standards and Technology do their own accounting, we were going to have one system to do the accounting. It was going to be one series of software programs that was going to be maintained centrally, but it was not necessarily going to be operated from one place, because we would have it in a client-server mode.

This group of people responsible for steering the effort were going to make the decisions as to how the system was going to actually operate. They were also going to be responsible for assuring that the money necessary for the system was put into place. In each of the bureaus, these individuals were responsible for the budgets of the particular bureaus. They were also going to be advocates for the system. They were going to take the message back to their bureaus and sell the program managers on the need for this new accounting system.

So this steering committee served as an advocate group and it served as a group that was going to give advice and counsel to the chief financial officer of the Department of Commerce.

Knowing that the steering committee was not going to do a lot of the detailed work, we set up a project management team to advise the steering committee. The project management team was set up at an organizational location that we called our Implementation Center. They were responsible for the project management. They were responsible for giving presentations to the steering committee as to where we stood at any particular point. They were responsible for putting together the detailed requirements of the system, and also for putting out the request for proposals that we would send out asking vendors to respond to the system.

Under that project management team, we had various teams working in the various areas. For example, we had a procurement team, a property team, a team that was responsible for the travel system, and another team that was responsible for the general ledger. Those teams were subject-matter specialists working together with technical computer people who would actually make sure that we got a system that was technologically advanced and that had all the functionality, from a functional standpoint, as it related to travel and property that we needed. Each team had subject-matter specialists and computer technical people. To make sure that we were not going to just rely on the Commerce people for the technology, we also had some technology consultants who worked with us from various vendors.

This group of people, working in our Implementation Center, was responsible for making sure, first of all, that we had the requirements, that each of the agencies of Commerce knew what hardware they had to have, knew what software they had to have, and knew what telecommunications equipment they needed. They also were responsible for seeing that each bureau did some Business Process Reengineering. We heard Jeff Steinhoff talk about Business Process Reengineering. As I mentioned, we had eight different systems. We wanted to know for each of those eight systems how that system is being processed today--an "as is" diagram, how it is going to be done today--and then we wanted to know, in a new environment, how they would do it. Jeff mentioned that we had in the federal government a group that studied travel which did a great job of coming up with new requirements for the federal government in travel. How do we apply those new requirements to the Department of Commerce? We wanted to know how it would be in the future, a "to be" diagram of how that transaction would, in fact, flow under the new system. We did not want the existing processes to be put into a new system, because we did not think that would be efficient or effective.

We also wanted to plan out the implementation. We know that you have to have, in today's technology, phased implementation. You are not going to implement all the Department of Commerce, all the bureaus, at one time. There are fourteen bureaus in Commerce. There were eight different systems. We wanted to have an implementation strategy that would establish a pilot and make sure that pilot did, in fact, go according to the way we expected it to go, making sure that the people who were going to interface with this new system would be well trained and knew exactly how they had to go about interacting with that new system. We developed an implementation strategy that was a five-year strategy. It was Commerce's five-year plan.

As we went along, as we came up with the requirements, we had to make a decision as to whether we should build the system from scratch or buy a commercial off-the-shelf software package. We decided that in our system we wanted modern technology, we wanted as low a risk and as high a degree of success as possible, we wanted a system that was going to be fourth-generation, we wanted a system that was going to have a relational database, we wanted executive information capability, we wanted a system that was going to be compliant with the general ledger requirements that were put out by the Joint Financial Management Improvement Program, and we wanted a client-server environment. We decided that the best thing for us to do was to buy off the shelf. We did buy off the shelf. We went through that process and did obtain a system and are working with the vendor to install that system.

As you buy off the shelf, as every agency that is involved in that type of implementation knows, there is a tendency to customize, and customize extensively. I think we need to avoid as much of that as possible. We want to have as many of the processes that the off-the-shelf package offers to us and use those processes, rather than buy a package and then proceed to modify it to the extent that it really would be a customized development in the long term. That is very expensive, but in the federal government many agencies are doing that. They are buying packages and extensively modifying them. We think the biggest bang for the buck is to buy off the shelf.

This is what we, as the federal government and as the Department of Commerce, wanted to have: The core financial systems in the body--it has the accounts receivable, the accounts payable modules, the general ledger (in compliance with the U.S. general ledger and U.S. chart of accounts), a budget execution module, a reporting module, and a cost-accounting module. All of those systems, again, are what we bought off the shelf from one particular vendor. Then we wanted to proceed with the things on the "legs," whether it was a travel feeder system or functional systems or a payroll/personnel functional system or a procurement functional system, or whatever, the grant loan system, the budget formulation system, the inventory system, the property management system, and the bureau-specific systems. Basically, we wanted all these systems to be wrapped up into our financial package. We wanted to make sure that they would all either be integrated or heavily interfaced with the core financial system. We also, as I mentioned earlier, wanted to make sure that they were using the most modern techniques that we could use.

In payroll/personnel, we wanted an integrated payroll/personnel system. We at Commerce use the National Finance Center for delivering our payroll/personnel system. We wanted a system that would provide for labor distribution, for example, because we wanted to be able to tie to projects and tie the performance of those projects to the costs associated with that performance. We wanted a totally integrated personnel payroll system. We got that personnel payroll system. It does labor distribution. That labor distribution is sent back, after computation, to the general ledger.

We wanted a procurement system that was going to allow requisitioners to enter the transaction initially. We wanted them, as they entered the transaction, to be able to flow it electronically, as I mentioned, through the point of actually ordering the goods and services, receiving the goods and services, and then making the payment. But we also wanted that procurement system to update the accounting records simultaneously with the order so we would know where we stood from a funds-control standpoint at any one time. We also wanted it to send records to the property system so we would know, from a property standpoint, what property we bought. At least it would set up the basic information about that procurement, the fact that we bought property. When you got the receiving report that went into the procurement system, then it would say you had received that property and you could accrue the accounting. At the same time, it would send a message to the property custodians that they had to input additional information about who the custodian was and where the property was located. So it was tying in the procurement system to the ledger and to the property system. That is what we are talking about being integrated.

In the case of inventory, it did it the same way. The only thing we wanted from an accounting standpoint was the ability to know the value of our inventory at any one time, so we could, again, accrue that inventory and make sure the cost transactions were accounted for correctly when the inventory was actually used, and then we would value out of the accounting system the actual inventory.

Budget formulation is a critical system, because budgetary data are critical inputs that you use for your funds control, so you know where your budget authority is and how much money you have in the various accounts at any given time.

We have all these feeder systems. From a planning standpoint, we wanted to make sure that we implemented the feeder systems in a staged fashion. We wanted to make sure they closely tied to the accounting system. We wanted to make sure that the people using the system were the functional people, the people responsible for procurement, the people responsible for travel, and so forth. We wanted to make sure that those people were well trained in order to use that particular system.

The "head" represents the executive information system. We wanted an executive information system that was going to give us summary data. This is a depiction. At Commerce, we came up with a touch-screen executive information system. It was a desktop system for our executives. On one side of their PC screen was the information they would normally use at their desktops. When they logged in in the morning, they would basically get this screen. They had a word-processing capability. That was not part of the system, but it was part of their desktops. They had the capability to have things like spreadsheet applications or any other application they had on their desks. On the left of their screen were the things that we were providing them new from this system. We would give them all kinds of information from the personnel system, for example, as to the makeup of the work force, the makeup of the work force from the standpoint of salaries or from the standpoint of race and national origin or from the standpoint of individuals with disabilities, the makeup of the work force from the standpoint of leave, how much leave they use, annual leave, sick leave, and so forth. You could key-in and drill all the way down to find out what trends you have in your organization.

We brought in data from one of the groups that we did credit-card business with. We have the capability to bring in the performance data, or the travel data. If you wanted to see where people were traveling to, how often they were traveling, how much they were spending, how much they were spending on meals, how much they were spending on hotel bills or how much they were spending on transportation, we had the capability of displaying that quickly. The executive could simply touch the screen and go to the information related to payroll/personnel or touch the screen and go to information related to procurement or travel, or whatever. If they did not like the touch-screen, they could use a mouse to access those data. But it did give executives the information they wanted.

We found, as we started to implement this system, that the executives liked it. The next step is to get somebody like the Secretary of Commerce to use the data by capturing program data, such as the level of exports from the United States. In fact, any data that are already automated could be put into this system.

One key that I found to this system is making sure that you have a data administrator in place who is responsible for assuring that the data are always updated and that the executives know how to use the system. Again, it becomes a matter of training.

So now we had all the components of the system. We knew what the system was going to look like. We knew what features it was going to have. How do you go about implementing an integrated financial system? Part of the effort was to identify the requirements. We went through identifying requirements for all the components, as well as for the core financial system.

Another key is conversion data. If you have a situation where your conversion is all from one place, it is easier. But if you have conversion from eight different systems, which we did, you have to go through the effort of identifying what data you need in order to convert to this new system. We also had to go through an effort of identifying how good those data are: Are they sound, clean data, or are they data that are going to need a lot of help in reconciling them to the actual correct records? We went through an effort of identifying conversion data and what we had to do to those conversion data in order to make them so they could be actually converted into a new system.

We went through a big effort of training the work force, identifying who needed training, from procurement people to travel people to payroll people, because all of them will interface with the system, as well as who needed training on the core financial systems, the general ledger, and so forth. We wanted to make sure that the training was provided.

Then, after we did all that, we implemented the system in stages, not all at once, implementing by bureau and in some cases by location within the bureau, in order to assure ourselves that the system was, in fact, implemented correctly. As part of the pilot implementation, we evaluated the results of the pilot test, how sound the results were, how good they were in comparison to the requirements that we developed and the expectations that we had. After you go through the pilot stage, you make corrections as necessary, and then implement the next stage of the pilot.

In summary, I think the federal government has come a long way in financial management. We have the organization in place, both at the senior level of the federal government itself and within the various departments of the government. We have a plan in place for taking the government from where it was a few years ago to where it needs to be in the future. That plan again is developed by a combination of the Chief Financial Officers Council and the Office of Management and Budget, and it is issued by the Office of Management and Budget and the CFO Council on an annual basis. It calls for improved financial management, and particularly as it relates to an integrated financial system, which is designated by OMB and the Chief Financial Officers Council as the most pressing issue of the administrative management of the federal government today.

We still have a long way to go, but I do think we are making substantial progress. I was involved in franchising, which is providing cross-servicing, one federal agency servicing another federal agency. In the case of the National Finance Center, it pays some 500,000 people every two weeks in payroll. It does the Thrift Savings Plan for the entire federal government. It was not always that way. When that organization was established, it did only Department of Agriculture payroll. It did only Department of Agriculture travel vouchers or accounting. Over the years, beginning in 1983, there was a direction to do more for other agencies. Rather than have Justice or Treasury or the Smithsonian Institution or any of the other big agencies building their own systems, we could save money in the federal government and reduce risk by having one agency service another. That is being emphasized today with franchising. We are trying to do more with less, trying to get a bigger bang for our buck as we go along.

It is my expectation that one day there will not be financial systems in each federal agency like there are today. Instead, we will have more interaction with an existing system that will be done by program managers interacting with one system in the federal government or one consolidated system, maybe not operated at one location, but maybe operated at five to ten locations. I think we will see that in the federal government. There is no reason for everybody to do their own thing, whether it is payroll, whether it is buying goods and services, or whether it is actually doing the accounting. As long as you can get the data and you know they are reliable and are in your system, as long as you can get the data out, at your fingertips, when you need them, and do the analysis that you need to do to make your organization run, that is what counts.

Again, in the area of payroll/personnel, the government has saved millions of dollars and reduced enormously the risk by consolidating and doing more of the systems together, rather than doing them independently and apart. There are big risks associated with developing a system yourself. As Jeff Steinhoff mentioned, the IRS has spent a lot of money, the FAA has spent a lot of money, and many, many federal agencies have spent a lot of money in financial systems, trying to build them, trying to get them up to where they want the systems to be, and we have not yet had the full results for what we want. So, franchising calls for more sharing, thus reducing costs and risks.

We are making progress. I think you will see more consolidation of the system, and we will have more client-server systems, probably three-tiered, where you would have the local computer at your desk, tied to a server, and that server eventually will be tied to what used to be referred to as a mainframe computer. They will be using relational databases as we go along, object-oriented databases. We have a way to go, but with the structure that is in place, with proper planning, and with the needed emphasis, there is reason to be optimistic. That is my message for today. Thanks.

Accountability Requirements of Development Projects

Randolph Andersen, Director, Loan Department, The World Bank

Good morning, and thank you for this opportunity to talk with you about accountability requirements of development projects. Quite a lot has been happening in the World Bank in recent times.

Today I will focus on four key points: the key tenets of financial accountability, the changing mood of the world in which we operate, the changing perspectives within the World Bank, and our response to reshape the accountability requirements of development projects.

First, I would like to give you a few statistics about the World Bank. Many of you are very familiar, as borrowers or shareholders, with the World Bank. We have 180 member countries. There are only a few countries that are not members as of this moment, mostly island communities.

A few figures to put the World Bank in the context of why this conference and this subject are important to the World Bank: We lend between $18 billion and $20 billion a year, of which the International Bank for Reconstruction and Development, the IBRD, is about $14 billion and the International Development Association, IDA, is about $6 billion. Our total loan portfolio is $165 billion for IBRD and $97 billion for IDA, which makes for a pretty large institution.

We have nearly 2,000 projects under implementation at any time, and these generate about 5,000 audited financial statements every year. Our exposure of loan and credit funds without an audit opinion at any time is between $5 billion and $15 billion, depending upon the audit cycle. Government auditors and private-sector auditors equally share the audit opinions across the world, although there are important regional variations. Interestingly, the private-sector auditors issue more qualifications than do the government auditors. That could be the subject of a long debate, which I will not go into at this moment.

For the Bank, accountability is extremely important to ensure that, as required by our articles, we can ensure that the proceeds of the loans are used economically and efficiently, and only for the purposes for which financing has been provided. The reputational risk to the World Bank is potentially substantial. Our AAA bond rating is cherished and protected to ensure that we can have access to funds in world markets at the lowest interest rates and costs for the benefit of our borrowing member countries. We are essentially a pass-through cooperative. The interest rate margin is .5 percent. I do not think you would find any commercial bank or other banking organization in the world which operates on such a small margin. But we still manage to generate a profit in excess of $1 billion. Of that $1 billion, we give about half of it away to IDA or to emergency issues, such as Rwanda, Bosnia, trust funds for Russia when the former USSR was dismantled and the countries became independent, together with waivers for good payers on the IBRD repayments. We have about ninety-three percent of all countries that are prompt with their payments and are therefore eligible for a waiver of .25 percent.

Now I want to turn to financial accountability. To me this is a broad concept which embraces accounting and auditing as fundamental elements of stewardship. Stewardship can be at the level of a project or at the national level. It underpins integrity and attitude toward responsiveness and responsibility, which in turn leads to good governance. Governance facilitates development. Without financial accountability, good governance is impaired and development is impeded or does not take place. This, therefore, raises three issues in loan portfolio management: first, mechanisms for ensuring compliance with financial management, accounting, and auditing covenants within our loan agreements; second, the quality of project financial management and accounting arrangements at the start of lending, or quality at entry, as we call it; and third, the project concerns versus the broader national perspectives to sustain financial accountability principles.

With regard to the national perspectives, our concerns at the World Bank are to understand three dimensions. First is the financial accounting and reporting infrastructure that is needed to sustain good project financial management. There is no point in giving the patient a new limb if the body has cancer. So it is with World Bank-supported projects. Second, there are the associated risks, which also have three parts: the organizational risks at the project level, led by way of traditional attributes of segregation of duties, clear procedures, competent staff, physical control, and independent verification; country risks associated with the overall environment of internal controls, including at the top, which was mentioned yesterday afternoon, support for financial accountability infrastructure, respect for accounting and auditing in the culture, and a strong civil service ethic for honesty and independence; the reputational risks to the Bank due to weak financial accountability requirements at the borrowing country level.

There have been many recent threats to the Bank's credibility. The last thing that I want is for weak accounting and auditing in borrower agencies to bring the Bank into disrepute.

The third dimension of these national perspectives is to have a national overview of proficiency of financial services in both public and private sectors, especially with increased divestiture of public-sector enterprises around the world.

During this decade, we have witnessed a distinct shift in attitudes of the general populace. Again, that was referred to yesterday. Opulence, greed, offshore bank accounts and corruption have given way more recently to demands for government accountability and transparency. Radio and television, the Internet, etc., have collapsed the traditional boundaries, with or without censoring. No government or agency can escape public scrutiny. The external pressures are increasing for them to provide the wherewithal for open accountability. New Zealand was commented upon yesterday as being a relatively small country and the U.S. could not go that route in terms of full accrual accounting. Nevertheless, New Zealand sets a good example in the way that national accounts are based on full accrual accounting in compliance with combined private- and public-sector accounting standards. I have to ask myself: Is there really any justification for separate accounting standards?

Furthermore, the Declaration of Principles at the Summit of the Americas here in Miami three years ago signalled a new dawning through a key consensus. I would just read that to you: "We recognize that our people earnestly seek greater responsiveness and efficiency from our respective governments. Democracy is strengthened by the modernization of the state, including reforms that streamline operations, reduce and simplify government rules and procedures, and make democratic institutions more transparent and accountable."

The pioneering work of Transparency International and the influence that the organization has had on the Organization for Economic Cooperation and Development, the OECD, in setting up a working group to look at bribery in international business transactions, especially public procurement, have brought forward into public debate the "C" word: "corruption." Inevitably, that group has also had to look at accounting requirements, financial reporting, internal controls, and audits, upon which I have provided expert advice at two of their meetings last year. Nothing has had such a perverse effect on integrity and morality as corruption, as well as being an undermining influence on development. Even the president of the World Bank, after a year into his tenure, felt compelled to bring out the discussion of corruption as part of his annual meeting speech in October of last year. It received very broad press coverage and quite substantial support. We even have a task force internally presently completing a study and action plan to help mitigate the worst effects of corruption and to guard against the misuse of Bank funds.

Mentioning the word "corruption" inside the World Bank has moved fully around from being anathema to fully acceptable. So it is with borrower financial accountability. It has been a long haul and it has been a struggle. We have moved from a situation of turning a blind eye to bad practices into one of threatening, albeit too little and only occasionally, to suspend loan or credit disbursements because of an accounting or audit compliance failure.

When we carried out a special review in 1993 of our financial reporting, accounting and auditing practices, we found that the main problem was a failure to follow our own procedures. We have since rewritten and improved those procedures, which have introduced some quite specific criteria with regard to appraisal report processing and compliance with standards.

The Bank has reviewed the work of the international accounting and auditing standards setters during the last four years and quite openly supports them financially, through our special grants program, and in practice, by first of all requiring that public-sector enterprises comply with international accounting standards of IASC, or to at least indicate where they materially differ from IASC if compliance is legally required with national accounting standards; second, requiring independent auditors to use the international standards on auditing of the International Auditing Practices Committee of IFAC, unless national auditing standards are superior; and third, requiring auditors general to use INTOSAI auditing standards, preferably in conjunction with ISAs of IFAC, due to their more comprehensive nature.

The Bank is also supporting the work of the ISAR group in Geneva, that is, the Intergovernmental Group of Experts on Standards of Accounting and Reporting, to help develop environmental financial accounting guidelines and checklists. There will come a time when the World Bank, like other lenders, will require our borrowers to declare the environmental impact of funds that may be made available from the World Bank or from other lending agencies, as part of footnote disclosures of contingent liabilities that may well occur and develop. I notice the SEC and other market regulators are looking more and more at third-party issues.

Harmonization of accounting and auditing standards is vital in today's marketplace to ensure proper understandability, relevance and comparability of financial statements. It is with this view in mind that we are also encouraging the public sector committee of IFAC to develop a comprehensive set of international accounting standards for governmental accounting. The sooner we all work to the same bases, the better.

One of the key problems of the World Bank in recent years has been a skills mix issue--too few financial management specialists and accountants. This was first identified publicly by Bill Wapenhans, a former vice president of the World Bank in 1992, who tabulated the decline over the previous decade. We gave a further reminder in a task force report in 1994 and in several annual reviews of our portfolio performance within the World Bank. But it was not until last year, when staff began complaining that they did not have adequate intellectual guidance on borrower financial accountability issues at the regional level, that management began to take notice. We had a handful of people at the regional level, with really not much infrastructure of support to help get on with the development of appropriate standards and compliance.

So the Bank began to take notice because of representations being made by staff in two directions. All of this was not withstanding that we had been taking several initiatives. Many of you have seen on previous occasions a copy of our handbook, the FARAH, as it is fondly called. We printed 14,000 copies in English. We have it translated into five other languages. It goes like ripe cherries, because it gives practical guidance to task managers and staff on what audit terms of reference look like, and what project accounts look like, what full financial statements look like, and what these standards are that we keep talking about. We put them together in a handbook, and that was found to be invaluable. We had not recognized that there was such a dearth of information and a quest for understanding by staff of the institution.

Many of you will have read in the press about the debate between the president of the Bank and the board members regarding the renewal of the Bank. Improvement in staffing skills in the areas of project financial management and accounting, I am glad to say, are key aspects of that strategic compact.

In parallel with these several events and activities, my department has been reviewing the way it does business and the procedures surrounding that disbursement and borrower accountability business. It involved talking with about 400 people inside and outside of the Bank. It gave us some good insights into key issues that we could do better. We also reviewed our step-by-step procedures. While our appraisal effort was weak in failing to capture the true strengths and weaknesses of financial accounting and reporting arrangements, our implementation activities, through supervision and audit, left us exposed to a series of potential and actual control breakdowns.

The first control point weakness, as far as we are concerned, was associated with supervision of finance projects. We are required to obtain adequate financial reports to monitor borrower financial management and accounting systems. The sanction is, if the loan agreement requires submission of such reports, disbursements may be suspended. That did not happen very often, as I mentioned. So it goes on: linking project implementation status with disbursement status; sample review of procurement; post-review; depending on the projects, review one in four or one in twenty contracts; perform sample statement of expenditure reviews; and inform the borrower's government and independent auditors of finding. Our task managers also are required to look at these SOEs when they are out on field missions. We found that fewer than one percent of all statements of expenditures were actually being reviewed. So that gave us another big risk.

The Africa region has a conditional board presentation, based on whether or not the audits are in compliance.

Similarly, when it came to the control point associated with audit, you see activities of the borrower, activities of our staffing operations and, of course, the control point weakness. Select the auditor by start of project activities--very rarely done. Review the auditor's independence, qualifications, experience, in terms of reference and agree to the appointment of the auditor. Monitor compliance with report-submission deadlines. You see that only about forty percent of all the audit reports due in fiscal year 1996 were received on time. We do eventually get them, but they are somewhat delayed.

Through this process, we said, "That is not good enough. We have to reposition ourselves vis-a-vis our own requirements, our own procedures. We have to do something about our own skills, but more particularly, we have to do something with borrowers." Through our discussions, we developed a program called the Loan Administration Change Initiative, which has four guiding principles: First, to ensure that projects have proper financial management systems up front, before we even take the projects to the board. Second, to decrease the detailed document review and transaction processing. We want to move from about 40,000 transactions down to about a third of that, about 15,000 transactions. Clearly, there are procedural and staffing implications associated with that. Third, we want to link disbursements to project progress and performance. We have to marry the two. Instead of the financial management, the disbursement and procurement aspects all moving along parallel tracks, we want them coordinated. We need to bring them together, so that when a withdrawal application is coming into the World Bank, it is supported by the sound procurement, financial management and monitoring indicators, as a cohesive document.

We believe that having those kinds of procedures in place will help borrowers improve their timeliness. Very often it takes several weeks to produce a withdrawal application. That is unnecessary. That is not development at work. That is inefficient.

Regarding the redesign of our disbursement procedures, the financial staff involved in the project are required to fully understand the details of the project and to initiate a review of the borrower's financial management systems, including internal controls, project accounting, project financial management and the audit arrangements. An algorithm takes us through the process whereby at the end of the day, if everything is okay, a project ends up with an "A." That means it can go forward as is, everything is in place, all the financial accounting, reporting mechanisms, procurement issues are all being properly captured and embraced by the new financial framework. We will let that project go forward. If it cannot fully comply, then there may have to be remedial action. There will be a delay in the processing of that project through the Bank's system and the board. There will be other occasions when it will just come to a dead halt. It will stop. We are determined that unless those up-front arrangements are in place, we have to be more strict and serious about whether or not we permit the projects to move forward. This is going to be tough on some of our operations staff. I met with the managing director for operations on Friday. We have already discussed this extensively with the vice presidents and managers for finance. There is a real commitment to bring the Bank into the realism of business today.

When we get into implementation, we will monitor project financial and physical implementation, to include the key reports, project progress reports, financial statements and the procurement management reports. They will come into the Bank as part of the withdrawal application. We presently take five days to process a withdrawal application, from its arriving at the Bank to its leaving the loan department. That is pretty good. It used to be three or four weeks. We expect that in the beginning our own processes will slow down a little bit while we take account of the additional work that we have to do on these withdrawal applications and the more comprehensive financial statements when they come into the institution each quarter. But that, I think, is going to be worth the investment in time. It is going to be worth it to the borrower as well as to the Bank.

The Bank follows certain processes in communicating with the borrower about issues arising out of the application, and working with the borrower to move toward the payment. The emphasis here is to move away from an invoice transaction approach into one of payments through an enhanced special account arrangement. In order to do this, we will require, as you have seen, borrowers to establish sound financial accounting and reporting arrangements, supported by adequate internal controls, before we can begin disbursements. We presently have twenty-five projects around the world, in all stages of preparation and execution, as well as complexity, embarking on a pilot phase to evaluate the efficacy of the approach during this next six months. If all goes well, the approach will become mandatory for new projects sometime during 1998, and a conversion process will begin during that year for about 1,200 of the existing projects in the portfolio.

These procedures demand that borrowers take charge of their own accounting and financial reporting arrangements, instead of relying, in many cases, on the Bank's own disbursement procedures to cover for their own internal control weaknesses. The new arrangements also demand that the Bank deliver upgraded financial management skills in our operational vice presidencies, as well as in my own department. The key objective here is to move improved financial arrangements into the development effectiveness mode, instead of being a subsidiary activity which is often poorly done, with substantial penalty costs in terms of time and cost when it comes to the annual audit. By having quarterly replenishment of the special account which will be subjected to more rigorous review, the time between use of funds and accountability will be shorter, as will the time to suspension of disbursements. Better accounting will lead to quicker disbursement request preparation and have an overall positive impact on development, as well as lowering the cost of the audits themselves.

Mr. Chairman, we believe that our revised approach to accountability requirements for development projects financed by the World Bank are a wake-up call to governments and their executing agencies to get more focused on financial management, accounting and reporting, as well as the timeliness and quality of audits. The consequential accountability and transparency will, I am sure, find support with the populace as we move towards the 21st century.

MR. DURNIL (United States): With regard to borrower accountability at the local level, does the World Bank do much on-site review or work at the local level, as far as day-to-day people overseas at the project level?

MR. ANDERSEN: We approach these reviews at the local level in two different ways. One is by way of staff from headquarters, from Washington, visiting in the field, to look at government accounting, financial reporting and internal control arrangements. The diagnostic is done and then terms of reference are agreed upon for some independent firm to come in and help develop those new accounting systems and financial reporting arrangements. Then the staff is supposed to keep involved with what happens from there on.

We have also moved into increasing the situation of having staff posted in the field, in some of the larger missions. We now have qualified staff accountants, many of them recruited locally, who are working with reviews on withdrawal applications, working with the task manager or the task team leaders from Washington on developing and redesigning those accounting and financial reporting and internal control activities. In the future, we expect we will have more local-level support. We will have more staff posted from Washington, resident in the field, or more local recruits in our developing country resident missions.

We have some pretty substantial resident missions in some countries, but they do not cover every country to whom we lend. In those smaller countries, we will still have to deal with all the developmental work and supervision from Washington, and not from the local office.

PARTICIPANT QUESTION (Equatorial Guinea) (As summarized by translator): My main concern is about a development project of the past. The project had to do with diversification of agricultural products, that had an expected rate of return of fifty percent. Actually, the return was less than one percent. Who should be responsible for the bad implementation of a project of this sort, which accounts for a large part of our financial troubles? Problems existed in the matters of acquisition of materials as done by technical experts from the Bank itself. The problem is that we have to buy, for example, boots to go into the field. But seventy percent of those boots that were acquired were size 44 and higher. The average size that we wear in Equatorial Guinea is size 39 to 41. When I see these big debts that we have to pass onto the country, I ask: Who should I demand responsiveness from?

MR. ANDERSEN: I also recall another aid project to design an airfield exactly like one that had been seen in Europe. The airfield was designed and installed in a country in Africa, complete with snowplows. That is another example of aid not working in the way that it was intended.

But to get to the serious substance of the question raised, first of all, the Bank does not own any projects. The Bank assists the borrower to develop and meet a need, whether it is capacity, infrastructure, whether it has to do with education, social services, whatever. The borrower, all the time, is the owner of the project. We go to a lot of effort to try to ensure that the borrower is the owner of the project, not the Bank. Yes, we have been guilty in the past, when one or two of the Bank staff were a little overzealous in terms of their contribution to try to help make sure that the project upon which they were working does get implemented as intended. I hope the Bank would not have been approving of a bid document which requested boots of size 44 when the need was really for 38 to 41.

That kind of thing should come through the review of procurement documents. The borrower prepares the bid documents. The Bank only reviews them. The Bank gives its "no objection" to ensure that that bid document, when it goes out, is being responsive to the objectives of the development and of the particular project.

On the rate of return, there is often a lot of confusion between economic rates of return and financial rates of return. I had occasion to be in one of our large member countries a few weeks ago, where clearly the economic rate of return was going to be very substantial, on the order of forty-four percent. It was a major water-transfer project. But the financial rate of return, the cash flow, was all wrong. It would have been a financial disaster. With a little reorientation, we were able to do the crosswalk between the economics and the finance. That really is very important. You must always bring the economists back to the grass roots, back to ground level, and ask how the cash flows will operate year by year, so that those of you who represent developing countries can be assured that you will not have, as they say, the slip between the cup and the lip. That can happen if we focus too much on the economics and not enough on the finance, underpinned by sound accounting arrangements.

PARTICIPANT QUESTION: I am happy to see the procedures outlined for the way the World Bank looks at their accountability requirements. I am afraid, however, in the real world, it is not so, if you give me the liberty to say so, sir. I raise this issue because Third World economies are faced with very severe staff shortages. We do not have the kinds of skills available to ensure that these kinds of accountability requirements are, in fact, in place. Invariably, the Bank will have more than one project in a particular country. The Bank also manages those projects, as I understand them, out of different windows in the Bank, different departments of the Bank. So there is the possibility that in a single country four projects are there, and four different groups of people are there. I do not know to what extent you will edify me, please, as to what coordination takes place on issues pertaining to financial accountability in those projects.

The other part is that, in managing these projects, the Bank has gone into a mode of installing project implementation units, referred to here as PIUs. Again, each project implementing unit is required to have independent accountants and auditors. Could you say whether the Bank is moving into a mode where it is possible, if you have a number of Bank-sponsored programs in a country, that there can be one management system operating in it, one accounting management system, for all the Bank projects, so that there could be coordination at the Bank level, if the Bank has an arrangement where all the projects are cleared by a team, and at the local level, where a management team is handling all the Bank's projects?

I may extend that. In some countries, for example in my own country, the Bank does not have an in-country representative on a full-time basis. That poses severe problems for accountability. Audits, for example, and accounting statements, when not submitted, are known much too late for corrective action.

MR. ANDERSEN: As part of the strategic compact of the World Bank, as part of the underpinning reorganization and staffing, we are moving much more toward smaller country departments, country directors, whose job is nothing else than to look after a small group of countries, usually two or three, not more than that. In some cases, it is one country director for one country. This is to try to bring the Bank closer to the operational realities of the borrowing member countries.

The project implementation units, to me, have always been a bit of anathema. This was touched upon yesterday. Once a project is implemented, those skills are disbanded, they go away, and all the knowledge and all the development that took place go away with those people. We usually do build into our lending activities a requirement that the borrower provide staff to work with those international experts while they are there and to drain them of knowledge and understanding so that the counterparts who are left in the country afterwards can carry on, hopefully, the good work and the seeds which have been sown by that technical assistance.

Can we have a single set of accounts in a country combining all projects? I doubt it, because of the way projects are structured, because of the way they are implemented by different ministries, different utilities and public-sector enterprises, all of which are subject to quite different and independent audit reviews. But it is certainly an issue that is worth looking at. But I doubt very much whether the realities exist to be able to bring all of those projects together and audit the program, the total lending program, as opposed to auditing the individual projects.

With the reinforcement of financial management skills in the Bank, which will be taking place in the months ahead, we do expect that the new financial management specialists will be able to pay closer attention to some of the very real issues that you raise. Through our pilot activities under the LACI program, we are also looking at these issues. In fact, we have taken one whole country, Lebanon, and looked at the entire program to see what synergies and opportunities there are for amending our procedures, to improve them, so that we can be more responsive to the needs of our borrowers. Thank you.

MR. DURNIL (United States): I remember when I first began auditing in foreign aid and development projects. I can recall that in the mid-80s in the Philippines I was deeply involved in the Marcos review, trying to figure out what was going on there--the corruption. I remember, in Africa, in a couple of countries, where our commodities were given to the military and the local currency generations were used to purchase military vehicles. I can remember some Latin American countries where a bagman used to arrive at a USAID mission the first of the month and the fifteenth of the month and get a bag of money and go to the Ministry of Finance and the Ministry of Agriculture and pay what were called salary supplements. They happened to be all the political cronies of the folks there. I tried to find out what the World Bank was doing, because I knew they were throwing a lot more money into these countries than USAID was at that time, even though we were throwing quite a bit. It was very difficult to get any attention at the World Bank.

However, I have to admit that it has changed dramatically since that time. Borrower accountability and watching the flow of monies at the World Bank have greatly improved. I think, Randolph, it is a credit to you, Colin Lyle and Jim Wesberry, and a lot of the people here. We thank you very much.

Software Packages for Development Projects

Alan Abel, Manager, Coopers & Lybrand, L.L.P.

My topic today is "Choosing Accounting Software for Development Projects." "Choosing" implies that you have a choice, and I realize that very often you do not have a choice. You are told what software to use for a development project. By accounting software, I mean to imply the full functionality of accounting, budgeting and financial reporting software. I am talking about integrated, off-the-shelf accounting and financial reporting systems. When I say development projects, I would like to expand that to include implementing agencies which manage or administer many development projects, and often multiple donors.

Here are the areas I would like to cover today. First of all, I would like to talk a little bit about your overall objective, the overall objective of the accounting software, and what it needs to do for a development project. Then I am going to share with you a little bit of philosophy--universal laws governing systems implementations. I am going to go over some critical criteria of accounting software--what accounting software needs to do for you. Then I am going to talk a bit about common mistakes that people make when they are choosing and implementing accounting software, and what I refer to as "tails that wag dogs." I am going to go over what an accounting system is, what the parts are, and the functionality of the parts. I am going to talk about what some of the mainstream systems are that are in the marketplace, and I will share some of them with you. Then I am going to talk about trends in accounting software--what is new, and what is coming down the pike. I am going to give you some more advice on how to deal with selecting and implementing accounting software--more advice because I am giving you initial advice in common mistakes and tails that wag dogs. Finally, *caveat emptor*--let the buyer beware.

What is the objective here? What is the big picture? What is it that you want to achieve with accounting software? There is a two-part objective. First of all, you need to meet the accounting and financial reporting requirements of project and agency decision makers and other stakeholders. I think that is a no-brainer. Let's account for all the stakeholders here. There are the people who actually manage the project, or the activity or the implementing agency, the host government officials, and all the development partners and those decision makers.

The second part of the objective is to establish and maintain public and stakeholder confidence. That is very, very important. It is important to get accounting software that can provide this assurance. You do that by accomplishing what I said previously--generating performance and financial reports for the stakeholders--and then by having a system which has very good controls and auditability.

Before I take the overall objectives down to requirements, permit me to finish the framework here by going over a couple of universal laws associated with systems implementations.

The law of maximum perversity: Most of you are familiar with Murphy's Law. You are probably tired of Murphy's Law. The law of maximum perversity is far more pervasive and comprehensive. Murphy's Law says, "What can go wrong will go wrong." The law of maximum perversity further extends that and says, "in the worst possible way, at the worst possible time."

Then it is also important to understand the distinction between "useless" versus "worse than useless." A useless system is when you spend lots of time, money and effort implementing a system and it does not work. A worse-than-useless system is when you spend lots of time, money and effort implementing a system; it does work, it works very badly, it generates bad information, and decision makers rely on the bad information and get in trouble.

Most system implementation efforts fail--and "fail" may be a strong word here, but let's just say they are not successful as originally envisioned. There are a lot of reasons for that. The most important concept to understand here, I think, is, unlike other kinds of projects, systems implementation projects have lots and lots of steps, and the steps need to take place in a certain sequence. If they do not take place in a certain sequence, the implementation will not be successful. Then, because each step is dependent on the next step, when something goes wrong with a previous step, that holds up everything else (critical paths). That is usually what goes wrong.

Our three success criteria for implementation projects are scope, budget and time. Did the system implementation go according to plan, or did the scope change? Was the implementation completed within budget, and was it completed on time? Think about all the systems implementation projects you are familiar with or you may have heard about. Very rarely do you hear about a project where all three of those were on point. It does happen. When it does happen, that is to the immense credit of the project managers and their skills to plan and anticipate things that can go wrong, because lots of things can and do go wrong--I refer you back to the law of maximum perversity.

Following implementation, your success criteria become (after you have operated your accounting system for a while) the following: 1) Few problems. 2) Operating in a fairly self-contained mode; you do not need a whole lot of outside help. (You want support from the vendor or somebody called a value-added reseller (VAR), which I am going to talk about shortly.) 3) Everything was done fairly cheaply and your system operates cheaply and easily (I believe yesterday Mr. Uzcategui from Venezuela was pointing out the virtues of simplicity). 4) Good support--you get good support from your vendor or your VAR. 5) The users of the system and all the stakeholders have confidence. Everybody is happy. 6) The audits are clean, easy and the outcomes favorable. These are the success criteria of a well-implemented, well-operated accounting system.

The second law, the law of natural selection and evolution of systems: Ten to twelve years ago, there were hundreds of off-the-shelf, so-called integrated general ledger accounting systems on the market. Most of those companies went out of business. They did not survive. It was a very, very crowded marketplace--a lot of shake-out, a lot of bad planning, a lot of bad execution, a lot of bad software. Relatively few of these companies and their products survived. As a result, there are not that many on the market now, at least not compared to the way things used to be. The market leaders, "the leaders of the pack," have thousands of install sites. They have been responding to user complaints or suggestions for years. They have been debugging their products. They have been competing with each other to offer new and special features, flexibility, ease of use, auditability. At this point, they are pretty darned good products. That is why I am going to argue that you should always, when you do have a choice, try to stick with a mainstream product--it has survived natural selection.

What accounting software needs to do for you, what the critical criteria are: Bottom line, it needs to generate comprehensive (meaning big picture), meaningful information (which everyone can understand), clear, accurate, and timely performance reports and financial statements. This information needs to be produced periodically--monthly, quarterly, annually, depending on the needs of the user or the other stakeholder--by unit, project or activity. Yesterday, Mr. Young used the expression "multiple dimensions of accountability," to refer to accounting standards and methods. I am using the expanded term here "multiple dimensions of accountability and reportability" in a more physical sense, having lots and lots of flexibility on the kinds of financial information that your accounting system can generate for you. This is critical--being able to generate information that can account for funds by funding source. Every donor, every lender, every other stakeholder who has an interest, wants financial reporting for that particular need or wants to see multiple funding sources on financial statements, either one or many, and then also be able to account for multiple projects.

This is very important. This is an attribute of development projects and implementing agencies which really characterizes the kind of accounting software that these entities need and sets them apart--multiple projects, multiple donors.

When you get to functionality of the software--and I will go into more detail there in a second--you are dealing with what are typically referred to as mid-range accounting systems. They come in three flavors: low-range, mid-range and very large systems. Typically, an implementing agency, in terms of transaction volume per se, should be well provided for by a low-end accounting system, but implementing agencies have very substantial functionality requirements which are the kind of needs generally provided by the mid-range accounting software systems. That is what I am going to talk more about in a few minutes.

More elements of what accounting software needs to do for you: You need to generate financial statements, showing actual versus budgeted performance, highlighting variances. Mr. Young raised this issue yesterday--how important it is to get actual performance, actual data and budget in the same place. Of course, the larger the entity is, like governments, the harder that is to do. But with implementing agencies or development projects, it is much easier to get your arms around that. You absolutely have to have accounting software that can put your real data and your budgeted data very close together, so it is very easy for the accounting staff to write, generate and modify financial reports which can highlight these variances.

It is very important to be able to show this month's performance versus last month's performance, this year's performance versus last year's, and estimated outcome. All this needs to be done line item by line item and account by account. All the accounting systems that I am talking about, and some names that I will share with you, can do this easily, and the accounting staff can manage this entire process with virtually no outside help, which is the whole point.

When you first load an off-the-shelf accounting system with budgeted data for the year, you break the data down by month. You load twelve months, and that, of course, equals your annual budget. So at the beginning of the year, your estimated outcome equals your annual budget, or else something is wrong with your budget. Let's say you have gotten to the end of month five. (Most of these packages offer many fields where you can load in all kinds of scenario data if you want.) You are at the end of your fifth month, and you replace the first five months of budgeted data with actual data. The system keeps track of that for you and keeps adding up all twelve months. That is your estimated outcome. This is a very important tool to have to be able to track your performance as you get through the year. These software packages can do this for you easily.

Other functionality: Now let's get into the parts a little bit. You have to have a general ledger, of course. That is the core of your system. Sometimes budgeting is offered as a separate function, and sometimes it is offered together with general ledger. I prefer it when they are as close together as possible, because it makes reporting much easier. Accounts payable and general ledger are almost always the two core processes in terms of functionality that you have to have, and maybe accounts receivable. Usually implementing agencies do not have such a large volume of receipts. That may not be necessary. Bank reconciliation is a nice feature to have. Importing and exporting of data is very important, but when I get into trends a little bit, you will see how that is becoming almost a done deal now with Windows-based systems, where it is so easy to import and export data in client-server environments, even using clipboard and other features which come along.

Common mistakes that you do not want to make, and tails that wag dogs, in connection with selecting and implementing accounting systems: Mistake number one: "We're unique, and therefore we must build or develop our own accounting system." That is ridiculous, because you are not unique. If you think you are, you need to revisit your requirements or have somebody help you better define your requirements. There are a lot of systems out there which can more than handle virtually all the needs that I have ever come across of implementing agencies and development projects, off-the-shelf. If you take the mistaken approach, you will absolutely be reinventing the wheel. Think about what I said earlier about the big players that have been around for at least ten to twelve years, who have been continually modifying, developing, evolving and advancing their product. What a horrible process to have to go through again, when it has already been done so many times, and done very well. Believe me, you don't.

You also want to avoid programmer dependency. Anytime you want to change a financial report or add another feature, you do not want to have to go to a programmer to write the feature. You want your accounting staff to be able to have lots of flexibility to write any report you could possibly want off of your database. Maybe the VAR could develop an application for you, which they may be authorized to do by the software vendors, but you really want to avoid that because that can really tie you down.

Off-the-shelf, ready-made, highly evolved mainstream accounting systems provide discipline. You almost cannot use the software improperly. It will not let you do that. It comes with lots of good controls. You have to have segregation of duties to use it and make it work properly, and lots of security. There are a lot of procedures. They come ready-made, and you have to implement them and use them a certain way, or the system will not work. It forces you to do things right.

The next mistake: Not Windows. At this point, I would not bother with Not Windows; just deal with Windows-based systems. Windows versions are state-of-the-art. Even if you have got non-Windows accounting software from a certain vendor now, in a year or two, if they still want to be in business, they will absolutely have a Windows-based version. As a matter of fact, they might not otherwise survive the next year or two, because everybody is doing it.

There has been tremendous investment in accounting systems for Windows software development. The multiple-document interface (called MDI) feature of Windows lets users keep multiple active processes open, multiple windows, at the same time. When you are doing accounting and you are a stand-alone operation, a one-person show, it is great to be able to do many things at once and keep flipping back and forth from window to window. That is a very important feature. It is wonderful. It can really improve the efficiency of your operations.

Non-mainstream operating systems: This is a tail that wags a dog. Very often in local situations, a whole ministry or some government agency may be operating all of its information technology with one particular operating system. If you are forced to use that, you may not find any accounting software that is compatible with it. "Cactus Gulch" operating system probably will not have a whole lot of applications on the market that will operate. So that is definitely a tail that wags a dog. If you ever find yourselves in that situation, you can come back and argue that you have to have a stand-alone PC or a couple of PCs if you are going to have a multi-user environment. The operating system, whether it is Novell Netware or a Microsoft Windows operating system or SQL--those are the three big ones--is very cheap to buy and to load and then to get your accounting software loaded on top of that. It all works very well together, and it is going to be an awful lot cheaper, not just in the long run, but even from the get-go. Whenever you have the opportunity, try to avoid that mistake, because that is going to hurt you.

This is a mistake: Getting a cruise ship when all you need is a canoe, and getting a multi-user setup and system when all you really need is a single user set-up. It completely depends on the development project, the implementing agency, how big it is, how much is going on, and how much activity you have. But I think, more often than not, in most situations, a single user is probably okay, or there is enough downtime on the computer so that you can have several people who make up your accounting office share it. I would say, whenever you can keep it smaller and simpler, do so. You will have fewer problems, it is cheaper, and it is just easier to operate in a stand-alone, smaller mode. Most of these software systems upgrade very easily. A year or two down the road, if you find you need a new application or you need to accommodate a new user, you can grow from single-user to multi-user very easily. It is like plugging in a new part almost--a little more training, a little more expense, but not much. In the long run, if you try to keep it as small as possible, all of your operating costs will be much lower (and that is where you spend money) and you will have far greater independence. You will not have to call for help as often as you would otherwise.

Another mistake: Not getting a dedicated system. You really want to avoid loading your software in a computer architecture that everybody else in a government agency is using. You are only asking for trouble. The new Novell Netware and Windows operating environments do offer a lot of security features. But in a dedicated mode, you have more assurance that your system is secure and that no one else can mess with it, and your data cannot be corrupted, tampered with, or accessed, if you have as dedicated a system as possible.

Another mistake: Mr. Andersen mentioned this point earlier in addressing the issue of whether or not the World Bank and the other Bretton Woods institutions were advocating using a standard general ledger chart of accounts. You really cannot do it. In my experience, every country has its own government chart-of-accounts requirements. Every supreme audit institution (or contraloria general) prescribes its own chart of accounts and requirements. When you are planning your chart of accounts--and this is a very important process--you really should model it and do a lot of "what if" analyses to make sure you get it right. If you do not get your chart of accounts right when you set up your software, you have to start all over again. This is a big deal.

You have to figure out what all your reporting requirements are to the donor agencies, all the stakeholders who need information, the supreme audit institution information, and what kind of account information and reporting you need for management. You work all that out together, and then you will come up with a chart of accounts which can do everything you need it to do. Typically, these mid-range accounting systems which I am talking about have very powerful chart-of-account features--lots of character positions for lots of numbers, lots of fields, and lots of flexibility in sorting and organizing them. Also, in the situation with implementing agencies and supreme audit institutions of countries, charts of accounts tend to be very long, and your account codes can sometimes be thirty or forty characters in length. A lot of these systems will offer you a feature called an alias feature, where you can name a very long account code something like "Fred." You can debit Fred and you can credit Sylvia. It makes your life a lot easier.

So the better designed your chart of accounts is, the more reporting flexibility you will have. You have to be able to add accounts, and change accounts, very easily. You have to be able to accommodate unit and project realignments as your operations evolve. You should not be able to delete an account until it has not been posted for two years. If you have an accounting system which allows you to delete an account which has been posted in less than two years, I would say the auditability feature of that system and the control is not so hot.

This is a mistake: Failure to plan for and obtain adequate training, and to develop policies with the system and around the system. The most important investment you can make, after you have selected your accounting software and you are implementing it, is training. That is where most people fall down. They do not provide adequate training. The vendor or the value-added reseller (VAR) should be there. You should be implementing module by module. There should be training provided to the staff. Then the staff should be left on its own for a couple of weeks to use the system and figure out what they know or do not know, what they like or do not like, what works, and what does not work. Then somebody should come back and provide follow-up training. That is the right way to do it. Believe me, it is money very well spent.

Software engineers: These are the people who typically come and implement the system for you and provide the training (and this is where software vendors or value-added resellers can fall short). They are not accountants because they are software engineers. It is very important to get some additional expertise to guide them along or to make sure that the accounting staff and these people are all speaking the same language, and that the software engineers, even though they know their software inside and out, very clearly understand the bottom line, the financial reporting requirements. That is critical.

It is a good idea to do one or two modules at a time instead of the whole shebang at once, if you are going to buy lots of parts. If you do not, your staff will be subject to marathon training in a week or two, and then they will not remember how to do a lot of things. I think that one or two at a time is a good approach. Of course, there is always staff turnover in any situation. Therefore, it is important to make sure your staff is cross-trained in the use of the software. If they are not, your key person, who could be a lower-level person who just happens to know everything, could leave, and then you are left holding the bag. Then, of course, whenever you are dealing with an upgrade, an add-on or a new feature, it is always important to get new training, to make sure you are using all those new features properly.

This is a mistake: Focusing on the software vendor and not the VAR. What is going on now is the major players in accounting software have established networks of these VARs to sell and to train in their software all over the world. The big players now have networks with as many as forty or fifty VARs in different countries. This is particularly true now in Europe and in Latin America. I want to emphasize, the VAR is the guy you are going to be dealing with. So when you are investigating software, it is very, very important to check him out. You have to make sure they are legitimate, and they have lots of specific experience with multiple accounting systems, not just one. For one thing, if you are going to talk to them about buying a system, they are going to try to really push the one that they carry, if that is the only harmonica that they are playing. You also want to make sure they have enough competent technical help that they can answer questions--that they know what they are doing. When you pick up the phone and call the hotline, you want to make sure somebody is there and can help you with your problem. Otherwise, you could be stuck.

This is a tail that wags the dog: Grandfather's approval. I have run into a lot of situations where people will not do business with a vendor or a VAR unless their families have known each other for four generations. You have to get away from that. If you operate that way, if you say, "Oh, I've heard this is a great system. It's working over here," it may not work in your situation, and it is going to severely limit your options. You really have to do the groundwork yourself, and you really want to stick with a mainstream system. Otherwise, you could paint yourself into a corner. I'm thinking of Mr. Uzcategui's point yesterday--it is important to make sure that you are properly addressing your own requirements, and not someone else's. In any selection situation, there is always pressure from somebody else to use a particular system or do business with a particular vendor or reseller. You have to resist that. I know sometimes there are a lot of political situations where that is difficult to do, but it is very important.

This is a tail that wags the dog: When you are going software shopping and you are looking for a particular feature as a mainstream feature. If you take this approach, you are not going to get the software that meets ninety percent of your needs, which is really what you want. You are not going to find, probably, something which meets one hundred percent of your needs off the bat. That is okay. Go for the ninety, ninety-five percent. You can deal with the other five percent later on.

What are typical tails that wag dogs here? Currency translation, which is an easy thing to add on later if you really need it. It is an easy thing to augment with supporting schedules, like with spreadsheets. Do not focus on that. You can deal with that later.

Excessive budgeting requirements--most of these systems have wonderful budgeting capabilities. You can immediately generate financial statements that show you budget versus actual, and then variance. That is terrific. A lot of these systems can make sure that you cannot enter and post a transaction if you go over the budget. You can "what if." You can say, "What if I have this expense? What will my financial statements look like, or my detailed trial balance or general ledger transactions list?" No problem. You do not need to budget, usually, for every single transaction piece by piece. Most of the power provided by these accounting packages is far more than you will ever need in budgeting.

Payroll is probably the only application which universally always varies from country to country. Every country has a different tax structure and different kinds of payroll issues. Do not let that tail wag the dog. Usually VARs can modify payroll for you, and they have an agreement with the software vendor to do this. Of course, it is great if you can rely on the host government to take care of payroll, if you have staff on government payroll. If you have consultants, they are expenses, of course; they are not payroll. You can use accounts payable for that.

Anytime you have a "wishes and dreams" list of things you would like to see, do not focus on that until after you have gotten your software and the mainstream features you need set up, or you are not going to get what you want.

This is a mistake: I have run into this situation a number of times. The University of the Grand Duchy of Fenwick is developing an accounting system that uniquely meets the requirements of our country. Forget it. You will never get satisfaction. What I said before about any kind of parochial situation, where you think you are unique, or your requirements are unique, or your government imposes unique requirements on you, it is just not true. This is going to kill you. If you have to make some kind of political commitment like this to get this software and use it, you are going to be very, very dependent. You are going to be dependent on their programmers. You are going to be miserable.

The whole system, the parts: I have been talking about the whole system. This is what you want--an integrated general ledger, off-the-shelf accounting and financial reporting system, which is the long way of saying accounting software. The parts: General ledger and report generators oftentimes are offered as separate features. Again, I like it when it comes together with the general ledger, because it is easier, just as I said before about budgeting. Some of them have stand-alone system administrators, some of them do not. Accounts payable is almost always a separate module. Bank reconciliation is sometimes separate, sometimes joined. Import/export capabilities, again, sometimes separate, sometimes part of the other modules. I would say these are core features. You may need payroll and job cost--luckily, software vendors are now thinking in terms of project costing and activity-based costing instead of the traditional job costing, which a construction company or a chemical company might be using, in the classical job-cost sense. That can be a very, very powerful tool for you to have. You may not need it. You can add it on later. But it can do some neat things for you. Once I set up a classical job-cost system to track financial assistance and to report on a refugee resettlement program. You too can tinker with these modules--you can be creative, and they can be very helpful to you. As for fixed assets, if you have a desk, a chair, a computer, and a car, you probably do not need this. If you have lots of stuff, then it is a great thing to have. Sometimes purchasing is a nice stand-alone feature to have, if it does not come with accounts payable. Often it does.

Let us get to some of the mainstream systems here. First of all, I think it is a good idea if you check out software reviews yourself. There are lots of publications which do really good accounting software reviews. These are my favorites: "Journal of Accountancy," "CFO Magazine," and "PC Magazine." I know "PC Magazine" has a Spanish edition. I do not think "CFO Magazine" does. "The Journal of Accountancy" is very good at handling and responding to queries in other languages. I have the Web sites for "Journal of Accountancy" and "PC Magazine," and I have e-mail addresses for "Journal of Accountancy" and "CFO Magazine."

Let me point out a few systems that are also recently reviewed packages. I think every one of these systems has at least several thousand install sites around the world. I am not trying to be U.S.-focused here. Most of these are U.S.-based companies, but they have a lot of VAR relationships, lots of install sites and lots of users all over the world. These companies have all been around for a long time. They all have Windows-based versions now. They seem to get, pretty much uniformly, great reviews. They are paid attention to a lot by the three publications I just mentioned, and many accounting user communities. They all have a lot of flexibility as far as chart-of-account capabilities are concerned, which is very important.

AccountMate and Agresso have lots of Spanish install sites. I know Agresso also has French. Great Plains is one of the companies referred to as the Big Four. Like the Big Six accounting firms, there are the Big Four accounting software programs. The others of the Big Four are Platinum, Solomon IV, and State of the Art. Macola and Platinum and Solomon also have lots of Spanish install sites, and some other languages as well.

There is another company that I read about the other day, which is a Danish company, which also has thousands of users and install sites around the world, but I have not read any reviews of their software.

There is also a Costa Rican software vendor, but I have not actually read a review of their new Windows-based software version, but I understand it exists. It is a good company. They have lots of install sites, a number of them in implementing agencies and development projects now. Their budgeting is very, very powerful. They have lots of fields in their general ledger, which is good.

Quickly, some trends: Again, the trend is getting away from dealing with the software vendor itself and working more closely with the VAR. Platforms software, Windows-based software, is getting away from the old local-area-network environments to the new client-server-based platforms, which allow much more flexibility in sharing of data between applications. For example, there is a Windows-based accounting system with Microsoft Office, so you can upload and download data from other applications very easily. This is terrific, because now you can, for example, not just print out a financial report or a schedule, you can print to e-mail and you can send that to the World Bank for approval directly from your accounting system.

Accounting systems are increasingly using a few mainstream report writers that they are buying from other vendors. What they do well is an accounting system, period. What they have not done so well in the past is report generation. Now they are buying other people's report generators, and that makes for a very formidable weapon, a very powerful tool.

An important trend is that users can increasingly customize their own accounting software--click and drag fields all over the place to design your own reports, your own windows, change the language that the window is in. You can change the language of the software yourself now in many cases. You can build your own applications in Microsoft Office and link that to your accounting system. It is wonderful.

Some more advice: Make sure you get your requirements down pat from the get-go. Make sure you get really good references from other users in similar situations. Look at the reviews yourself, so that you can understand what is going on and find the features you want to use. Try to get your general ledger and budget applications as close together as possible. Look for as much flexibility as you can in report writing. I mentioned earlier activity-based costing and import/export. Do not focus so much on the cost of your software, but in all the cases I am talking about so far, you are really talking about between $5,000 and $50,000--more often than not, for core systems, $10,000, $15,000, maybe. Your bigger costs are in training and getting support. Again, that is money well spent. Spend it. Do not buy the gadgets you do not need.

Here are some common-sense internal control and auditing considerations that you want with systems. All of these systems, I think, have very good controls. That is what the reviews say.

Let the buyer beware. Watch out for "vaporware." "Vaporware" is software which the vendor promises is great and wonderful, and it is not really there yet. It has not hit the market yet. You almost never hear about a software product, certainly an accounting system, which is ready before it has been promised, but almost always afterwards. So pay attention to that and make sure that it can deliver what the vendor has promised it can deliver by the time it is supposed to.

If you have any questions after today, please feel free to call me or e-mail me.

MS. RODRIGUEZ (Dominican Republic) (As summarized by translator): In what countries have you directed the implementation of a computerized accounting system, as described here? What is the investment cost, and how much time was taken from the point of diagnostics to implementation, including the training of all the personnel involved?

MR. ABEL: Of course, all of this depends on the size of the operation and the requirements of the functionality you are going to need to have. But I think in most cases, from what I have seen, the requirements-defining process should not take more than a couple of months. Oftentimes you can do it in a few weeks. As a matter of fact, most of these software vendors, working with consultants, can provide templates that help you go through your requirements quickly, and then they can immediately respond with their system or tailoring issues if you need those.

The installation of a core system should not take more than a day or two. You are basically installing a diskette or a few diskettes. What takes more time--a few weeks, perhaps--is setting up your tables, your general ledger accounts, your vendors, all your codes, aligning your units, your transactions, writing your financial reports. In a smaller situation, you can do that in several weeks. I would say elapsed time for a small operation--for general ledger, accounts payable, budget, and reporting--you should be able to square that away, with training complete, follow-up training complete, in a four- to five-month time period.

MS. RODRIGUEZ (Dominican Republic) (As summarized by translator): It seems to me that to do all of these things within a government institution in two or three months is very ambitious. What country are you talking about? Where have you implemented this?

MR. ABEL: If you are talking about an implementing agency which has three or four, let's say, simultaneous development projects, there is not often that much accounting activity. There are expenses and there is financial reporting. If payroll is done by the government, that is an issue you do not have to deal with. If you are talking about a large, more complex government agency, certainly that can take a lot more time and a lot more expense, particularly if the government is more insistent upon using exactly the chart of accounts prescribed by the supreme audit institution or the contraloria general. Your point is very well-taken.

There are lots of corners that you can cut. You do not have to do your accounting in an implementing agency environment exactly the way the host government does. What is important is that you can generate the financial information that the government and the other stakeholders require, and you can do that far more simply. There are lots of tricks of the trade that can really simplify this process.

I want to make sure that this is not a black box. There is not a lot of magic here. It is very straightforward. These accounting systems are very powerful. Remember, they are smaller. You can get your arms around them. It is not like setting up a huge integrated financial management system for a whole government. I am grateful for that.

MS. SATO (Peru) (As summarized by translator): In our country, we need an accounting system to handle different sources of financing. For example, one of our projects has funds from the World Bank, the government itself, and from a United Nations agency. We are talking about three different sources of financing with different accounting systems, reporting requirements and auditing rules. Is there, already on the market, a system that is flexible enough to allow us to have a common database, but that would allow us to extract information in what I call basic language? I am particularly interested in budget categories as opposed to budget lines, for example.

MR. ABEL: The answer to your question is, virtually all of the above, all of those systems that I have shared with you. Some of them may not have the capacity that you need in your government situation, but most of them have the flexibility in designing and setting up their general ledger chart of accounts to meet the needs of the multiple donors. That is my whole point. They have these very powerful, flexible databases. The key is setting up your chart of accounts right. If you get that right, then you can write all different kinds of financial reports for the users--the World Bank, USAID, or your own government, your contraloria general--whatever they need, you can do that with your report writer. But your chart of accounts has to be detailed enough and have enough fields to make that work. That is why planning is so very, very important.

MR. LYLE (United States): May I just raise one quick issue with you? I totally endorse your presentation, which echoed a lot of our own feelings in the World Bank, and recommendations. The only problem is, what is good in Washington is damned difficult in Ougadougou. I think, speaking on behalf of many Africans, it is not often that the Big Six accounting firms have come up with the sort of advice that you are able to offer here. I think the push needs to be made from the head offices of the major accounting firms, such as yours, to their local or regional offices, which quite often are totally aware of the sort of advice you have been giving us today.

MR. ABEL: You are absolutely right. When I mentioned the Big Six accounting firms before, I was making an analogy to there being the Big Four accounting vendors. But you are absolutely right. That is why, simply as a marketing strategy, these software vendors are so keen on establishing these relationships with value-added resellers in many, many countries, getting the experience they need, and--further to your point--developing relationships with local accounting firms, to be able to put the accounting expertise and the software expertise together, to be able to set up systems which can meet everybody's needs.

MR. DURNIL (United States): In the area of accounting systems and all these software packages, I believe there is a gap, really. You have the software vendors out here and you have the other people who use them out here. I was in the Philippines, and we were doing an audit. They had implemented this nice accounting system, and they had these reports that were supposed to be submitted to USAID. They needed a system to generate information to fill out the reports. We went in to do an audit. We got a copy of the report. The person in the accounting department just took the report, turned it over on the back side, where it was blank, and wrote, "Cash received. These are the expenses, and this is the cash we had left," and submitted that, because the front part was so complicated that they could not fill it out.

I think that is kind of the way it is today. If you look at our foreign-aid projects, whether it be from a financial institution or from a donor agency, you almost have to have an accounting system that can generate the information to complete the financial reports for USAID, the World Bank or the U.N. It would be nice if they just had one common report for cash advances, and a common report for reporting expenditures. We are just not there yet. It is going to take a while to do that. Even the United States government, as sophisticated as it is, still has the Department of Labor requiring a certain report or the Department of Education requiring another type of report. Yet they have the same type of information.

My point is, there is a gap. As far as cost goes, I think it is kind of difficult to answer how much a particular system may cost. One for a large government agency would be much, much different than one for a small implementing agency.

Problems in Development Project Accounting and Reporting: Panel Discussion

Colin Lyle, The World Bank
John Davison, Former U.S. Agency for International Development
Adriana Arroyave-Shipley, Inter-American Development Bank

Moderator: James B. Durnil, Coopers & Lybrand, L.L.P.

MR. DURNIL: There is a lot of talk about problems in development project accounting and reporting, and that is the topic of this session. I think we often get tired of hearing the things that were brought up this morning, such as trying to get a fifty percent return on a particular loan versus getting ten percent, or trying to irrigate so many thousand acres and only getting a few hundred. A lot of times this relates to accountability and its absence. As we said earlier, most people are interested in implementation, not accountability. It has been that way for many years, and is still that way today. Accountability always takes a second seat to project implementation and performance reporting, and trying to show that the project is successful, rather than ensuring that you have the proper records as far as reporting to the donor agency.

This presentation will be an informal group discussion, rather than an individual presentation by each one of the guest speakers. The three people we have here today have been through numerous countries and numerous projects within each country. What we will do is have them talk about how they have overcome a lot of the problems, and maybe they will share some success stories. We have the World Bank, we have the IDB, and then we have a half-and-half-- a consultant who was formerly with a donor agency. With that, I will turn it over to the panel.

MR. DAVISON: Thank you, Jim. I think I would like to start by following up on Randolph Andersen's presentation this morning on accountability requirements of the World Bank. A lot of those requirements apply to the other multilateral and bilateral donors. Following up on Randolph's presentation, I would like to bring our good colleague from the World Bank back into it. Colin Lyle has had a lot of experience in the World Bank, working in borrower accountability areas, and also working directly with a lot of the countries that have to coordinate their efforts with the World Bank and other donors. Colin, I would be curious to know, from your standpoint, what are the problems that you have seen in the past during your various trips into a lot of the countries that the World Bank works with?

MR. LYLE: Thank you, John. The problems are multiple. I think the donor agencies are now, thank goodness, as Randolph Andersen pointed out this morning, seriously addressing the problems of financial management of projects. As Jim Durnil pointed out earlier, it was previously a question of implementation taking a priority and financial management taking a back seat. Now I think people are beginning to realize the importance.

The first line I have written on my note pad here is a question. It says: What is a project? This is a question that is raised frequently to the World Bank by project accountants who do not know what they are dealing with. A project has no legal identity. It is owned by the government, but assisted by the donor agencies. As Mr. Andersen pointed out, the donor agencies have, obviously, a very strong vested interest in the success of a project, to ensure their own reputation and their creditworthiness. It is a bit like a joint venture. I tried to explain to project staff in Africa, where I had been working extensively, to think of a project as sort of a joint venture that belongs to the government. It is not a going concern, and obviously this affects the accounting treatment. It has a limited life span.

How do you account for it? I am raising questions myself, hoping somebody is going to give me the answers, because the answers have not yet been clearly defined. I see it as a joint venture, where the partners, led by the government concerned, and the donor agencies, invest in a project with objectives and hand it over as a sort of sustainable item at the end of its life.

Other important issues are the different standards of government accounting, and often the donor agencies prefer more commercial type standards. The World Bank, as Randolph Andersen pointed out, endorses IFAC and IASC standards, which are based on commercial accounting criteria rather than the public sector. Again, in several African countries particularly, this has posed a problem, because it means that the projects have dual accounting responsibilities and requirements.

Quite often, project accountants come from the government sector and have not had sufficient exposure to international accounting standards, so they require training. They may not be familiar with computers and PC-based accounting software. This is another problem, which is why I raised the issue with Alan Abel earlier. I know in many developing countries--and I would be interested to hear the experience of Latin American countries--the choice of project-compatible accounting software is very limited. Projects often do not know where to turn. As Mr. Andersen pointed out, the limited number of specialized staff, in the World Bank particularly, means that quite often projects are implemented with the aid of donor agency staff, who themselves do not have much familiarity with accounting programs.

Government-appointed project managers do not have accountability. I think this is a fundamental issue. Again, when you have a profitable enterprise owned by shareholders who appoint managers, issues of accountability are much clearer. Governments are not used to requiring clear accountability from government-appointed project managers. How is it measured?

These are some of the questions. Maybe somebody has some answers. Normally, I think the response on the part of the World Bank is to try to treat things as reasonably as possible. The World Bank and the IDB, the multilateral donors, often have much less stringent and specific reporting requirements than the bilateral donors. The World Bank bases its requirements on what is normally required for sound management, hence our endorsement of the international accounting standards and international standards on auditing.

This being said, I hope I am beginning to generate some interest. I would like to hear what Adriana has to say on these issues as well.

MS. ARROYAVE-SHIPLEY: Unfortunately, we are invited here to speak of problems, and I do not like to give the impression that all the information that we receive has big problems. We also receive good information. I have had good experiences with changes in the countries.

But let me explain what kind of problem we face day by day with the accounting information that we receive. I will continue speaking in Spanish. I feel more comfortable with it, and I would like to explain well our experience with Latin American and Caribbean countries.

(As summarized by translator):

I have noticed in this conference there is a lot of talk about modernization in government financial administration. I hope this conference is beneficial to you, the people who carry out projects that the Bank finances.

Since we are focusing on the daily problems of the countries that benefit from development projects, let me say that I find a lot of the problems revolve around profitability and information, which is a reflection of the problems of the different entities. Many times we do not have a lot of flexibility concerning the entities that carry out the projects, because the main entities are those providing the public services, and a lot of the loans are being carried out by these entities.

We have a lot of problems with reports because the accounting systems do not provide the information in the manner that it is required. This means that we are faced with problems in projects, for example, where the providers do not have an accounting system.

We also have problems with information that is received late. Sometimes the financial statements are six months to a year late. What is happening? What is the problem? Well, we feel the project managers are not aware of the importance of the financial information. Perhaps we are not giving the appropriate signal to management about financial information. Because of the late financial information, the problems remain for the entire life of the project, and little improvements are observed.

Frequently, the same entity is involved in more than one project, and each project is in different stages. If problems occur in stage one of a project, we see that they repeat themselves through stage two and stage three.

Another problem: What happens when the auditors issue their letters of recommendation? The contribution that the auditors have made in general has been quite positive for projects in the sense that they highlight the problems the information systems have and recommend actions that should be taken. However, we have observed that they are not given sufficient management attention to face and solve these problems. We feel that the problems continue repeating themselves and, when we look at the management letters during a period of five years, which is usually the execution period of a project, we see very little change. However, this same problem also occurs in the entity that is carrying out the project.

We feel that the auditor's contribution is arriving a little bit late. We see that they begin planning for the audit at the moment it is time to issue the financial statements. Why is that? With this, you lose all of the assessment that the auditor should have done with the entity, and therefore the work is being limited so that the different phases of the project can continue. This allows no time for the entity to take corrective actions.

Who is responsible for the financial information? The implementing agency feels that the auditor is responsible. Unfortunately, in our country, a trend has evolved whereby it is the auditor's job to help finalize the closing of the account, when, in reality, the implementing agency should have the information ready so that the auditor can have sufficient time to carry out all the corresponding analysis.

I remember a case that went on for several years with one of the big implementing agencies for a project of the Bank. This entity issued their financial statement annually because of a contract agreement. The financial statements presented a lot of information from the auditor and, because of that, the recommendations were quite extensive. Every time this was turned in, it said, "I am meeting the requirements of clause such-and-such," but, several days after, the entity would send a communication saying, "I am in not in agreement with that report that was issued by the auditor." What happens then? The Bank would go back and say, "Well, I want to have information in which you are in agreement," but a lot of time was lost, and I believe that the implementing agency lost a lot, too. Instead of implementing a plan of action and solving the problems that were coming up, a lot of time was wasted arguing with the auditor over these different problems. They wanted to have a clean opinion, but they did not want to do anything to obtain it.

I think that these are the main problems we are facing right now in Latin America, and we hope all these administrative processes will help the different entities and the different auditors in orienting the implementing agency so that the information is improved upon. The problems of information do not affect only the development project; they also reflect on the implementing agencies. When we observe the financial information of an entity on a project, and the project presents a lot of deficiencies, very often the entity has the same types of problems. Therefore, if you improve the procedures for the project, you are likely to improve the procedures for the implementing agency.

MR. DAVISON: I have a couple of questions I would like to ask my two colleagues here. We have seen over the last couple of years a tremendous increase in co-financing development projects, with co-financing being defined as separate donors getting together to economize, if you will, on scarce resources that we all see today, to fund and finance the same project. There are several cases where we have as many as three to five multilateral and bilateral donors cooperating on the same program. I try to put myself in your shoes, you as people who are responsible for accounting for, implementing and providing the necessary reports back to the donors. I put myself in your shoes and I ask a couple of questions: Is it possible for the donors to come together in a coordinated fashion and require the same financial information and the same financial reports? Can they combine to create the necessary efficiencies from the host country participation part of it to provide standard information to the donors?

The second area that concerns me is that each donor has a different set of procedures and regulations that you, as the borrower or the recipient, must follow. I know that, in the case of bilateral donors, those requirements are perhaps a little more strict than you would find in the multilaterals. But I would like to ask both Colin and Adriana if they see, from their standpoint as multilateral donors, the possibilities of attempting to coordinate both of these types of activities in the development projects that they finance.

MR. LYLE: I think that is a very relevant question. Of course, the irony of all this is that even the bilateral donors invariably have national accounting bodies who are members of IFAC and have recognized international standards on auditing and international accounting standards. Then you find that the governments of the bilateral donors concerned do not seem to be aware of the existence of these standards and require something totally different. I think this is a problem of awareness and development, and a little bit of gentle persuasion.

I do recall one project financed by the World Bank, in an African country, where there were something like nine or ten donors in total. By going and seeing each individual donor and convincing them that the World Bank was going to do its best to ensure that the project was respecting international accounting standards and producing timely and reliable accounting information, we did manage to get the verbal endorsement or acceptance of all the donors that they would not require any other specific accounting format. I think that is the exception rather than the rule. I can remember another case in another country, where one bilateral donor required, for reimbursement of sums spent, four originals of each invoice to be sent to him. He was one of four donors. I do not know quite what the project was doing, probably having to pay enormous charges to suppliers for ten or twelve originals of each invoice. But, of course, this just totally distorts basic accounting principles as well. If you have hundreds of originals of basic documents floating around, the chance for duplication is enormous.

But I think it is a question of consulting with the donors during project preparation. This is largely up to the borrower government. Again, we come down to the government's own awareness of the importance of consolidated and integrated financial management for their projects. It is a question of preparatory work with the borrowing government to make them persuade all the donor agencies involved that what is necessary for sound management of a project should be good enough for everybody. I think this is another uphill task that we are facing at the moment.

As I say, I do know of cases where donors have agreed to accept normal, good, sound accounting standards. They all have their specific forms for disbursement and things, obviously, but as far as accounting formats are concerned, I think it is a question of the project staff and the government concerned working closely with all the donors to agree on a common financial reporting format.

MR. DAVISON: Perhaps part of the solution in this would be the recipient countries themselves, when they are beginning to design projects and programs and they present those programs to the individual donors represented in their countries. Perhaps we have to throw it back on the recipient countries and say that part of the responsibility is theirs. If you are pulling together two, three or four donors, perhaps you are the one that should insist on coordination and efficiency. As a recipient government, it would be your requirement that you report only one set of financial data back to the three individual donors.

Does anybody out there have any comments regarding that? I know we have several countries represented here today where we have multi-donor participation. We have a program that began last year in Ghana, for instance, in which the World Bank, the ODA from England, the Canadians and, if I am not mistaken, the European Union are participating. Perhaps one of the representatives from Ghana could give us a little bit of enlightenment on how they have approached that coordination effort.

MR. BALGOBIN (Guyana): I hear loud and clear the call for the beneficiary government to have responsibility for accounting arrangements and accountability. I, however, would like to point out, both to the World Bank and the IDB, an obligation that I believe is also the Bank's obligation, and that is in the management of the project. I am aware in my own country of a number of projects that are managed by people who do not have managerial skills. These people have been accepted by the IDB and the World Bank. I think the IDB and the World Bank need to step back and say, if the person does not have managerial skills, then the person is not acceptable as the project manager. I find that people with engineering backgrounds usually head development projects in countries. I do not have anything against my engineering friends. They have very strong technical skills, but extremely poor managerial skills--one of which is financial accountability. I believe that most of the projects are not meeting financial deadlines because that is not their portfolio responsibility, or at least they do not see it as their portfolio responsibility.

In my own country, the best-managed project is the IDB project called the Health Care Project that is managed by a public administrator. All the other projects in my own country are managed by engineers. As I said, I have nothing against engineers, but if you were to come with an MBA or something like that, then I believe performance would improve.

Take, for example, co-financing. In co-financing a project--for example, sea defenses in my country--the designs for the sea defense structures are the same, so the technical parameters are no problem for an engineer to manage. If he builds the sea defense with IDB funds or World Bank funds or European Union funds, it does not matter; he is building the same design. But he is dealing with three different procurement arrangements, three different financial arrangements, and three different kinds of people who have different responses to the project. That skill the engineer usually would not have.

The point I am making is to find the root cause of why you are not getting there. You are not getting there because you have not made the right decisions up front. I am saying this is the responsibility both of the government that is benefiting from the project and the Bank. The donors need to make some clear commitment in the management of projects.

MS. ARROYAVE-SHIPLEY: Yes, I think we have a lot of problems in the management of some projects. Some projects are administered by people who do not have managerial skills. In this case I think the responsibility is the country's, and also the development organization or our organization in the design of the project. I think we are facing, day by day, these kinds of problems. We are trying now to make changes to make it more institutional, this trend, before the disbursement of the projects. Even that is very difficult to eliminate in some executing agencies. It is true that we have a lot of problems.

MR. LYLE: May I just add a word? I think we are talking about ownership. The World Bank is currently taking great pains to emphasize to governments that the projects are their projects. It is the governments who are the owners, and the Bank is there to help them in any way it can, and to help finance the project. But these project managers are appointed by governments, who are the owners of the projects. Perhaps it is a question of learning from one's experience when a project does not work. There should be a full investigation by the government to find out why it has not had value for the money out of a project. It is only in drawing from lessons learned that maybe governments will realize that such things like management skills are the cause of a project's failure.

I fully agree with the questioner and with Adriana. But I think the answer has to come back to the governments, who are only borrowing the money to implement their projects. I think the international donor agencies are there to help them, but the owners are the governments.

MR. BERKMAN (United States): I would like to just respond briefly to the previous comments, and then I also have a question of my own.

I have spent a lot of time during the last twenty years working on just those issues, the skills mix and whether the right people are being appointed to the right positions. This definitely is a serious problem. I would take issue with the idea that ninety-nine percent of the engineers are not capable of managing. This is a misconception many of us have, including in the donor institutions. We are very cavalier about the idea of management. I spent twelve years at the World Bank before I retired. People there get promoted not because they were good managers, but because they had done the right things to get promoted to be managers.

The point is this: Anybody can be a good manager if he has the resources and he is personally committed to doing the job properly. There is nothing magical about being a good manager, contrary to what some might say. It takes a will, a commitment, and having the support of your superiors. I have known many African managers whose hands were completely tied, whether they had been economists or engineers or anything else in previous jobs. They were not permitted by the people in government above them to really exercise their authority. That becomes a serious problem. I do not think the degree or training that you have necessarily preempts you from being a manager as you gain experience.

My question for the panel is: How complex is the accounting on the average project? My sense has always been that the basic accounting needs for any project have always been rather simple. They are quite clearly laid out in the beginning. The processes and the procedures are all clearly defined between the donors and the recipient governments before the project is started. Yet there seems to be, as Adriana has mentioned, mass confusion once a project gets under way. The simplest transactions do not get recorded. The simplest things do not get done on time. I would like your reaction to what you perceive to be the actual complexity of accounting needs at the project level.

MS. ARROYAVE-SHIPLEY: I agree that the accounting requirements are not complex, because the information the organization requires is well defined. I think the specific information required about the projects is clearly defined and needs only organization in the entity securing the project. Even if we have a good organization that has normal procedures or a normal accounting system, it is difficult to get in the information.

MR. LYLE: To back up what Adriana has said, I think the complexity quite often is the result of circumstance rather than need. There are cases, for instance, where government counterpart funds on projects are not provided on a timely basis. We have cases of World Bank-financed projects where a percentage of payments for recurring expenditures are financed by the World Bank and another percentage by the government. The projects find themselves in the position of having the World Bank money, and they can pay seventy or eighty percent of an invoice, and not the twenty percent, which means they have to account for the twenty percent and file the invoice separately, and so on. This adds complexity to the accounting requirements.

The World Bank invariably has disbursement conditions. We give projects that are called special accounts, which Randolph Andersen referred to earlier, which are like advance floats for the day-to-day expenses of a project, without prior approval of the World Bank. The World Bank normally accepts one bank account for these projects. We will find that our own staff, in association with governments, has set up accounting structures with several different accounting centers, trying to account for one bank account. These things just do not work, as I am sure many of you will understand. This is the sort of instance that complicates the accounting situation.

But I think it comes back to a stitch in time saves nine, and getting everything right and clear before the projects are declared effective. Invariably, it is because that is not done that one finds complex accounting situations.

MR. DURNIL: Let me give you an example of a problem that I encountered with respect to financial reporting by recipient organizations into donor institutions. I was sitting in my office in the State Department in Washington, D.C. one day about three years ago, and the assistant administrator for management called me up and said, "Jim, can you come down here a minute? I want to show you something." I went down to his office, and he had a big, thick computer listing. He said, "That represents $785 million worth of projects that USAID has around the world." I said, "That's pretty good." He said, "Wait a minute." He went to the last four or five pages, and he pulled out an example of a project in El Salvador. It was for $50 million. He said, "Look at this. There hasn't been any activity for five years. They have drawn cash of $45 million against a $50 million project, and they have only reported expenditures of $40 million. They have $5 million of excess cash. Not only that, there is $10 million there that I can maybe re-obligate and give to somebody else." He said, "That is just one example. I have a cash management problem, and I have a problem here that the organization does not need the money anymore." He said, "But let's take the whole listing. I have sitting around the world $150 million of excess cash and $250 million of expenditures, money that is obligated that, in my books, may not be needed. Can you go out and find out what the real picture is?"

If you go out to the organization, you will find out that they had not submitted their final expenditure report because they were going through a process of disposition of equipment, whatever it may be, and that they had actually spent $48.5 million and they just had not reported their actual expenditures; that they were not in an excess cash position, and in fact AID owed them more cash.

The point is, I do not think a lot of recipient organizations really understand what the accountability and reporting requirements are, and what importance they have to a donor. Would you all give your perspectives, from your organizations, as to why you need certain information, why we have such detailed accountability reporting?

MR. DAVISON: I think we can do that, but I would like to go back to the management issue for a second, which I think is perhaps the essence of these issues. The word "management," I think, can be defined in many, many ways. Probably every one of us in this room would come up with a separate definition. The question over here I thought was very well-taken and points out a very serious issue--the management issue. I think Colin has pointed out, too, the necessity for defining these issues and these problems in the design phase of the project, before it is presented to the respective donors for their final approval.

Let us keep it in context here. We are dealing with the words "financial management." That is the theme of this conference, and that has been the theme of this conference for the last eleven years.

One of the feedbacks that I have gotten from several of the donors, and especially the donors that lend money and do not put out grants, is that, from the multilateral perspective, are recipient governments willing to spend their own money, which is in effect what they are doing when you have a loan, to begin to fill this management gap through extensive training programs? I think part of the problem is that some of the multilaterals have the feeling that governments are not willing to do that. What they look at, primarily, are the major infrastructure projects, where there is a rate of return--building a hydroelectric power plant. But getting into the areas that concern us in this conference, the financial management areas of systems and controls, governments are not willing to spend money to fill that training management gap.

I certainly would like to get some feedback from some of the participants here. Is that true? Are you unwilling to execute loan agreements with the multilateral donors that will promote these types of training activities? I think we all recognize that we have a very serious training gap in the financial management area.

I think, Jim, that this perhaps indirectly gets into your point.

PARTICIPANT COMMENT (Ecuador) (As summarized by translator): I have listened carefully to the panelists, and I find myself very much in agreement with them. The important thing is that we are talking about the problems in the projects. When we say the projects have problems, we are saying that the studies were done poorly. I believe that studies are fundamental to the development of the project. If we have projects that are well developed, well studied and well detailed, the projects should not have the problems we are talking about today.

In the municipal training section in Quito, we have demands from small municipalities to train officers in the area of developing and finance. Our biggest problem is that we do not have the parameters to do a good study of the problems they are presented with. Therefore, I feel the most important input to a project that is well done is the study, and from that you gain the objective that you would like to obtain.

I would like to point out, also, that the projects have, in the developing documents, things that are not taken into account. Perhaps these things are not very obvious until you carry out the project, and then they appear quite important. I feel the international donors should place a higher importance on the formalization of the study, so that the details are well defined for those carrying out the project. As a matter of fact, I feel that every country could use an additional hand in the formulation of the study.

MR. DAVISON: To respond to that quickly, I think you all should keep in mind that over the last several years there has been a tremendous increase in the resources being made available through what is commonly known as the trust fund mechanism. The World Bank, for instance, has assigned a lot of these resources directly toward this project-design type of activity to begin avoiding these types of problems. I think part of the responsibility of many of us here, as representatives of our countries, is to get informed as to the availability of those resources. Go to your World Bank representative or your Inter-American Development Bank representative in your particular country. I cannot speak for the African Development Bank or for the Asian Development Bank, but I do know that in both those institutions there has been a large increase in the amount of trust funds that are being made available. Use those trust funds for this purpose, and look at that very closely. I think with that we can begin to look at some of these major problems and issues and begin to resolve them early on.

MS. BARTEL (United States): I just want to make a couple of points about these problems in these countries. I think one of the reasons for the problems is the failure of what I would call unified responsibility at the project manager level, for both the financial and operational aspects of the program. Second, I think a reason is the failure to put enough resources initially into developing a system and getting a system on track. Most accountants know that once accounting gets off track, it is very, very difficult to put right, and so the simple becomes very complex. We need to put more emphasis on getting the system running up front, and be sure it is running before you back off.

MR. DAVISON: It is precisely for that reason that there are resources available on a grant basis, on a donation basis, that can be used for exactly that purpose. I think it requires initiative on the part of representatives in the government and us here, being financial managers, to begin talking to those donors to try to get some of those resources for that purpose.

PARTICIPANT QUESTION: With the presentations yesterday and today, we know that there is a great interest in the computerized accounting systems that can make projects successful. We also know the importance of a good internal control system. But, this morning, in a presentation given about accountability, and Adriana addressed this point earlier, we hear that it is very important that the computerized accounting systems be established at the beginning of the project, and that the auditors be hired at the beginning of the project and not at the end of the year. I agree with this.

My question: I know that the World Bank follows these same interests, and has begun a program in which they give training in the area of the purchasing function. Do the other financial donor agencies have a similar program?

MS. ARROYAVE-SHIPLEY (As summarized by translator): In the Inter-American Development Bank, we also offer the same type of training for the countries. The procurement office gives talks on procurement requirements in the countries to members of the implementing agencies. We also give training in the auditing requirements of the Bank. We have done this for many years, but perhaps more so now because of the problems we continue to see in the information we are receiving. Additionally, there are a number of resources available for training, but we need the countries to express their needs.

MR. ADDA (Ghana): I would like to make reference to the ongoing attempt in Ghana to implement an integrated financial management system, and then lead on to a question involving project management and the autonomy of it.

Yesterday the Director of Budget of the Ministry of Ghana presented a financial management reform program. It is an integrated system that is multi-donor-funded. It is being led by the International Development Association, and it is also being aided by the Overseas Development Administration of the U.K. and the European Union and the Canadian National Development Agency. The ODA is taking up the budgeting component of it, which is the medium-term expenditure framework. The European Union is handling the comprehensive auditing aspects of it. The Canadians are looking at fiscal decentralization, which is taking financial management down to the local levels.

This is a very good idea, because it takes us away from the disjointed and piecemeal attempts that were made before. We get into a mode where information would be centrally available, shared, and used by, hopefully, all agencies of government.

However, we are running into problems with management of the projects from the donor coordination aspect. These problems are not serious, and I am hoping that government officials will help us resolve them. I am the project manager, and so this is something that I have to worry about and would need some assistance on from all the participants here in terms of trying to solve it. We have each of the donor agencies, especially the bilateral donors, looking at getting their own accounting systems to track the funds that we are going to use under the public financial management reform program. The ODA has a representative in Ghana now. The European Union obviously will have its own way of dealing with it. The Canadians are bringing in their own project managers to try to help out with this project. We have the responsibility of coordinating all of that and reporting it centrally.

However, the individual demands that are coming from the respective agencies are going to create an issue of coordination of the accounting process. This is something that we will have to be very concerned about. I would not say that we do not know how to handle it, but if we are dealing with different governments, it becomes a little bit more difficult to resolve, almost immediately. I would like some ideas on how to go about handling this aspect of project management.

I do want to give credit to the International Development Association, which hired its project management team. I have two other colleagues helping me on the projects. Some other donor agency was insisting on bringing its own experts from their country to manage the project. The government of Ghana resisted that and opened it to international bidding, and finally got us involved in managing the project, which was a very good move. But I am not so sure that we were well placed to be able to do that with ODA and the European Union, even though their respective contributions are supposed to come in through the project management secretariat.

So it poses the question: How do you really get the best deals to come from the various donors--that is, the donors allowing us to get local expertise to lead implementation and the various components of it, and also to account for their contributions separately? So, the multi-donor funding coordination part of it and then the splintered accounting requirements that are needed for each of the donor agencies are concerns to us. I would like some assistance with that.

MR. LYLE: As Mr. Abel's demonstration showed earlier, there is a good choice of PC-based accounting software on the market now that is easily able to account for donor funds in their own currency--i.e., multi-currency accounting functions. We have these in place in several World Bank-financed projects that I am aware of in Africa, whereby the project not only maintains financial management accounting, it maintains cost and management accounting, and accounting for external funding in the currency of the lender. As far as I am aware, that should not present a problem these days.

As far as management of those funds is concerned, it is a different issue. Ghana is one of the few countries in Africa that I have not been to, unfortunately, to my deep regret. But as far as I am aware, there is a well-developed accounting profession and financial management expertise. Perhaps you can convince the donors of the soundness of your basic accounting system. It is a matter of convincing them of your capacity to manage those funds. If you have an accounting body that is affiliated with IFAC, a recognized accounting profession, I would think at least the basic criteria had been met.

MR. DAVISON: Let me just make one comment. I had the pleasure last year of working in Ghana with that particular program. This was a major concern and an issue during the project preparation. If you would like to talk further about it outside of this conference, I will certainly be available to sit down with you. I am pleased to see that the project team is now being formed in Ghana and you will be able to move ahead.

MR. BERKMAN (United States): John, I would like to respond to your question about training. A lot of people are unaware of the huge amount of funds that have been spent on training in sub-Saharan Africa, where I have worked over the past several decades. I would say that, in the last decade, the World Bank alone was funding about $100 million a year for training of various types, much of it management training, much of it concerned with financial management. About half of that amount, $50 million a year, went for overseas fellowships. This is not including the bilateral donors and all of their training programs. This does not include the roughly $4 billion a year going into sub-Saharan Africa for technical assistance, which is a method that has come under criticism lately of transferring expertise. I cannot count the numbers of African managers that I have met over the years who have spent a third to a half of their careers on various training programs, whether it is getting Ph.D. degrees or going to conferences, etc.

We tend to overlook the fact that a lot has been expended on training. The problem is, why have we not seen the results? Some of the reasons for that are--and these are not all the reasons, but some of them--the fact that African public-sector institutions have become a revolving door for individuals to receive training and then disappear somewhere. In the case of Ghana, we did a study about five years ago. I may be a little off on my figures again, but roughly between the 1960s and the 1980s we ascertained that 80,000 Ghanaians had received degrees overseas, and yet only 20,000 of them could be found in the country.

A lot of money is being provided by the donors for training, and yet somehow that does not translate into more efficiency, better productivity or better financial management, either at the project level or in these government institutions. I think that is an area that the donors and the recipient governments need to address.

MR. DAVISON: I certainly agree with that, Steve. My experiences in Latin America have shown that when we talk training--and I do not mean just hands-on training--in the area of financial management, where I have seen a tremendous gap is in the academic level. I know we have a program going on in Bolivia right now, being funded, if I am not mistaken, by AID. I do not know if the World Bank is helping to support that program or not. There is a program with one of the local universities developing a master's degree program in accounting and auditing. Perhaps somebody from Bolivia could comment on that for us, where we stand and what is currently happening.

PARTICIPANT COMMENT: I guess I will comment on that. The project is with Catholic University in Bolivia, with technical assistance from Harvard University. The funding primarily has come from USAID. We have two master's programs that are funded. One is in public policy and management, and the other is in auditing and financial control. I direct the auditing and financial control program. Julio Ramirez, with a Ph.D. from Harvard, directs the public policy and management program. We admitted our third group of students in January. We have twenty-four in each of the master's programs.

It is going well. We are trying to "Bolivianize" it now, by training Bolivian faculty so we can replace all the foreign consultants who are working on the project.

PARTICIPANT COMMENT (As summarized by translator): We have made an effort to get a master's program in public administration. It is not up to me to answer, and it is not up to me to make an evaluation of what is happening at AID or the World Bank, but I think they could make a better effort in this area. The training should be directed and coordinated with the state university, not like in the case of Bolivia with a private university. I think that it is very elitist.

MR. LYLE: I would just like to touch very quickly on one subject, if I may, talking about financial management systems for projects. Of those of you who are actually working on externally funded projects, by the World Bank or the IDB or anybody else, would those of you who are getting regular and reliable financial information linked to project implementation--i.e., by activity, by component--raise your hands?

I think that is indicative. I think Mr. Abel's presentation earlier pointed out that this is a message that we are trying desperately to get across. If you are a shareholder in a commercial entity, you are interested in your company's profitability at the end of the year, which is determined by the audited financial statements. In the case of an externally funded project or development project, the financial statements do not have that purpose, of course. They have a totally different, and, some may say, much less important role, the most important role being dual, as I see it. One is to obviously comply with the legal requirements of the loan agreement, as proof of the project's sound financial management. The other reason should be to confirm the accuracy and the reliability of the management accounting information you have been receiving during the year, which, of course, has not been audited.

I think this is exposing a vast gap. Too much emphasis has been put on purely respecting covenants of legal agreements, and nobody is looking at the need for sound management accounting to be able to evaluate implementation of projects properly. I think this is the message we are trying to get across. It is up to the governments and government accountants themselves to make sure that you have proper accounting systems that every month--even every week, if necessary--are giving you up-to-date, reliable information linked to project activities, so that the project can be modified and developed through its life, and you can make sure it meets project objectives.

MR. DURNIL: We thank the panel very much for a good discussion, and appreciate the feedback from the audience.

Problems Noted and Joint Donor Efforts to Improve Audits of International Projects: Panel Discussion

James P. Wesberry, Jr., The World Bank
Wayne Watson, U.S. Agency for International Development
Luis Prieto, Inter-American Development Bank

Moderator: James B. Durnil, Coopers & Lybrand, L.L.P.

MR. DURNIL: This morning we talked about problems in project accounting and reporting, looking at the donor reporting requirements and the problems that the funding agencies have in meeting those requirements. This afternoon we're going to approach it from the audit standpoint, and look at the problems noted in the audit process of the international projects, and the joint donor efforts to improve the audit process.

We have three prominent speakers this afternoon. To start the session off, we have somebody that is experienced in the audit process at the World Bank, and the accountability there. We also have a person that is knowledgeable of the audit process at the Inter-American Development Bank, and a person that is experienced in the audit process for USAID. We'll start off hearing from Jim Wesberry of the World Bank.

MR. WESBERRY: Let me give you a little background on this whole program to date. For those of you that were here last year, you may remember that the Vice President/Controller of the World Bank spoke at the banquet. The next morning, he was full of enthusiasm for the conference. At breakfast, he said, “Jim, why not dedicate all of next year’s conference to the problems of financial management of World Bank projects?" And I said, "Well, we cannot dedicate the whole conference to it, but maybe we can dedicate a whole day to it." And, basically, today’s program has been dedicated to financial management and audit of international projects, right down to tonight's speaker at the banquet, the Auditor General of the World Bank.

What we are trying to do on our two panels today is have representation from the three donors that are working most closely together in Latin America and the Caribbean. We have a donor consultative group for Latin America and the Caribbean composed of twelve donors--seven international and five bilateral donors, including the ones that are on this panel and a number of others. We try to coordinate our activities in improving financial management and improving the quality of audit of the governments of Latin America through this donor consultative group.

A couple of years ago, the three organizations here, IDB, AID and World Bank, started meeting, and we invited two or three other organizations. We have been joined by UNICEF and the United States Information Service, USIA, which also have small audit units. The idea was to coordinate audit activities among the donors to improve our audit projects.

That’s where our title of this forum, “Problems Noted and Joint Donor Efforts to Improve Audits of International Projects,” comes in. We have had some problems in coordinating our efforts, even between just three major donors, in trying to improve audit quality. The number one problem that we have had is lack of staffing. We are very weakly staffed, to say the least. We now have, in the World Bank, covering all Latin America and the Caribbean, 500 projects and, more or less, 500 reports. Some projects have more than one audit report, and we have only three people and we are adding a fourth in the IDB. Luis, how many have you got, three?

MR. PRIETO: Two.

MR. WESBERRY: Only two. AID was our great hope. We thought when we started meeting with Wayne Watson and Jim Durnil, when Jim was still at AID, we thought they were going to be our great salvation because they had about twenty-seven people in the USAID office, which was then in Honduras. How many are you down to now?

MR. WATSON: We have eight.

MR. WESBERRY: They are from twenty-seven down to eight, so they are about to catch up with us. But, our biggest problem of doing our job and also of coordinating our efforts is lack of staffing.

What we had to do is maximize our efforts, so we started meeting with Wayne and with Luis, and the other two organizations that I mentioned, who have even smaller staffs. We started meeting to see how we can work together to improve the quality of audit, maximizing the limited staff resources that we had. We signed an agreement among ourselves, the five organizations, that we would work together to improve audit quality by agreeing on uniform quality control criteria for the quality of audits. We cannot change our organization's financial statement requirements, although that is a long-range goal, but we are working on having uniform criteria based on generally accepting auditing standards for the quality of audit. We expect the audit, whether it is from a private auditing firm or a supreme audit institution in a country, to be of a quality that agrees with and is consistent with generally accepted auditing standards, as applied by private accountants in the private sector for auditing.

We have agreed that, if any one of the three organizations does a quality control review of a firm, the others will abide by it. Likewise, if any one of the three of us do a quality control review of a supreme audit institution, and we find it acceptable to do audits, the others will agree to it. AID has done quality control reviews, and Wayne will tell you more about them.

We did one joint quality control review last year in Bolivia, and we have now three supreme audit institutions which are approved: Honduras, St. Lucia and Bolivia. Of course, we have to do these periodically, about every three years, to make sure that the quality is maintained, and we are collaborating in that respect. We are also doing quality control reviews of private auditing firms, and we did a joint review of four firms, I believe, in Bolivia, and AID has done a number of others of other firms. We just do not have the resources to do many firms or many supreme audit institutions, and that is one of our major problems, but we are trying to collaborate. We will come back to this collaboration.

Let me just go over the major problems we have with audits in the World Bank--and some of these actually go back to the panel before. Sometimes the entity doesn't have an accounting system at all. We literally have auditors sending us an audit report saying the entity has no accounting system, and we have done the best we can. Or, the entity does not prepare financial statements as we require them. We do have certain requirements. Often, the entity does not prepare them in accordance with our requirements, and often the entity and the auditors are not familiar with our requirements. Sometimes we get financial statements prepared in accordance with IDB requirements. This is confusing, and we admit and know that it is confusing. We hope it can be changed, but it is very hard to get the international organizations to work together on uniform criteria for anything, and especially something like auditing.

The other problem is that we have all been lax. If the borrowers are guilty of not meeting our requirements, unfortunately, the World Bank, the IDB and AID have all been accomplices to the fact because we did not really make it clear what we wanted. Often the entity, the executing agency and the auditing firm do not know what we want, and so they do the best they can, then they send the audit to us. For years, we did not answer them. They would just be accepted.

We started reviewing audit reports about two years ago. For Latin America and the Caribbean, we reviewed about 700 audit reports. About eighty percent of them have basically been unacceptable, but we would not dare reject that many because if we rejected them they would have to be redone and we would have to review them again, and we do not have enough people to do that. So basically, what we do is write a very tough letter explaining what is wrong and what we would like to see done the next year. That letter has to go through the channels, back to the executing agency, and they have to send it to the auditors. Sometimes the letter is delayed before it gets all the way down to the auditors, and another audit report is on its way before the letter criticizing the first one gets there. Also, we have a big backlog of work because of our small staff.

Another problem we have is that the audit report does not contain all of the sections that we require. We require certain things, different opinions. We require an opinion on the financial statements on compliance. We are now, only in Latin America and the Caribbean, doing the same thing AID does, requiring an opinion on internal control. The Bank does not require that in our manual, but we feel that's absolutely necessary. If there is a statement of expenditures system, we need an opinion on the statement of expenditures, and if there is a special account, we require an opinion on the special account, just as AID does. So you can have five auditor's opinions on one World Bank project, and often one or more of those are missing. Often, the management letter that goes with the opinion on internal control is missing. We do not know whether there was one issued separately and it never got to us, or maybe there never was one to begin with. All we can do is complain back that there was not one.

Often the financial statements do not reflect the project itself. They do not provide information that allows the reader to know how the project is doing, both financially and physically. Often, the auditors do not comment on the progress toward the goals of the project in the comments part of their report.

We have a number of projects implemented by more than one executing agency, and many times there is no consolidated report. We get a lot of separate reports, often incompatible reports, but we do not get one consolidated report on that loan or on that borrower--only fragmented information. That causes us to have to do a great deal of extra work, even further limiting our staff resources. Quite often, the financial statements only account for the funds provided by the Bank, and not the counterpart funds or funds provided by other donors. Basically, our loan covenants require that the whole project budget be included. If it is financed by the Bank, it will always have counterpart funds from the local government, and it may have Japanese funds, IDB funds or other sources of funds. All of those are supposed to be in the financial statements, and they should be compared with the budgets of the different things. It is our duty to see that the borrower has met the requirements for counterpart funds, but often the counterpart funds are not reported to us at all.

Sometimes the auditor's opinion is not congruent with other information provided in the text of the report, or in the notes to the financial statements. For example, we have cases where we get a clean opinion, an unqualified opinion, and yet they state there is no accounting system, or their internal control is totally deficient. Yet we still get an unqualified opinion or a lightly qualified opinion, when obviously there should be a disclaimer of opinion or an adverse opinion.

We rarely get adverse opinions from accounting firms. That is one of the other things we have noted. We do get adverse opinions occasionally from supreme audit institutions. Accounting firms do not like to give their clients adverse opinions. They have to think of retaining the client the following year.

One of the problems we basically see is that we get better quality work, in general, from the accounting firms, but we get less intestines in writing the reports from the accounting firms. Really, the supreme audit institutions write stronger, more firm reports than the accounting firms. But, normally, they do not have the benefit of staff training, and their work often is not up to the par, technically, of the auditing firm. It makes us wonder if maybe we should not try to merge all of them together.

I remember German Escobar worked with us for a while, and he was shocked when he came in and reviewed a bunch of audit reports. We did a test review. German reviewed about sixty audit reports, and he was shocked when he found a tremendous number of the auditing firms actually preparing the financial statements because the borrowers were incapable of preparing them.

Another area: We have a lot of problems getting the borrowers to select the auditors early. I had one from Costa Rica last year that called me in May and wanted to suspend the rules of requiring a short list and a select, competitive bidding, because the audit report was due June 30. It was then about May 15. They wanted us to designate a single firm, suspending the rules, so they could meet the May 15 deadline. I told them, "Well, goodness, you should have hired this firm seventeen and a half months ago, at the beginning of the year to be audited, not now. Since you are that late, we might as well go ahead through the competition and observe the rules. Why suspend the rules to gain another month or two? You are going to be late anyway. Nobody can do the audit in just forty-five days. Get it contracted and audited in forty-five days." That's an example of the kind of problems we have, and much of that has been due to the fact that we have not had discipline in our system.

Finally, the terms of reference for the audits often have not been complete. They have not been communicated to the auditors. The Bank does reserve the right to approve, or to issue no objection, to the terms of reference as we do to the proposed firms to do the audit. They usually give us a short list of firms and we indicate we object to one or more, or we have no objection to any of them, and then they go through with their selection process. The same is true with terms of reference. We often have very poorly prepared terms of reference to the board, so we decided to prepare our own terms of reference. We now have our own terms of reference prepared, and they are on the Internet and available, and we encourage all of our project executing units to use our standard terms of reference. We get kidded a lot by some of the other people in the Bank that they are like an audit manual, but what we have done is we have included all of our problems in the terms of reference so that we are sure that if the auditors read their own terms of reference, they will know what we want. In spite of that, we still have problems.

MR. WATSON: I will speak a little bit about what we have been doing in USAID. As Jim just mentioned, our office is going in the wrong direction--we are shrinking. However, a lot has changed over the years, and I can say we have much better audit coverage than we did ten or twelve years ago in the Latin America and Caribbean Bureau where I work with the Office of Inspector General, when people like Jim Durnil were first getting this program off the ground. At that time, there were some audits being done in accordance with generally accepted auditing standards of some projects, but some of the things that Jim described sounds very familiar to me. That is where we were about ten years ago--going in and finding no accounting system in a private voluntary organization, for example. That used to be quite common back in the mid-1980s when we first started doing this program in the Latin Bureau.

We do not find that now, and it is due to the efforts of a lot of people, not just the Office of the Inspector General. I can say we have better audit coverage than we used to, and yet we have fewer people in our office. It is due to the fact that, over the years, we have spent a lot of time with CPA firms. I know a few of those people are out there today in the audience, and we appreciate their work. Basically, we have the same audit firms doing the work. They now understand what our needs are, and what we are looking for. That was a learning process for them and, in fact, for us, too.

Also, the USAID missions have gotten much more actively involved in the program over the past few years. When we first started working with the CPA firms back in the mid-1980s, we were pretty much cradle-to-grave with the CPA firm as far as the audit was concerned. We wrote the statement of work within the OIG's office, we went to the entrance conference, we looked at the bids first in conjunction with the mission contracting officer and procurement people, we went to the entrance conferences and then we were pretty actively involved during the conduct of the audit with the CPA firm. We would go out to the field and do periodic supervisory reviews. We would review the draft report. We attended the exit conferences. We approved the final report.

About ten years ago, when we first started this program, we were concentrating on just some of the major problem area projects. We had to walk before we could run. Then, about five years ago, we started getting the AID missions more actively involved in many of those functions that I just described to you that we did in the early days. Some of our good friends at the AID missions are taking on a lot of that workload now. It has worked very well. It is very seldom that I see an audit where we go out and find they just do not have an accounting system. It is not that the CPA firms are not reporting it, it is just that we have much better systems now.

And then, of course, as Jim mentioned, we have also started doing a lot of work with the supreme audit institutions. We started doing that about two years ago, so that is an added audit resource that we have. And when I say AID, I am talking about using that for AID but, as Jim mentioned, many of these reports that are being produced can be used by all of us. At least that is the direction we are heading.

Over the last year or so, we have really moved forward in our work with the supreme audit institutions from a planning stage to where we are actually seeing some results. When we reviewed the supreme audit institutions in Bolivia, someone from Jim's staff went along with some employees out of our office to review and qualify them. We have actually issued audit reports out of two or three of the places down there, including Honduras, and Bolivia has just issued some audit reports, and I think they have got some other audits under way.

I know there are three or four pilot audits going on down in Peru right now. We are getting ready to go down within the next couple of months and do some quality assurance reviews of that audit work, and we hope to be signing a joint agreement with Peru that all of us here at the table will be able to use. The same is true in Guatemala--we are getting ready to go up there next month. I just spoke with the Controller General of Guatemala at this conference. We are getting ready to do some things with them.

So, this program is not just planning or theory. It is actually beginning to work as far as our work with the supreme audit institutions, and it is looking promising.

MR. PRIETO (As summarized by translator): I'm going to add the IDB perspective of what has been mentioned here by my two colleagues in the panel. The Inter-American Development Bank has embarked upon a series of restructuring and reorganization operations. We have not benefited well from this, and we have had the situation that Jim mentioned--very few personnel and not enough technical capability. At least we have the opportunity to centrally handle the relative responsibility of determining the eligibility of the auditors.

The Bank has offices all over Latin America and the Caribbean. I believe that, without exception, in each of these companies, they have an officer that represents us directly. This representative is in charge of all the technicians that the projects may require. Determining the eligibility of the auditors was formerly the responsibility of local financial analysts. We are now responsible for giving our opinion concerning the supervisory organizations. We have to give opinions about the auditing firms, particularly those firms that have not done work for the Bank before or for some reason have stopped doing so. Besides having very little capability so far as the technical part, our functions have been affected a little bit.

For our supreme audit organizations, even though our procedures do not have the sophistication and the size that AID does, we do carry out our functions based on a questionnaire that is relatively short. The questionnaire allows us to find out the technical capability of that institution, its main officers, its experience and the type of function that they carry out, and the size of the workload of the special auditing that they have in the different institutions, which is what is required by the government entity and, frankly, not related to the training program. It also provides information about training programs and the quality control systems that they may have. This has allowed us the time to do a reasonably good and complete analysis, without having the depth of the analysis done by AID, but we have had relatively reasonable results. However, we have found technical corporation operations have been weakened, either because the officers have changed who were in charge of those institutions, or because the technical part within those institutions has, at a given moment, a different perspective.

As a consequence of all this, we have a weakening of these institutions and an environment that is, for us, more and more difficult to handle. All of the institutions are usually formed by an important political factor, and this situation is not unknown to the Inter-American Bank. Therefore, the Bank directory is formed by the representatives from the ministry, vice presidents of the central bank, and of course different governments with specific agendas and with a lot of political pressure from every point of view. Obviously, the technical problem is not very important to them.

It is fantastic that we can come and have this kind of exchange of opinions, ideas and suggestions. But I would say that the effort that we should be carrying out a little further has to do with the political testament, both from our organization as well as that of the countries, to try to make them aware of the importance of the policies so that we can really have some significant effect.

I recall specifically the technical corporation operation that was done by the Bank to a controller's office to strengthen the institution in the areas of financial accounting. Really, the program was designed to be carried out within a maximum of three years. Well, to make a long story short, seven years later we were hardly finishing the project with a lot of obstacles, with a lot of resistance from the internal accounting office and with results that I would consider marginal. We covered a lot of ground, but specific parts of the auditing was not benefited to a large extent. So, therefore, it was with great pleasure that I hear that other controllers offices are benefitting from that operation, because the conception was the same.

In our system, in order to consider the eligibility of the auditors, it is based, in the first place, on information that is given to us, both by the local firms and by the supreme audit institutions. But we have noticed that there is sometimes a little bit of exaggeration. The information that is provided leads us to expect that that firm or entity is capable of carrying out a job of such magnitude. With great surprise, we have found when we have made visits to them after we reviewed the report, that really the information involved was a lot of theory, and perhaps good wishes were involved, but in practice it did not work. And perhaps they were very ambitious in programs and training that were hardly starting to function.

So, as a consequence of all this, we have technical quality that is relatively questionable. We have a problem that begins with a late presentation, as Jim said, with the hiring of the different firms. This winds up being a negative in the administration of the controls and the supervision of the different projects.

I consider that a very important subject to be discussed, to talk about technical quality, because in the financial organizations, we expect a product which is produced by a good number of firms, but on occasion it is reflected very poorly in the reports that we get.

This is basically a type of opening statement to invite audience participation.

MR. DURNIL: You know, when we began this program of using supreme audit institutions and local firms to do audits on behalf of donors, everybody thought it could not be done, and we said we would try it anyway. We were most successful in Central and Latin America, where it made great headway. Then we expanded to Southeast Asia, and it worked halfway well there. From there, we went to East Africa, to West Africa, and then to South Africa. We have not had very good luck in the old Soviet Union or the Eastern Bloc countries, where it is still not a smooth-working program. We knew when we started back in 1984 and 1985 that we were looking at a minimum of ten years for training and familiarization requirements, and the basic goal was just a little bit of accountability. I think we may be fifty percent there.

Working for Coopers and Lybrand, if I need to do an audit in Ethiopia or if I need to do an audit in Bangladesh, I call a firm there and say, “Hey, can you do an audit of this particular World Bank or USAID grant there?” and they say, “Oh sure, we have done those before.” So, there are capabilities all around the world, but they still need good oversight from the donors, from the World Bank, USAID and IDB. You need training and help there, I believe.

USAID has five areas of where their monies go: One is environment, one is population and another may be in nutrition, but they also have an area now where their funding is going into what is called democratization. Within that particular area, they talk about supporter training and working with supreme audit institutions. Maybe somebody from AID could comment about that, but I know that they are trying to encourage aid to directly support supreme audit institutions.

MR. SILFA (Santo Domingo) (As summarized by translator): There has been a lack of interest about good fiscalization at the project level. In Santo Domingo, Dominican Republic, these projects have been eroding. I don't know if it is because of lack of will on the part of the donor institutions, or simply because of the lack of fiscal supervision. I have spent seventeen years working in the governmental area, supervising the work, and I have noticed many failings, many weaknesses, from poor supervision. I have seen the erosion in a great measure of that work and also in the political will. In our case, independent agencies and the governments are not interested in strengthening our programs because of the independent reports that we produce. We have also been blamed for something that doesn't really belong to us. Truly, there is a concern from myself and from many of our entities, and we ask for assistance in the preparation of the financial reports. The donor institutions, professionals in their accounting offices, and even independent institutions have expressed a concern, and up until now we have not received an answer from you.

MR. WESBERRY (As summarized by translator): In the first place, we're not talking about fiscalization, we're talking about auditing. That is a professional examination by professional auditors. It is a peculiar term to the government and we try to avoid the use and we recommend that we do not use it. We use the term fiscalization when we're talking about auditing of international projects. Our manuals and documentation speak in those terms. Basically, we are concerned with the modernization of the function of auditing and the personalization of the auditing. We are all cooperating more with the supreme audit institutions in Latin America and other parts of the world.

MR. WATSON: I will add to that, and I do not mean to give you a Pollyanna view. I am not naive enough to think that all of the supreme audit institutions are ready now to hit the road running doing audits for us. It is just not there yet for a lot of you. There are individuals in these institutions who are willing and capable, but sometimes there are simply problems with organization. There are many, many varieties of reasons.

About two years ago, and I know many of you were there, we had a supreme audit institution conference in Costa Rica. We spent the better part of an afternoon talking just about problems in supreme audit institutions. So, I realize that there is a broad spectrum of capabilities and skills, and types of organization. We have just started. We had to start somewhere, and we feel good about where we are now. We do not think we are there yet, and I appreciate the problems that you addressed here. There is no doubt that they exist.

MR. FALLON (Peru): As Jim Durnil mentioned, under one of the strategic objectives of AID in democratization, in Peru, we have a program with the Controller for the modernization of that institution, and actually it is part of the attempt to make national institutions more effective in their management. This two-year program is for $700,000, and it is to develop some of the auditing manuals or procedures, perform quite a bit of training, and it also has a small equipment component. But, as part of that, I think as you were mentioning, Wayne, we are also working with them in order to get them certified for AID, World Bank and BID audits. We expect that to happen maybe within the next three or four months.

MR. DURNIL: In looking at the past and looking where we are, in trying to give you a guess on where we are going to be, I think there will be more and more use of public and private accounting firms by donors. The supreme audit institutions probably will not get that much support, except probably from the technical assistance area, because it will not be recurring, long-term support, or what you might call staffing support. They will probably want to build a higher level of expertise in the supreme audit institutions so that they have the capability of monitoring the use of private accounting firms to do work on their behalf. I think in the long run, from the donors' perspective, they would rather let the host governments do it and monitor the quality, and then we can watch that, rather than having the donors get so involved in the quality.

In the public accounting profession in the United States, they are going through probably the most significant changes in the last ten years in government auditing. Just to highlight, they have now established the same audit requirements for any organization that does business with the federal government, whether it be a university, a government organization, a non-profit organization or a hospital. They now have all the same audit requirements, effective June 30. They do not have the same cost principles yet, but that will be here shortly.

They are actually looking to reduce audit requirements rather than increase them, so that any organization that gets a clean opinion for two years in a row will then only have to have an audit every two years, and then not a full-blown audit, but only twenty-five percent coverage of their programs rather than fifty. The only place they are asking for increased audit coverage is in the area of indirect costs. Where they did a cursory review in the past, they now have to express an opinion on indirect costs. Any organization receiving less than $300,000 does not have to have an audit, just a limited review. For any questioned cost of less than $10,000, the U.S. Government doesn't want to know about it. They assume that the organization can work it out so that it does not need to be reported. They are requiring formal follow-up on audit recommendations, and that they be followed up each year. They only have to report disagreements between the auditors and the auditee, rather than the full response on what they are doing about everything.

Some other things: Equipment of $5,000 or less is being expensed. It no longer needs to be tracked. Indirect costs will be allocated to the program based on one modified total direct cost basis. So, they are going through all this and making all the changes.

I think, to look downstream, we will always have the common reports--internal control, compliance and accountability statements. Those are basically staying the same. Some recent changes: A $100,000 threshold is required for USAID. If you get a grant of $100,000 or more, you need to have an audit. Is that right, Wayne?

MR. WATSON: Right.

MR. DURNIL: Now, does World Bank have a threshold?

MR. WESBERRY: No. Basically, we require an audit of the whole project and the project executing entity. If there are sub-executing entities, we require an audit of them, too, which is handled by the principal executing agency. We require that they be consolidated into a single report to us.

MR. DURNIL: How about the IDB? Is there a threshold there?

MR. PRIETO (As summarized by translator): No, but within the process of reviewing the auditing requirements of the Bank, this concept of threshold has been included, and possibly in the next revision that we have we will have the appropriate requirement, such as the one that you mentioned.

MR. DURNIL: Also, I think the new COSO, which we will hear about later today, in determining what you audit when you go out to a particular organization, is no longer based strictly on dollars. Dollars is just one factor. You have to do a risk-based approach to assessing the program: Is it new? Does it have prior audit findings? Are there new regulations? You look at several aspects other than dollars to decide what you audit.

Amazingly enough, they are requiring a new report that is machine readable, so that when an audit report goes into the federal government, it will be in a machine-readable format, and the people that review the quality will do a computer review, rather than a manual review. If there are questioned costs of more than a certain amount, they will automatically be scanned and the largest ones will be printed out. If you have other than a clean opinion, or if you have an adverse opinion, it will be screened out immediately. If you have to qualify it, or there is a disclaimer, it will come out. So they are now going to a machine-readable format, and there are a lot of big changes going on there.

MR. WESBERRY: I would like to comment on what you were talking about, the supreme audit institution reviewing the quality work of the auditing firms. We have one really good example in Bolivia that came out of the SAFCO project, which has had technical assistance for about eight years in Bolivia. This was not planned. It was done at the initiative of the Comptroller General's Office, and not at the initiative of the World Bank or of AID, which participated in the technical assistance originally. The Comptroller General's Office of Bolivia, which has had a quality control reviewfg and they are acceptable to the five collaborating international organizations, do not audit any World Bank projects. What they do, which we are more interested in, is review the audit reports and the working papers of the firms that do audit the World Bank projects. If there are problems with the quality, they deal with the firm there in Bolivia, instead of us doing it from Washington, having to try to communicate with a firm in Bolivia.

So we think that that is the way, and the appropriate role for supreme audit institutions to take, regarding international financial institution project audits. But this requires that the supreme audit institution be a professional audit institution, and have a staff of professional auditors that are at least as good as, and preferably a little bit better than, the professional auditors of the firms that are doing the work. Many of our supreme audit institutions cannot do that because they are politicized, they do not have the financial resources to hire professional auditors, or because they are given, by law, a lot of non-auditing duties which deviate them from doing their main job, which is auditing. But we have great hopes of working with the new administration of OLESEFs and the new administration of OSEFs to get more and more supreme audit institutions doing quality control review work of private firms who audit international development projects.

MR. DURNIL: Do we have any heads of supreme audit institutions here that would like to make some comments on what they think of the current donor? We have some supreme audit institutions here, do we not?

MR. WESBERRY: Yes. We have at least four comptroller generals from Central America: The Deputy Comptroller General of Peru in the front row, the Comptroller General of Dominican Republic, and a few others from other parts of the world. Also, we would like to hear from the firms, too, if we have got any people from private firms that would like to comment, because we are really talking about audits done by private firms, or by supreme audit institutions.

GERMAN ESCOBAR (United States) (As summarized by translator): From the perspective of the public accounting firms that do auditing of projects, I think that it has been said here several times that the reasons we have problems with the financial information and the audit reports is that the implementing agencies do not know that the information is useful and needed by the different financial organizations of their different projects. I think that they do not know how these reports are being used. I get the impression, as an auditor, and I have done auditing of many projects for many years, that they do not understand the obligation of presenting audited reports to the Bank and believe it to be an unnecessary burden. I believe that when a project or an implementing agency receives a report with abstention, there is not only a loss of all of the work they have done, but also a loss of money that they used for auditing.

I believe the first point should be that the entity should know why those financial reports are being produced annually or why they are being audited. In the second place, based on my private experience, I believe that not all the auditors know the purpose of the audit, because they are doing financial auditing. Project auditing is much more than a financial audit--they have a different connotation. It is scary to realize that the opinion of a financial statement of a project reflects the financial condition of the project. The audit should not have an objective to present the financial condition of the project, because the project is not an entity that needs to have a financial decision about how the project is being carried out, how they are utilizing their resources and what resources were received. I believe there is a lot that you can help us with. The auditors can help the implementing agencies by telling them what you use those reports for.

MR. WATSON: Well, I would certainly agree with you. We do not claim we are at the end of the road yet, in either of those areas. Certainly, as far as AID is concerned, over the past few years, we have done a number of training programs for both auditors and project managers. I know that, as Tom mentioned, they are doing a lot of work in that area now. We had a big project in Bolivia, for example, where we did a lot of work teaching managers how to manage, including how to use financial statements. I am not that familiar with World Bank audit requirements, but certainly, as far as AID is concerned, I beg to differ with you--we do not expect just a financial statement. I am sure you are aware of that. We also have some compliance items, and we do want to know how the project is running.

MS. CAESAR (Sierre Leone): There was a recent conference held in Nairobi, Kenya, and I think its message was that SAIs should be strengthened to carry out the audit of foreign aid, simply because the SAI is fully independent, whereas private firms may want to preserve their clientele. The only problem is that, at the inception stage of the project, the SAI is not involved, and so therefore cannot fully monitor the effectiveness of the projects. So, if at the inception stage, the SAI is deeply involved and knows what the requirements of the donor agencies are, it will be far easier for the SAI to undertake that task, especially so when you have co-financing, and the requirements of the donors are different. Then the SAI will be able to supervise the project to maintain the kinds of accounts that are required by the donor agencies. But very often, it is only when the projects are in trouble or when the audit reports are required that the SAI is contacted, and then it may be too late to effect remedial action. I think it should also be made known to donors. If a project is co-financed, donors should know that they are not the only one financing such projects so that we can amicably agree to a common form of accounts being kept.

MR. DURNIL: Yes. I would agree one hundred percent. On a co-financed project, usually the host government has as much at stake, or whomever is doing the other piece of it, as does the particular donor. As far as getting to a project in the inception rather than waiting until after it is in trouble, I do not know how most supreme audit institutions do their planning. We try to consider that as a factor in selecting what particular projects should be audited. You may want to comment on that, either from IDB perspective, World Bank or AID.

MR. WESBERRY: Basically, that is what Randolph Andersen was outlining this morning. The new focus of the World Bank is going to be on getting the project started off right from the very beginning, getting the accounting system set up. Now, we have not talked about bringing supreme audit institutions into a project early, but what we are planning to do is to bring qualified accountants into the project as a part of project appraisal, at the very beginning, before the project starts to examine the financial system--if there is one. That would be to determine whether it functions well and whether it is acceptable. If it is not acceptable, we would determine what needs to be done to make it acceptable to handle the project, so that we can be sure from the very first day the project starts that there will be good financial management in the project. That’s really the heart of the idea that Randolph outlined.

I told Randolph that his speech made me feel proud to work for the World Bank. I have only felt really proud to work for the World Bank twice in the last three years. Once was last October after President Wolfensohn made his speech and finally came out against corruption, because everybody was in doubt for fifty-two years which side the World Bank was on. We finally came out on one side, and that made me very proud. Randolph said some things today that have not been said by a World Bank official in a public forum, ever, in the history of the World Bank, unless he said them somewhere else in the last few weeks. I was very proud and pleased to see Randolph telling you exactly what our problems were and what our new focus is.

But our real new focus is not on auditing. Auditing is what gives credibility to the financial management process. Our focus is on the financial management process, on getting it done right, and then the audit will give credence to the fact that financial management was done right, instead of being an instrument to tell you everything is a mess, with a negative opinion and negative comments. So our whole thrust in the World Bank is toward improving the quality of financial management from the initiation of the project. That should solve a lot of our auditing problems.

MR. DURNIL: Lastly, I will give you the perspective from the public accounting firms. Public accounting firms are concerned about legal liability, and it is more so in the private sector than the public sector, but I think it is spinning off into the public sector. The key to that is the engagement letter that they require with whomever they are doing the audit. In the engagement letter, when they are talking about audit and they are talking about opinions, you go into what's called the attestation standards, and when you get into the attestation standards, there are the opinions that can be expressed as far as to the financial statements, or you can get into what's called agreed-upon procedures work. If you can move from an opinion over to agreed-upon procedures, they are getting to be more flexible in what work they can do and what they can report. Just recently, they have changed and they are doing what's called in-control services, getting kind of a mix between consulting and auditing as far as attestation.

So, if you do engage a CPA firm or accounting firm to do work with you, the key is to spell out what you want to do and what type of arrangement you have with them in the engagement letter. There is no question in my mind that an accounting firm can do it faster, better and cheaper, and express an opinion on a financial statement audit. They do them all the time, they do them fast, and they can do it much faster than a supreme audit institution, an IG's office or whomever. However, when it gets into the area of compliance, it is a different ball game. So, I think I would look at the engagement letter aspect of that.

MR. TUESTA (Peru) (As summarized by translator): I am an auditor, and I wanted to be recognized this afternoon because I have experience of more than twenty years working in the private sector. I would like to sincerely recognize that a private firm such as ours in Peru was able to develop and was able to grow, thanks to the continuous training, in this case, for the auditing of projects which were given us through the supreme audit institutions, and this is in cooperation with the World Bank, the BID or AID. I wanted to say so publically that I'm very grateful for the cooperation that we received. Jim Wesberry was my teacher and my mentor, and I am very grateful to him. After so many years, I am here today still learning.

MR. DURNIL: It is a good feeling when you need some work done in Peru and you can call upon our affiliate down there, and you know that they understand doing government work and doing compliance reviews, and they know what cost principles are, and things like that, that you would never know before. AID sponsored the SAI conferences around the world. They started out in Singapore, and there was one in San Jose, one in Dakar and then one in Pretoria. If they do that again, I think it would be a good idea to invite the public accounting firms.

COSO/CoCo: Framework for Internal Control

Paul G. Makosz, PDK Control Consulting International, Ltd, Canada

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It is a pleasure to be here to speak to you today on a subject that is of dramatic importance to everyone in the room, and also to any accountant and auditor in the world. The things that are happening right now with control frameworks are very exciting.

I would like to talk to you today about the control revolution which has been happening, and how it is truly a revolution in our understanding of control and in the actions we take to make sure that control is effective. I want to talk about the need for a common language we need to share. Not a language that alienates us from people in the operating departments of our organizations, but a language that means we can truly communicate with each other. I also want to talk to you about the need for different techniques to assess this kind of control. The older techniques, audit or some of the simpler management tools, simply do not work very effectively when we get into this much broader atmosphere. Lastly, I will talk to you a little bit about the results.

First, a little history. Control self assessment started in Gulf Canada, in Calgary, back in 1986, around the time that the Treadway Commission in the States was doing some of its ground-breaking work. At that time, my predecessor, as Gulf's General Auditor, felt that there was a great inadequacy with standard auditing techniques. They did not tell you about the culture of the organization, and if the culture had mistaken ideas in it, then no amount of audit testing would make up for that. So, we started holding workshops with employees where we asked them to share their ideas. At that time, we struggled. One of the reasons we struggled was because we had a terrible control model. It was an accountant's control model, and works quite well for accountants to this day, but it talks about things like documentation control, authorization control, management supervisory control, and so on, and so on. Every one of those phrases automatically turns off our audience when we start speaking to people in operations, whatever the operations of our organization are.

We developed that process very rapidly over the next eight years at Gulf Canada, and I had a lot of fun with it, experimenting, and we gradually introduced new technology with electronic voting so people could vote anonymously. Nowadays, our workshops are five to six hours, where people vote on a number of issues, and have a free range for two hours to talk about anything that they think impedes their ability to achieve the objectives of their group. Anything at all. It can be cultural, it can be formal, it can be just anything, but, we have learned to listen to people very carefully over the years.

At the end of 1995, I left Gulf Canada and set up a company, PDK, to help other organizations start up with self assessment. Since then, we have been everywhere in the world except for home. One of our first clients was the Inland Revenue, the IRS equivalent in the UK, and they are working with self assessment now. We have done a lot of work with the World Bank over the last year, which has been very enlightening for me, and lots of fun as well. I have done work with a number of insurance companies. Zurich is one of them. And we are also working with the Auditor General in Canada, as they are trying to develop a new control model.

So, what is the control revolution, and why is it a revolution? In the past, one of the reasons we have alienated the people in the operating parts of our organizations is because of the focus--the very narrow, detailed focus we have had on controls. These are the small steps, two signatures on an invoice, making sure we comply with small-step procedures, etc. One of the things that has happened in the last fifteen years has been a tremendous change in the business world, and now very much in government and the developed countries. What we are seeing happening is massive downsizing, removal of layers of hierarchy, and empowerment of people at the grass roots in an organization. Now, when those changes happen, we need to think differently. The little controls are important but, relatively speaking, they are much less important than whether we can answer the big question: Is this organization in control of its destiny? And that is what the new models have tried to do.

Let's look at some old and new perspectives. The old perspectives were: "Maintain a steady course," "Keep employees under control," "Information is need to know," "We compete nationally," "Change happens gradually, incrementally," and "Controls." Nowadays, it is: "Change direction fast and often," "Empower employee teams," "Share information quickly," "Global competition," "Change is fast, widespread," and we now try to think of control as a whole.

Three big factors stimulated this change. The first of these was the corporate governance breakdowns, which were very evident in the States in the 1970s. Many of them related to Watergate. Now, for those of you who can remember the Watergate era, it was not simply about politics; it was not simply about President Nixon and the cover up of the break-in. The ramifications of that investigation led into the corporate board rooms of many of America's largest companies. Gulf Canada's parent, Gulf Corp., was one of those companies, which was found to have been donating funds illegally to President Nixon's re-election campaign, and the investigation also revealed that Gulf had been bribing officials in South Korea. Lockheed was similarly challenged. Other companies were investigated for the same thing. Now, some of you may have noticed that it is only six months ago that some of those actions by the presidents in South Korea finally came to the end of their story, and two past presidents of South Korea were sentenced to death last year for taking bribes in that era. What it led to was a process where we went through a lot of discovery, with the Treadway Commission, after the Foreign Corrupt Practices Act, which has spawned new control frameworks; COSO, Cadbury, CoCo.

Another major crisis that emerged was public deficits. Canada, the United States and, to some extent, the UK, built up very large deficits. These days that has led to a desire to cut back on those deficits and perhaps even reduce the debt. So, we have lots of attempts to keep taxes stable while we cut back expenditure.

The third thing that happened, and probably the biggest, was the dramatic change in management style. Spawned by competition with Japan in the automobile industry and electronics, North American business started to compete really seriously. When I came to Canada from the UK in 1979, I bought a Ford Fairmont. I bought it new, and I thought it was a great car. I was really happy with it but, to be honest, it never did like the Canadian winter. It was always a question whether it would start or not when the temperature fell to minus forty. Now, ten years later, I bought a Ford Taurus station wagon, and that station wagon refuses to die. The reason for that is it was built to a much higher quality standard. It is still a good car today, ten years later. And my son has just started driving and that will become his car.

This is not a small thing. This is a dramatic thing that affected all of North American industry. What it led to was massive downsizing or delayering in order to try and compete more cost effectively, and the introduction of total quality management. It also led to empowerment of employees--sometimes as a primary objective, but sometimes it just happened. So we are left with less hierarchy and less expensive control.

That initiative has spread and, internationally, you have the UK, which jumped into Cadbury, a COSO look-alike, program in 1992; the Hampel Committee started in 1996 and will report in about three months' time, I think; South Africa with the King Report; Canada produced CoCo, which is short for Criteria of Control in 1995, and we have had tremendous feedback from all over the world since we launched that model. What these models do that is different, is try to develop a common language.

These days, I would say to you that control is anything which helps people achieve the objectives of the organization. Now, think about that, and compare it with what we used to think. Management comes up with a plan, then hires labor to implement the plan, and constantly supervises labor to make sure that labor implements the plan properly. Nowadays, we are empowering employees. We are asking them to think. In the past, you did not want too many employees thinking. Who knows what they might dream up? As the high priest of that style of management said, "Employees must be constantly supervised. There is no end to the schemes they will dream up to avoid doing their work if management does not constantly look over their shoulder." This is a different approach entirely. This says, "You have hired the best people you can get, let us listen to what ideas people have got." Let us understand something else about control. There are some things within control that affect our life that we do not control--things like corporate culture. We can influence them, but they are there, they are a massive force, and we do not have total control over them. So that leads us into other things, like skills, leadership, teamwork, etc.

There is another way of looking at control. We can look at it like a seesaw or a teeter-totter, where we have risks and weaknesses on one side, opportunities and strengths on the other. Now, the secret for good control is not for one side to come down or the other side to come down; it is to stay in balance. While both sides are up in the air, we do not take too much risk in pursuit of opportunity and fall into chaos or bankruptcy; nor do we rest on our laurels and end up in paralysis. Some of us might be tempted to say, well, why not put a big heavy person over on this (the strength) side, and then we will be really safe. The trouble is, when the seesaw tilts heavily toward strengths, they turn into risks because of complacency. The risks simply slide down from the other side.

I provide a simple example of IBM, ten years ago, the absolute god of the stock market worldwide. Everybody thought they could not put a foot wrong. IBM, unfortunately, believed that too, and stopped listening to its customers for a while. The result was a loss of almost three quarters of their share price. Now, anytime you find yourself looking at your customers and thinking they must be stupid because they are not buying your product, something should be telling you to take a second look. All that had happened was a big, powerful organization with many strengths started to believe that only those strengths would be important in the future. They did not move into the new area of PCs, etc., because they did not think the customers should want them. But the customers did. Fortunately, that organization is back and in a fairly healthy position, but after an enormous fright.

The same is true for governments. The COSO (Committee of Sponsoring Organizations) model came out following the Treadway initiative. Treadway reported in 1987, and then in 1992 this model was published. There are two particularly nice things about this model that I want to talk to you about, because they suddenly made my life at Gulf Canada much easier. It gave me a language to talk to people in.

The first thing is the depiction of control as a pyramid. What this says is that control activities, where auditors and many managers spend much of their lives, is on the third floor of the pyramid. We were ignoring the ground two floors, particularly control environment. This is where most big catastrophic failures come from. They do not come from failures in bookkeeping. They come from failures in honesty, failures in competence and failures in leadership. The other nice thing about this model is that it says: Even if you have these four blocks in place, information and communication needs to flow freely anywhere throughout the whole pyramid, otherwise, control can never work. Now, I might say to you, what's in a control environment? Ethics, competence, culture, vision and leadership are. We need to be assessing these things in the organization.

Lots of us have spent our whole careers looking at policy manuals, making sure there is a policy here for this, and procedure here for that. The truth is, policy manuals have no value of their own at all, unless people see that leadership believes in these things, and policy actually means something. Otherwise, it is just a piece of paper in a book. In terms of vision, when you get into an empowered situation, you cannot supervise everyone. You are asking people to use their imagination to come up with smarter ways to work. You need to give everyone a common vision, so at least when we make progress, we are all heading in the same direction simultaneously.

What happens when things do not work? Here's a good example. Now, I think any control framework that allows $500 billion to be lost in one massive national catastrophic failure, the savings and loans crisis, is not working properly. I think the writing was on the wall, and it could easily be seen through anyone doing an assessment using COSO. But here is something I want to draw your attention to. One organization, one savings and loan, was not like the rest. It was primarily corrupt, and it was originally intended as corrupt and it was run corruptly, and when it failed, it took a lot of people's money with it. That organization had excellent control activities at this layer. Their bookkeeping systems were in very good shape--both bookkeeping systems. So, fine, we were successful here. What was happening at the grass roots in the control environment? Salesmen were being taught to remember the weak, the meek and the elderly. They are our prime targets. Seek them out, offer them any guarantee that you can to get them to part with their money, and then when we have got it, we will do what we please with it. Now, it is easy to see how the audit focus for those organizations was at the wrong level. There is another terrible thing to say about the savings and loans, and that is that almost all of them had a clean audit report right up until the year before the one in which they went bust.

That says to me that we were not only using the wrong model, but our audit tools were hopelessly ineffective. The COSO element of information and communication, getting the right information to the right place at the right time, depends a great deal on frankness, openness and honesty. It also depends a lot on trust in the organization. Because if we fear the people to whom we have to give bad news, then we will not give them the bad news until such time as the problem has gone nuclear. It is too big to be dealt with by anyone.

Three years after the publication of COSO and after the culmination of a lot of work, the Criteria of Control Board for the Canadian Institute of Chartered Accountants produced this model, CoCo. Content-wise, it is about ninety-five percent the same as COSO. But, we made a very big effort to use language which you could use with a CEO, with a deputy minister, with a president, or with a janitor, or with someone in the mail room. We were trying very hard to find a language that would fit everyone.

When we run self assessment workshops, we do not bother to give a long explanation. Our explanation goes something like this. Purpose: do I know what my job is? Do I know what my team is supposed to do, and do I know what my team's role in this whole organization's future is? Great. Next is commitment. When I come in here in the morning, is it because I feel really pumped up? I am excited about the work I am going to do, the people I work with? Do I feel properly rewarded and recognized for that? Do I feel proud to be part of a company which has similar ethical values to my own? Okay, great. Let's have a look at our capability. Do I have the tools to do the job? Do I have the skill? Do we have the teamwork? Do we have the money? Do we have enough people? These are some of the more fundamental questions about capability. Well, if we have all three of those, let's just go do it. We work hard, and here is the tough question--the toughest question for everyone in control. Having done the job, do we actually sit down and learn how to do it better? Then, having done that learning, do we actually translate it into action for the next go-around? I can tell you, that having run hundreds of workshops all over North America and in the UK, I find consistently that learning is the lowest of all the four categories of control. People are consumed by the desire to do things, tasks.

If I said to most of you, let's go to the movies tonight, there are two choices. There is Arnold Schwarzenegger in Terminator III, or there is Tuesday night at the public library. How many people want to come with me to the library? Before you say yes, I warn you there are no chain saw murderers lurking in the aisles. How many people would like to do that? I think most of us will end up going to watch Arnie doing his thing again. We are just committed to act. That's what gives North America its tremendous economic power. It also means that we sometimes do not like to learn as much as we should.

One other little statistic here: I read an economist's article a couple of years ago, saying that eighty-five percent of the companies which implemented TQM have described it as ultimately having failed to meet their expectations. I think the reason for that is because TQM demands a lot of learning time, and many managers are very uncomfortable with that. Many companies have won the Baldridge Award and then cut back their effort.

Anyway, whether it is COSO or CoCo, there are three major objectives. Accurate, reliable reporting, compliance with laws and regulations, and effective and efficient operations. I highlight the last one, because that changes our lives. It means that whoever we are in an organization, we have to be thinking very, very seriously about effectiveness and efficiency. We need to shift our attention away from narrower control activities--not abandon them, but shift our attention toward effectiveness. COSO, CoCo, Cadbury, what's in a name? I think control is control is control. I do not care particularly what it is called, as long as we are covering all the bases properly, and it means something to people, that it means something relevant and important. I will show you in a moment how we tackle that.

So, what is this road to the new control? Where does the road lead? How can we travel down the road? What is our vehicle to get into these new control frameworks? The vehicle that we chose to use at Gulf, which is now being used by lots of other companies and government bodies in the world, was control self assessment. We hold workshops where we get employees and their managers together to discuss control in basically very simple terms. What helps you get the job done? That is your strength. What gets in the way? What stops you getting your job done? That is your obstacle or risk.

One of the reasons for the importance of this approach is the degree of change that we have been going through as organizations. When the pace of organizational change is very slow, we can be doing lots of review and management of formal controls--the small detailed things. It is like a tune-up for your car. But, all you have to do is downsize by twenty percent, cut out a few layers, change some accounting systems, and you are now in the midst of major change. At this point, time spent in reviewing detailed controls is of relatively low value. The very high value comes from reviewing broad, informal controls which impacts all employees. How do employees and managers feel when they see one in four of their colleagues disappear? What does that do to their behavior patterns? What does it do to the intelligence and the ability of an organization?

Lots of us talk about reengineering. I will bet lots of people here in the room have seen their organization reengineer. It sounds so precise. It sounds so clinical, so scientific. I have not yet, and I have visited many companies, including many Fortune 500, seen one organization where the process was anything other than bloody, disorganized, and producing not the results that were expected. I am not saying it should not be done. I think we need to shake ourselves up periodically. I am just saying this is not a clean, clinical, scientific or mathematical process. People are involved. Unexpected things happen. Some reengineerings have resulted in many more millions of dollars being lost than the whole purpose was to save in the first place. We need to evaluate the effects of the process continually.

Self assessment has teams getting together with their manager and a facilitator to analyze, within one of these control frameworks, the obstacles and the strengths which affect their ability to achieve their key business objectives. Then, they think about the organization as a whole, and they decide upon appropriate action. Think about when you write an audit report to someone in your organization. You know it is serious. You have done a lot of work. You report it to someone else. Now you have to convince them, in their time frame. Then they have to convince someone else. Then finally, hopefully, there is some commitment to act, which then gets translated from a manager to a supervisor, to some employees. Would it not be a lot better if we could get everyone in the room at the same time, to see the problem at the very same time, and to decide right there and then, and commit to take some action? That's the key thing about this process.

Now, it is important that we use language that everyone can access. I talked about it earlier. This is one of the questions that we ask people under capability: Do I have access to all the information I need to do my job properly? Suppose we have some fellows talking about the blueprints for building, and one of them is saying, "I never get the information on the geological strata in time to get the foundations laid safely." That's what information means to them. And to a lady in the corporate public relations department, information to her means, "I really wish our CEO would tell me about some of these things he is going to say before he says them. That would be really helpful." She is thinking about the same thing--information. These two people cannot talk to each other about the specifics of their job, but they can talk about information and whether they get it. The CEO is thinking, "I do not know why it is that every report that lands on my desk smells faintly of roses. Can the world truly be in such good shape, or are there things going on that I never knew about?" A person sitting in the legal department is thinking, "I wish that people would come to me when the contract is being written, as opposed to trying to patch up the differences that have emerged." They are all talking about Information, but in different ways.

In CoCo, Purpose has things in it like vision, leadership, authority, objectives, plans, and so on. How do we ask people? Well, we take workshops with ten to twelve people in them, including their manager, including the vice president, we sit them in a U-shaped room, and a facilitator will sit at one side, and at the other side is a technician who captures people's words as they speak.

Every person in the room holds a little keypad, just like a calculator, which is a transceiver. You push a button and you can vote. Whatever you vote shows up on a screen, but no one knows who voted what. So, suppose we say this. "I feel I have a personal stake in our corporate vision." People vote on a scale of 1 to 7 to indicate their agreement or disagreement with the statement. I am trying to find out whether people relate to what this company is trying to do, or not. If we get a vote like that, this is not a very healthy situation, is it? If you are just trying to launch your corporation or your department onto a new initiative, and people disagree strongly with the vision, your chances of success are really slim.

How about ethics, rewards, recognition, trust, even fun? Suppose we state "I am adequately compensated for the work I do." That's a straight human resource-type question, but how auditors deal with it is different. The question is, what's the significance? Who really cares whether you feel well paid or not? Here's a good way to look at one real example. We did some workshops with an organization, and we found most answers were in this category: I am adequately compensated for the work I do. Most people were from 3.8 to 4.6 on a scale from 1 to 7. One team was ecstatic. They had just had a big bonus for some very good work. Two teams voted below three. They effectively were telling us: "We want out of here." "We have decided to leave." "I do not feel properly appreciated at all." We also knew, because of our research, that both of those teams were crucial to what that company wanted to achieve that year. This was an oil company, and it had promised the market that it would achieve these results by finding new oil. These two teams had the world experts in certain geological formations. Furthermore, we found out that there was a new market for these experts outside--small companies who wanted to lure them away, and could offer to pay them any salary that they liked. The end result for that was a risk to the company somewhere in the region of $180 million, and I come back to that very simple question that we asked people: Am I adequately compensated for the work I do? Now, we took the question, we saw it as a commitment issue, and we took it back into the control model, back to the strategic objectives of the company, and we could see the company was about to fail in its objectives and in the bottom line. Management was able to jump in and prevent most people leaving by offering them substantially increased salaries, because the market had truly changed.

In terms of capability, there are lots of things that are in there--skills, resources, teamwork, and so on. We might ask this question: Is the overall capability of our team sufficient to meet our objectives?

Now, when it comes to Learning, in the current environment, there are some other things that we need to think about. Do people ever periodically challenge the basic assumptions which drive their work? Do people ever look at it and say, "You know, this department was set up ten years ago to achieve this. Is it still relevant? Do we have customers out there?" Lots of interesting things come out of that. The first thing I would want to know, if I had a low vote, is: What does this team do? How important is it to our future? Is this a pattern that is repeated all across the organization, which means that all we can do is repeat our past cultural behavior, because we do not want to learn? Lots of interesting questions come from it.

The third part of our workshop involves discussing ethical dilemmas. I have a simple example at a local government level. You are a school principal in Ottawa, which is cutting back on its jobs for teachers. Your spouse is a manager at the General Hospital. Again, there are cutbacks underway. Fearful of cutbacks, you start up a jewelry sales business, and are surprised when it quickly starts to make a profit. You see how you can double your salary. Maybe you could hire some of your own teaching staff. We present this to people because it is a real-life dilemma for a lot of civil servants right now in Canada. They do not know if they are going to have a job, and often their spouses are in the same boat. They have to look for a survival plan. So, we have the options. Would you recruit any teachers who would be good at sales? Maybe you should just recruit teachers who need the money? Or maybe you should avoid recruiting any staff, so you can avoid conflict? All we do is ask people to discuss this issue. They vote. We do not record the vote. There are no records kept of this discussion. It is just so people can become aware of the pressures and the things that can go wrong. We have had many, many people say, "No, I see nothing wrong with it at all." We have had other people say, "Well, if I was the junior teacher approached by the principal, I would feel I had to comply with it or it might affect a rating of my job." That is a real-life example.

Here is another, and this one is in development banking. You have just been posted to an impoverished republic. You find your predecessor installed a complex economic strategy and control structure, and was promoted because of it. He did that in collaboration with the government. However, you find that no one understands it, it is unworkable and the politicians are only going along with it to receive a promised loan. There are three choices: First, call Washington to warn your superiors of the problem. Second, say nothing while you work out a better solution. Or, third, recommend the loan funds be released anyway. Now, usually when we ask this question, everybody will say, "Of course, I will do the first." So then we would say to people, "Well, what I did not tell you, what is not in there, is that your predecessor who was promoted is now your boss." Suddenly, we find people who thought ethics were really simple undergoing some mental anguish. Then we tell you that your boss is clearly singled out, and is going to be heading the department, the department in which you are still relatively junior. Now, we have people looking at their own personal career, versus the obvious right decision for the country. Of course, people then start to get creative.

What we are trying to do is get people to address what the ethics issues are. You can progress into that. What is the point of lending to an organization or a country where the money is going to be used corruptly? Or, half the funds go to buy the President's new jet? What is the point? Some people, when you speak to them, will say, "Well, I mean, that's what we expect. It has always been that way, and I can guarantee it always will be that way until somebody stops and says, this is ridiculous." We need to talk about them. Just because they have been there for fifteen years like that does not mean it is going to be like that for the future. You need to get people talking about this through your organization. Otherwise, there is no commitment to change. This also requires management leadership.

Many of the results from self assessment go beyond awareness of issues. They are quite measurable. What we do is we gather the votes using Option Finder, which is the electronic voting package we use. We use templates and software to put it together to produce bar graphs and a big radial graph. You interpret the data, and we add just one page of our own comment. So, there are about forty-five pages of graphs and text, and we get it back to people the day after the workshop. We find everybody reads every word. They want to see that we did not alter things, and that it is their words and their commitments that are in there.

What does it help you do? Well, on that question about information being easily accessible, we will discuss results from Team X, where we did the workshop. We find out that, within this business unit, Team X is second from the top in terms of success in this area. Now, as the vice president, I am very interested in finding out why these top two teams are so successful, and why others are not. Can we share some best practices with less successful teams? As a CEO, I am interested in why this whole business unit is so much better than the corporate average. What is going on here? How can we share it? We are not talking about risks here, we are talking about opportunity.

This is a real graph from eight different workshops run in the same large government body in different parts of the country. These are all the questions we ask on capability. There is the accessible info one at the start. Now, the first thing you notice about this graph is how everyone tends to vote together. They go up together, down together, up together, and so on. Different parts of the country, different people, not aware of the workshops going on elsewhere, and yet they are all voting the same. That tells me that this is a true picture, and what we are looking at is the whole culture of this organization around the subject of capability. I would like to point out to you that this big dip here was for when we were talking about recovery plan. This is a very big organization with fifteen different mainframe sites, and no disaster recovery plan. The thought behind it was, well, with fifteen sites, surely if one blows up, we can reroute the processing to another site, regardless of the fact that it was different hardware, operating capacity, and so on.

There are some other things that happen in workshops that are awfully exciting. Here is one group that voted way down here on terms of accurate information. When we said to them, "So why did you vote that way?" They said, "Because we falsify the reports to our head office every month." All right, well that's an interesting statement. "So why do you do that?" "Because we have to submit a report every month, and every month our statistics look different from all the other offices because we have a giant factory in our area, and it distorts all of our figures. So every month we get asked to submit a report to the head office explaining why. It is the same answer every month, so now we just give them the false figures, they are happy, and we do not have to waste time on a two-page report." People will tell you that quite happily and quite honestly, because they have tried to use their common sense to beat the problem, and they have not been able to beat it, so they come up with what is a common sense solution. The question is not: Why are these people falsifying the report? It is: Why are they being asked the same question again and again and again?

When we put that on a bird's eye view graph, like this, a radial graph, this is the very same graph as the one you just saw, only averaged, and we asked people to vote on a scale of one to seven, as you have seen, and if you voted up to 6.8, we fill your slice of the pie up in green. We draw a cutoff line at 4.5, basically a pass or fail line, but not applied mathematically. What we see here is this vote on recovery plan only went up as far as 3.2. The shortfall between the actual vote and 4.5, we color in in red. We use red as an indicator that there is a problem here. The deeper it goes, the deeper the problem.

I will show you how we use the overall graph. Now we put all of control on one big graph, here. The way I look at that is a little bit different from our older approach. As an auditor, I used to say, well, here is a problem, here is a recommendation. Here is a problem, here is a recommendation, and so on, and so on. The trouble is, all I am doing then is dealing with symptoms. I am not getting to the root cause. Now what I do is I look at this graph, and I say, "What's the problem with this area here? What is the root cause for that? What is the root cause for this? What's the root cause here?" Frequently, I find it is the same root cause that is driving all of them. Now we can come up with a root cause solution.

I would also tell you two other things. Usually that root cause is what management calls a soft control, poor communication, a cultural problem, or something like that. The second big discovery--and it genuinely was a discovery for me last year--frequently we find that the root cause for these is the same as the root cause for this big, successful bulge here. Management has put a tremendous emphasis on some particular big drive, or sometimes it is not management, sometimes it is the culture that really favors this kind of activity. The trouble is, it gets successful and starts to draw away resources or attention from these other areas. In some companies, we have found them losing so much money through these areas, and at a much higher loss than what their success is offering them.

Now, you cannot just look at that graph and say, this is a successful organization, or not successful, until you look at what the objectives are. This is the Commitment quadrant here. If this organization has just decided to launch into a big new corporate initiative which requires people to feel excited, to put in long hours and a lot of effort, and this is the profile that you have got down there, you can see right away you are going to have a major problem. Your people are not with you. Furthermore, up here I have a question on vision. What I can see there is that people are not committed to the vision either, so the problem is even worse. Now, the conversation I would have with that CEO would be, "You need to address the root cause for these before you have a hope of your new initiative working."

Do people like this process? The same people who participated in those eight workshops voted 5.35 on the question of: How valuable to you was going through all those questions interactively in the workshop? When we asked people at the start of these workshops, "How many of you like the word control?" most of them immediately said, "No, I do not like it at all." So this represents quite a turnaround.

We have also done a study comparing audit versus self assessment in the last three years, in which audit alone was used at Gulf Canada, and the first three years in which we just used self assessment. We found, in every instance--organization control systems, authorization accounting, safeguarding management, documentation--in the number of material items uncovered--was substantially higher. That was done with my predecessor, so that we could keep the graph honest.

Anyway, what does self assessment do for audit? It complements and focuses audit work so that audit time is spent on something that is valuable to the organization, and the operations group sees it as valuable. They want auditors to come in. The typical result is that most auditors are highly desired in the organization. In fact, there are not enough of them, so operational groups start to develop collaborative teams to bail them out. All told, a very helpful initiative.

Some last words on the issue: Management and review groups, program evaluation, and so on. Frequently, it is like you are out on a little boat all by yourself, fishing with rod and line, and the fish are not interested. If you catch something, it is an exciting day. Now, sometimes there are really big fish there to be caught, but you just catch the little ones. Probably that's a good thing. Can you imagine what would happen if the big fish took that? Who would be in control of whom at that point? What I would suggest for a lot of people, and for auditors especially, is that it is better to go out with fishing nets, instead of just doing deep audits all over the place but not covering the organization. Run workshops across the whole organization every year. Raise your sense of materiality so that you are only interested in the big fish. The net is set to catch these big fish, while the little fish swim through. Somebody at one of these conferences once commented to me, "Maybe it is a good idea for the little fish to swim through so that they can grow up to be big fish, and then we have unending employment." Anyway, that concludes my talk, ladies and gentlemen. I just hope all your fish are little ones. Thank you.

MR. DURNIL (United States): Which has been moving faster forward with self assessment control, the public or private sector? Could you tell us a little about each?

MR. MAKOSZ: Through the late 1980s and the early 1990s, we found the private sector was jumping into control self assessment wholeheartedly. In 1990, we ran the first self assessment users conference. It was attended by eighteen people, from just two countries. Last year, we ran it through the Institute of Internal Auditors. It was attended by 600 people. They had to close the registration because the hotel was overbooked, and there were eighteen different countries there.

Now, the private sector got into it earlier because the private sector was feeling a lot of pain through this change--the downsizing, the de-layering, the empowerment, the move into TQM. That did not happen in government until the cutbacks really started to bite, until the U.S. Government, the Canadian government, the provincial governments in Canada and the UK, really started to cut back on expenses. At this point in time, many deputy ministers and many politicians, in fact, were asking, "Are we still in control of this program, or are we not?" So, in the last two or three years I have seen a tremendous upsurge, both in the States and in Canada, and in the UK, really taking off at the moment.

MR. DURNIL (United States): Could you explain more about how the external auditors rely on control self assessment when they do their work, because I understand there has been some formalization of this information.

MR. MAKOSZ: I would describe this area as being disappointing, for a couple of understandable reasons. When you run sessions with people, you are asking them to give their ideas, their opinions. This, of course, is anathema to external auditors, who are relying on documented facts so that they can at least provide a legal defense when they are sued. Self assessment typically does not provide that, nor is it designed to. It has been much more useful to internal auditors and to operational management, to CEO's, and so on. Now, external auditors are using it in two ways. One is to get a fix, to read it, to find out what the really big issues are in the organization, and then directing their audit efforts there. But, much, much bigger than that is the effort that the major accounting firms are now putting into control and control self assessment, and that is largely happening through their services areas or consulting areas, where they see low risk but very high value added to clients. So there are some major efforts begun in the last two years with these firms.

MR. DURNIL (United States): I would have to say that, if I would pick one area where there is a difference between the public sector and the private sector, in my experience, it has been in the implementation of COSO or CoCo. I know in the audit profession, we have really gone full bore on COSO, and we probably spend as much time on risk assessment in private sector auditing as the government auditors spend on detail testing. We spend more time looking at risk, analyzing risk, and doing very little testing, whereas my experience on the public side is they spend an extensive amount of time in sampling and looking at vouchers and, like you said, the two signatures. The private side is looking more at the controls and where the risks are, and what you should be looking at.

Combating Fraud, Waste and Mismanagement in Development Projects

Steve Berkman, Independent Consultant, U.S.

Although I am neither an accountant nor an auditor by training, my work in Africa over the past twenty years has taught me a lot about these two disciplines. I must say that during this time, I have probably learned more about the pitfalls of accounting and auditing than I have of the so-called "best practices" in these professions. It is these pitfalls that I would like to discuss with you today, for I truly believe that they are much more pervasive and much more harmful to economic development than we would care to admit. This is especially true on the African continent, where poverty, disease, the degradation of infrastructure, the environment and a host of other economic ailments are as pervasive as anywhere else in the world. It is the state of financial management in this part of the world that I would like to talk about today, so let me begin, and please forgive me if my terminology and perspective is that of a project manager rather than an accountant or auditor.

Just a few years ago, donor funding in sub-Saharan Africa was averaging from $10 billion to $14 billion annually, and it is probably still in that range today. These funds, used to finance all kinds of development projects, are provided mostly by bilateral or multilateral donors, with some minimal financial participation by the recipient governments. These projects, while usually implemented under the umbrella of government agencies, are distinctly different from the normal, day to day operations of government, in which the availability of financial resources at the project level is much greater than it is in the government agency overseeing the project. This, as we shall see shortly, creates enormous temptations for fiscal abuse of funds that, with the exception of aid grants, must someday be paid back to the donors.

Now briefly, just to round out the picture, the kinds of projects we are talking about could cover any aspect of economic and social activity from health to highways, from education to agriculture, from water supply to small scale enterprises, and everything in between. Their purpose: To raise the standard of living of the general population, and to bring these least-developed countries into the world's economic mainstream. What I am about to describe in the next few minutes is a very brief sampling of fraudulent and corrupt activities that are commonly found in project operations. These are activities that can in no way be described as poor management, but rather, as the outright and intentional theft of donor and government resources--theft carried out by individuals in government, frequently in collusion with persons outside government, which, as we shall see, has a serious impact on project operations.

In the area of contract management, for example, any time goods or services are to be provided under contract, you can be sure that attempts will be made to embezzle project funds at various stages of the contract bidding, award and payment stages. Some of the tactics used to accomplish this might include off-the-record requests by government employees to the bidders for commissions (a polite term for bribery) to guarantee the contract award. Or, as a variation of this, you might see requests to the bidder to employ third party consultants as a channel for diverting these "commissions."

I cite one case where the bidder on a $25 million contract to supply school books was instructed to employ a UK-based national as a “contract facilitator,” if the bidder wished to receive the contract award. The facilitator’s only function would be to ensure that the bidder had no problems with payment processing. The facilitator’s fee was to be $3.75 million, or fifteen percent of the contract price. The bidder was also informed by the government officials that they understood he would need to recover this cost somehow, and that this could be done through fraudulent invoicing, with their approval. Good for the thieves, not so good for the school children.

Next, there is the manipulation of contract pricing to ensure that a cooperative bidder, that is, one who will cooperate in the embezzlement, will receive the contract award. Typically, this is accomplished by using shell companies set up by the government employees, their relatives or friends, who submit higher bids than that of the legitimate bidder, who now has leeway to increase his bid to cover the kickback costs.

Then, there are the items buried in contract specifications that are specifically destined for the benefit of government employees. There was a case where two vehicles worth over $60,000 were embedded in a list of office supplies. These were found in a consulting contract, with a stipulation that the vehicles would be “turned over to government staff.” Although the vehicles were not stated in the official request for bids, the consultants were instructed, off the record, to include them in the contract.

Then, there are the contract modifications and additions that are specifically designed to divert funds for private consumption. Here, I can cite the case where over forty vehicles, and five fully furnished homes, totaling $850,000, were spread among a number of road maintenance contracts during one eighteen-month segment of a five-year road maintenance program. Although an audit identified the problem, neither the vehicles nor the homes were ever shown on government inventory, nor was there any evidence that this practice was discontinued during the remainder of the road maintenance program.

Then, there are contract specifications that include extensive foreign travel for government employees. While this might seem trivial, and may at times be necessary, it exacts both a monetary cost and an operational cost to the project, as key personnel are away from their posts, leaving critical tasks undone. In one such case, a project director undertook a six-week course in, and I quote, “Oral Expression,” in Paris, at a cost of $40,000. This was invoiced under a consulting contract. In another case, over a three-year period, the project director spent eighty days on foreign travel at a cost of over $100,000, again invoiced under a consulting contract. This averaged $1,250 per day, and was shown to be unnecessary to the provision of the consultant’s services.

As you can see, all of these things drive contract costs up. How much? Well, in my experience, it can be anywhere from five percent to thirty percent, and sometimes even higher. Generally, the accepted range seems to be between ten to fifteen percent, in most cases, with smaller percentages for the really large contracts.

Next, we have procurement fraud when goods and services are provided through procedures that bypass the bidding process. False documentation, overpricing, overbilling and petty cash abuse tend to be the most prevalent ways of diverting funds. This is often found in the procurement of consumable items such as fuel, office supplies and construction materials, while the billing for services and activities such as the cost of in-house training, per diem for field travel, studies and surveys are all susceptible to abuse. While some individual transactions encompass quite large amounts of money, and some may seem trivial at times, in their aggregate they can and do add up to significant sums over the life of a project, as the following cases illustrate.

There was one case where $500,000 of unverified goods and services were approved, invoiced and paid from project accounts. The goods were never located, there was no evidence that the services were performed, nor could the suppliers be located. In another case, twenty vehicles were procured at roughly $14,000 each above market prices. This represents overbilling of $280,000, or about ninety percent more than should have been paid for the vehicles.

The interesting thing about all this is that these abuses always occur within a variety of financial management safeguards and controls that we assume will prevent them from happening--technical review committees, tender boards, inventory control, accounting systems and, of course, audits. But the fact is that the more controls there are, the more one finds fraud and embezzlement being practiced. Where corruption is accepted as a way of life, we find that everyone involved in initiating purchase orders, everyone approving expenditures, everyone verifying inventories, everyone processing invoices and making payments to vendors and everyone managing accounts has a vested interest in keeping the facade of transparency and accountability alive. From this we see that the amount of funds diverted from project accounts become larger and larger, as more and more individuals seek to collect their share of the pie.

I would like to talk briefly about the appropriation of other resources. This is another area that affects project management, and that is the theft and misuse of physical resources. High on the list is the appropriation of vehicles by senior officials for their personal use, the theft of vehicle components such as tires, batteries, and other spares, and the theft of consumables, such as fuel and construction materials. On one project, the recorded theft of diesel fuel from a power station was averaging 250,000 liters per month, with no effort made by management to stop these losses. Other losses occur when government employees work on non-project activities using project supplies and materials. This is common in government workshops and repair facilities, where items such as vehicles and refrigerators are repaired for friends, relatives or private customers, and in many cases, work of this nature takes priority over institutional activities. It is easy to see that while these forms of corruption are not as blatant as the embezzlement of funds through contract and procurement fraud, they nevertheless pose a constant drain on an institution's resources, further weakening its ability to function.

In the area of revenue collection, we have government agencies that collect monies from the public. Customs, power utilities, public telecommunications companies, and others, are all prime targets for fraud and embezzlement. Monthly bills may be altered by collection agents and cashiers who share the difference with customers. Collection receipts may be misfiled or lost, and monies collected may not be reported. Monies deposited in revenue accounts may be less than the amounts collected. Revenue accounts may be poorly kept. Bank statements cannot be reconciled with account ledgers, and funds may be sidetracked for months at a time while interest is earned or foreign exchange manipulations take place. While in most cases, the amounts connected with each transaction may be relatively small, again, in aggregate, they can add up to huge sums that are never seen by the parent institution. In one notable case, monthly revenue deposited by a water board averaged only ten percent of the monies that should have been collected based upon the amount of water distributed to the customers.

Finally, we have the embezzlement of funds through fraudulent payroll accounting, where personnel rosters are inflated with ghost workers who receive monthly paychecks. Where these paychecks go and who cashes them is never verified and, again, while individual paychecks are small, in aggregate they amount to large sums. I would like to cite the case where there were 16,000 employees, but 20,000 paychecks were sent out each month. Hardly a small oversight.

I think I have said more than enough about the existence of corruption in project operations. We all know it exists, so let me now say a few things about other aspects of the problem, and this concerns financial management capacity. Much has been said about the shortage of qualified financial managers in the African public sector, and I would certainly agree that this is true in many respects. This is obvious in the fact that government budgets are never realistically prepared, much less adhered to. Financial records are, in most cases, inaccurate, incomplete or missing entirely. Audits are completed too late to be of use, and may ignore serious fiscal issues, while management letters are not provided or ignored, and, of course, there are always those instances where a fire in the accounting office can be predicted whenever an audit is about to be conducted.

Now, we have to ask ourselves, is this condition due to the shortage of trained accountants and auditors? Is it due to low levels of competence among those who are available? Well, to some extent and, in some cases, this may very well be true. But I do not think this fully explains the deplorable condition of accounts and audits in the public sector. Dare we say that government accountants and auditors in Africa cannot calculate columns of numbers? I think not. Dare we say that government accountants and auditors in Africa have no sense of fair market prices, or no sense of timeliness and accuracy of record keeping? I think not. So what, then, prevents them from doing a proper job?

I submit that it is more a matter of intentional obfuscation than incompetence. More a matter of creating a cloud around acts of fraud and embezzlement than a shortage of skilled personnel. I think nothing demonstrates this more than the recent audit results of a ministry of finance in one of Africa's major economies which, I might add, also has an active accounting profession. Of fifty-five ministry accounts audited, the following was uncovered: irregular procurement, irregular payments, missing or unprovided documentation, excessive overpricing, improper contract awards, goods procured which could not be verified in inventory, revenue collected which could not be verified and revenue deposited which could not be verified. These were not just occasional irregularities, but were pervasive throughout the ministry's accounts. They involved transactions totaling more than $60 million, and this was just one year's accounting in one ministry.

Now, the interesting thing is that this information was made available to the government, the politicians, the donor community and the public, yet nothing of substance was done to address this issue, much less hold anyone accountable for the apparent loss of these funds. The auditors general recommendations were ignored, and the ministry went on with business as usual, while the donors continued to let the ministry manage project accounts. This, I submit, is not fiduciary responsibility. I think, if anything, this only supports the conclusion that the integrity and commitment of those who are responsible for government or donor-provided funds is at least as important, if not more so, than their qualifications as managers, accountants or auditors. Controls and safeguards may be in place, but they will only work if people want them to work.

Finally, we must not overlook the private sector in those cases where fraud is initiated by commercial interests in order to gain business with government agencies. For despite my main focus here on corruption that originates from within government, there is no question that the commercial interests also benefit. It is under the umbrella of the provision of goods and services by the private sector that many of the previously-stated fraudulent acts are committed. When fraud is involved, both parties benefit, no matter who initiates the process. But again, my main focus here is to highlight those acts that are initiated by government officials and employees, and I will, for the moment, leave the complicity of the private sector to others.

Now, let's take a look at the impact this has on economic development and on management of the public sector. I will not dwell for very long on the many academic arguments I have heard that tend to dismiss corruption as some sort of economic phenomenon that has a role to play in economic development. I do, at times, have to contain myself when I hear statements like, "Corruption is just a form of 'rent seeking'." How nice. "Corruption is just another way of distributing wealth." This is also very nice. "Corruption is just a way of 'greasing the wheels,' of getting things done." Or, "Corruption is just a way of compensating underpaid civil servants." Well, I tend to feel that the theft of public resources is still theft, and there is little evidence to show that the general population shares in this distribution of wealth, or that things get done any better or any faster. I support this with two quite evident facts. We see that a small and wealthy elite, primarily sustained by corruption, has entrenched itself within the ranks of government. Their wealth is safely protected in foreign accounts, while those they should be serving continue to live in abject poverty. The second fact: Those who steal the most from government are the very ones who do the least for government. For, given the rampant corruption that has existed for the past several decades in sub-Saharan Africa, if corruption was truly "grease for the wheels," we would have surely seen some evidence of economic progress, some evidence of improved governance and the delivery of services to the population. Instead, what we have seen is a steady and inexorable decline of national economies, along with the deterioration of the public sector, infrastructures, the environment and all those social indicators that point to a better life.

The bottom line is that when government resources are stolen, there is that much less available to build a nation's economy. In many cases, these thefts can have an exponential impact far beyond the actual amount stolen. An embezzlement of $100,000 from a project can be worth ten times that amount in the local goods and services it could buy. A stolen carburetor worth $200 can put a $25,000 vehicle out of service. I am sure you get the picture. How can any institution survive when its financial, physical and human resources are being diverted, misused or stolen? When already meager budgets are decimated through fraud and embezzlement? When vehicles, equipment and supplies are either stolen or used for private purposes? When paychecks are sent to ghost workers? When public employees spend their time corrupting the system, or are unable to work due to the corruption of others? How can even the most honest and committed civil servants perform their duties when their management and co-workers are busy stripping the institution of its resources?

When we see the corruption issue from a purely management perspective, we see an endless stream of constraints that prevents even the most committed manager from managing effectively. The processing of contracts is delayed endlessly as various parties seek to obtain kickbacks. Contractors cheat on the quality of goods and services to make up the cost of bribes. Meager operating budgets are dissipated in the purchase of overpriced goods and services that are not essential, if they are delivered at all. Staff are under-employed due to lack of supplies and materials that have been stolen. Equipment is rendered useless by missing parts and lack of fuel, while revenue earned is not received. When these conditions exist, effective management is totally impossible.

Now, how should the donors respond to this? All of what I have said so far has to be superimposed over the enormous amount of donor funding that finds its way to African governments each year. To what degree should the donors be concerned about corruption? To what degree should they exercise control over these funds? And, to what degree do they have a fiduciary responsibility to ensure that these funds are used as defined in their aid agreements with the recipient governments? These are not questions to be taken lightly, for donor funds are a critical factor in the corruption equation. They either become a direct target for fraudulent activities, or they free up local funds for similar purposes. Thus, with billions of aid dollars flowing to public sector institutions each year, with the existing level of corruption that is found in many countries, and with the inability or unwillingness of governments to address this issue, it behooves the donor agencies, who are also, I might add, responsible to their own boards and governments, to exercise greater care and control when allocating, overseeing and auditing these funds.

How can this care and control be exercised to any greater degree than it already is? Well, despite the present controls, project appraisals of the recipients' financial management systems--the provision of financial experts to provide technical assistance, donor approval of budgets, bidding, contract awards and general procurement, and periodic reviews of accounts and scheduled audits--these controls do not appear to have placed any constraints upon those who have corrupt intentions. It is clear that good accounting and control systems are only as good as the people responsible for their operation. It is people, and not the systems, that are the corrupters. I would rather have a poorly designed control system managed by honest people, than a well-designed system managed by dishonest people. Of course, the ideal is to have a good system managed by honest people, but this is not always an easy combination to find.

So, let's look at some concrete actions that can be taken to put some teeth into the already-existing rules and regulations that donors and governments have in their aid agreements. Let's start at the beginning. First, we have what I call laying the groundwork. Donors and recipient governments need to ensure that not only are the required accounting, auditing and control systems in place before a project is approved, they also need to assess the institution's prior track record in financial management. If there has been inexcusably poor control in the past, if there is obvious evidence of previous malfeasance, if past audits have been ignored, what guarantee is there that this culture will suddenly change? In this regard, thresholds need to be established whereby the critical aspects of financial management can be evaluated, so that an overall conclusion can be reached as to the depth of an institution's commitment to sound financial management. If the assessment places the institution below an established threshold, then donor funding should not be provided except under extremely compelling circumstances.

In the area of project supervision, once the project is underway, donors and recipient governments need to ensure that financial transactions are reviewed frequently, and in sufficient detail. This requires more than just looking at bookkeeping entries and ledger balances. Goods and services procured under contract must be inspected for compliance with contract agreements. Goods and services procured through local shopping must be verified. Purchase orders, invoices and stores' inventories must be checked for consistency. Suppliers must be checked to ensure that they are experienced, appropriate and legitimate. Quantities must be checked to ensure that they are appropriate to the situation. Above all, it must be ascertained that all monies expended were for project operations on a prioritized basis. Now, while this may seem to be investigative overkill, in practice, an organized program of spot-checking can accomplish the necessary objectives without placing undue time constraints on project supervision staff.

On supplier verification, as noted previously, there are numerous occasions where shell companies are established primarily for the purpose of defrauding project accounts. Trading companies that carry no particular product line are also used for these purposes. By conducting periodic follow-up and spot checks of vendors, contractors and consultants, donors can assess the integrity of project procurement, and recipient agencies would get the message that procurement will only be allowed through qualified suppliers. This involves more than a casual review of procurement documents, and it involves actual field visits to supplier locations.

On the subject of audits, while often of poor quality and incomplete, audits of project accounts carried out by recipient governments are frequently submitted too late to be of any use as a financial management tool. Management letters are often not submitted or, when they are, they are ignored. Donor agencies may focus more on the timely submission of audits than on their content, and audits then become just another milestone event that must be achieved to comply with aid agreements. Donors must insist on stricter adherence to the principles for conducting an audit. If an audit is not used to correct financial management problems, what good is it? Auditors must be instructed to go beyond mere examinations of ledgers and documents, and determine whether goods and services were procured at market value, and used for the purposes intended. Contracts, payrolls, money transfers and other transactions should be examined in depth, at the very least, on a random-sampling basis. Donors must then respond more quickly to problems uncovered through audits, and must set stricter deadlines for compliance.

On the issue of exposing fraud, despite the increasing attention given to corruption in recent years, I know of no case where fraud or embezzlement has been exposed among the thousands of development projects that have been implemented in Africa during the past few decades. I am sure there may have been a few cases, but they certainly have been a rarity. Does this mean that corruption is not widespread in development projects, or does it mean that the donors and recipient governments have chosen not to pursue these cases, for what a I perceive to be a fear of upsetting the status quo? I only need to refer back to the fifty-five accounts audited in the ministry of finance to support the second conclusion. This leads us to an important weapon in the fight against corruption in the development arena, a weapon that, unfortunately, has not been used effectively, if at all. I am referring to fraud investigation.

If the fraud, embezzlement and theft of donor and recipient government funds are not imaginary issues, then one must ask: Why are so few, if any, such cases brought to light? Why are so few ever held accountable, and why are stolen monies seldom, if ever, recovered? Are the donors sufficiently committed to deal with these issues? My sense is that, as yet, they are not. Do corrupt officials feel there is any risk in perpetrating fraud and embezzlement on development projects? My sense is that they do not. If the donors are truly committed to reduce the theft of their funds, if they are truly committed to establish higher standards of probity, it behooves them, with or without the cooperation of the recipient governments, to implement fraud investigation as a regular part of their fiduciary responsibilities. It is evident that existing financial controls have not been adequate to stop, or at least minimize, the theft of funds from donor aid programs. If donors added fraud investigation to their accounting and auditing of aid funds, and could coordinate these efforts with recipient governments, it is clear that the risk of exposure, the risk of punishment and the risk of losing their stolen gains would make it more difficult for those who would abuse the system.

In conclusion, while it is acknowledged that the issue of corruption is complex, contentious and extremely difficult to resolve, there are, nevertheless, numerous ways in which it can be minimized, provided there is sufficient commitment to do so. While corruption is certainly not just an African problem, it is clear that the people of Africa suffer more than other populations from this cancer in the public sector, and I have personally known many Africans who would fervently welcome stronger interventions by the donor community. Donors and recipient governments alike must go beyond the present level of anti-corruption rhetoric by carrying out the hard decisions and actions needed to control, investigate and prosecute those who continue to steal public resources, for it is only through local commitment, combined with and supported by better control and assistance from the donor community, that attitudes about corruption can begin to change. If all the resources that have been stolen from the public sector over the past three decades had been used for economic development, instead of buying luxury cars, villas and filling foreign bank accounts, it is clear that the decline of the African economy would have been much less, and perhaps might have even resulted in some degree of positive growth. This did not happen, however, and it is safe to conclude that if the issue of corruption is not addressed with greater intensity and dedication, Africa's economic decline will continue, while the rest of the world moves ahead.

Ladies and gentlemen, I thank you.

MS. KUZHEL (Ukraine) (As summarized by translator): You have made a very good presentation about the fraud in the development projects from the point of view of the country who presents these projects. I would like to ask a question from the point of view of the country who receives these projects. Since I represent both the Parliament and the executive power of our country, there were a lot of people from the United States who came to me and asked questions about the situation in Ukraine in 1984. I told them a lot about the situation in privatization, economy and bankruptcy. They were taking notes, and then they came back and gave a report about the work that they have done. Today, we do not know what the amount of money is that is appropriated for the project, and who is responsible for the project implementation. Over the last year, we are also providing professionals from the Ukraine to work together with the experts from the USAID and the World Bank. Do you not think that if the country recipient knew the sum appropriated for the project, the budget for the project and the organization responsible for the project implementation, then maybe the fraud would be less from both sides?

MR. BERKMAN: I am often amazed at how often these development projects are really the brainchild of the donors. This certainly seems to be part of your problem. I would ask how any project could get started in the public sector under the auspices of the government, without the government knowing who is running the project and how much money was involved, and what the objectives of the project are. I think certainly there needs to be closer coordination there. I think we need to ask: How much of donor assistance is supply-driven? I think changes are happening. I have been hearing things are much more focused on the borrower's ownership of the project, but there is still a lot of the supply-drive force behind it and, when that changes, I think that governments will be more in control of these projects.

MR. DURNIL (United States): I think the question was that maybe USAID financed the privatization of a particular project in the Ukraine. It was not with the government, but with a private United States contractor. The contractor went in and did the privatization with the government not aware of how much they were given for the privatization, how much was spent and where it went. They are looking for more transparency from the donor on what is being done in their country. I agree with you. I think USAID should tell you.

MR. RIVERS (United States): How much of this corruption is a cultural thing, and sort of relates to "to the victor goes the spoils?" Because my impression from having visited Africa is that if you are the tribe in power, you are expected to get everything you can while you are in power, because you do not know how long you will be in power. So, how much of that is a cultural thing?

MR. BERKMAN: Well, two things there. One, I am glad you raised the culture issue, because that has been quite a topic of discussion these days. I personally do not feel that it is a cultural issue, and I use this analogy: I have spent twenty years in Africa, and I have worked in both the private and public sectors. I have known many very well-qualified, ambitious, competent managers in the private sector. If you ask me: Can the average African manager be accountable? I say yes. If you take the same individual and put them in the public sector, suddenly they have a totally different perspective, and we go back to what you were saying, "I am going to take what I can while I am here." It sounds like American politics, too, probably, but the thing is this: I have never seen any case where a private African businessman would pay kickbacks to somebody to sell him something for more than it is worth. You know, I have just never run into that. When two Africans do business together privately, they each try to get the best advantage they can in the deal. This is not the case in the government. So, I think it is a convenient crutch for those who would excuse corruption to say: Well, it's cultural. Secondly, even people within the same tribe do not receive a fair distribution of the wealth that is stolen. The bottom line is that the nation is borrowing money to enhance development, to move forward, and that money is being stolen. I do not see that as a cultural issue.

MR. RIVERS (United States): The other thing I would like to point out is that if corruption is at the highest levels, there is virtually nothing that auditors can do, because one of the things is that we depend upon the top level people to be honest if we are doing an audit, because that is who we are reporting to, and if they do not have any concern about corruption, I do not see how that would help.

MR. BERKMAN: As somebody said a little earlier, do we accept it or do we try to make inroads? Now, corruption has existed since the invention of government and will continue until the end of the world, I am sure. My feeling has been, especially where the donor community is involved, that the donors have a unique position to exercise a little more force in dealing with that, and I know personally there have been a number of times when I have said to the auditor, "Well, you hide behind me. I am representing the donor, and we will try to do something about this." If everybody sits back and finds reasons why we should not address the issue, then, of course, it will never be addressed. So, I appreciate the problem, but I think it can be done if people become at least as creative as those who are on the other side of this problem.

MR. DURNIL (United States): I have been involved in a lot of criminal cases around the world, and you must work with the current judicial system in that particular country. You cannot go too much beyond that. I think maybe sometimes they expect too much out of the donors. You can identify corruption, you can document it, and you go to the local judicial authority. What more can a donor do? Their role is not to eliminate corruption, it is to try to get a development project going, and they can go as far as they can go, and then not give them any more money. I have seen that done many times, until such a thing is corrected.

MR. ERNEST (Haiti) (As summarized by translator): Whose responsibility is it to overcome the corruption, when the projects are under the management and responsibility of government, and the donor countries are represented by their own specialists? Who is responsible for overcoming corruption?

MR. BERKMAN: Well, sad to say, we are all responsible. There is no easy answer to that question. I have seen many mid-level managers in Africa who are quite concerned. They saw what was happening and felt helpless to deal with it because of the pressures at the local level. Obviously, somebody sitting in the middle of a corrupt institution is going to have difficulty trying to change that culture, because there are a lot of people who have a strong interest in keeping things as they are. Again, I refer to the donor community, because we are a third party and, we have the unique position of having the money in the first place. We are providing the money, and we should use that any way we can--as a stick, as a carrot, however, to push those in power toward honest government. It will never end. But, we have an obligation to address those problems when and where they occur, when we have proof that something is wrong, and prevent it from happening.

Let me just cite one particular case as an example. I remember some years ago, a water board that ordered a ten-year supply of water treatment chemicals that only had a shelf life of six months. Now, this was a huge procurement contract, and everybody just sat by and let it happen. A few people filled their pockets from this and, meanwhile, most of these chemicals were never used because they were unusable after six months. So, I mean, all these things, if you nibble away, eventually you will start to change a culture.

MR. LAFOND (Haiti) (As summarized by translator): I congratulate you on having analyzed so well the problems of corruption in developing countries. Do you not think that one of the main contributing factors to the corruption might be the derisory salaries of public functionaries?

MR. BERKMAN: Well, that is another area where I agree, but I disagree. I agree in the sense that there is no question that civil service salaries have historically been extremely low. Much before my time, I remember, I have been told by the old-timers, that being a civil servant in Africa was an honor, and there was a lot of prestige connected with it. I know it is not so today. The only caveat I have about the salary issue in the overall corruption picture is that my perception is that people are stealing much more, much, much more, than a good salary. My question would be: Well, if we tripled your salary, or quadrupled your salary, would you stop? I am sure the answer is that they would not.

MR. LAFOND (Haiti) (As summarized by translator): Donor countries often require their projects to be managed by expatriate financial managing specialists, who consume up to fifty percent of the cost of the project. Is this not another problem?

MR. BERKMAN: Well, this is very true. In fact, I have raised the issue in the past. Actually, I could tell you two little stories, and then that will do it. Why is it that the recipient government and the donor are quite willing to employ an expatriate at $20,000 or $25,000 a month, but they will refuse to pay a senior civil servant $1,000 per month to manage a $100 million project, whether it is a highway project, or whatever? I have yet to have anyone answer that satisfactorily to me. If we are willing to spend, we the donor community, and the governments of Africa are willing to borrow $4 billion a year for technical assistance, then why, in God's name, can they not pay their employees, certainly those in key positions, enough to keep them on the job, enough to motivate them to do the job well, enough to keep them from drifting into the private sector?

I will just end with one little story. Years ago, I went to Guinea-Bissau, a tiny little country on the West African coast, and was meeting with the ministry of agriculture. We needed to do a study to ascertain the need for a small ag-extension training center. Now, I talked to the minister's staff at length. I felt that they were quite capable of conducting this study. We sat down with the minister, and he wanted to hire a consultant to do the study. I said, "But, look, your staff can do this. We have outlined the work, they say they can do it. I think they can do it." He said, "No, no, we need a consultant." We had a heated discussion for about a half an hour, and he said, "Well, the World Bank uses consultants, why not us?" And I said, "But your people can do this job." Suddenly, he stopped after thirty minutes of this and looked at me, and said, "You know, for years the World Bank has been coming here and telling me that we need consultants, and I have been telling them no, my people can do it. Now you come here and tell me my people can do it, and I am telling you we want consultants." So, you see, it has to come from both sides. I will leave you with that little story.

An International Lender's Auditor General's Views on Project Accountability

Graham Joscelyne, Auditor General, The World Bank

As I sit at my computer early in the morning and put together the many thoughts I have had over many days and months, I am distracted by two things: the many different birds outside my study that insist that their message is more urgent than mine, and the fear that I have of wasting your time on a subject you know so much more about than me.

Although I know that my message can never be as beautiful or interesting as the birds outside, I am consoled by one fact: only the most interesting and interested people would sacrifice an evening in Miami to hear someone speak on this subject. And I am fully aware that this is normally the Entertainment slot!! Ask me to speak on travel, music, my experiences in Southern Africa, or the real truth in the World Bank, and it would have been easier. Instead, we have "An International Lender's Auditor General's View of Project Accountability"! There are simply too many apostrophes! I propose to give you my own view.

Where did I go for reference? The Internet with 88,694 references on the subject of Project Accountability--from an item on the Hanford Nuclear Site, through a discussion of racism behind bars in Canada, to one on Interagency Collaboration in the Education, Health and Social Welfare sectors and State, Local and Community government. With this long title, with so many commas, I knew I was on the right track. Also, I consulted within my department in the World Bank, for there resides the greater store of knowledge on Project Accountability. Also, much is written and said elsewhere in the Bank.

Finally, I have tried to look at matters afresh from my own perspective. Here, the Internet proved useful. Among the many words that sprang to mind on this subject, the following stuck: common sense, courage and humility. Common sense had 1,818,377 references (including one on common sense in politics, which was very short!), courage 81,138 and humility 771. Why bother with humility? Simply because true accountability requires a good measure of humility. Courage is needed too. Humility and courage together allow true common sense to prevail, both in our personal and professional lives. Humility allows us to ask: Could I be wrong? Or could this be done differently?, which is a far cry from the oft felt attitude in bureaucratic organizations of "I got here first, therefore I am right," or "I am right because I know I am." Courage takes it one step further, by asking the question, "Why?" Accepting that there may be a better way and then asking how I missed it sets the scene for some common sense solutions. This is when accountability begins to mean something.

There is a story of a headman in a village. Whenever he wished to hold a meeting with his elders his cat arrived and caused a commotion. So he tied up his cat and the commotion stopped. This went on for some years and the headman died. The cat continued to come to meetings and the elders tied it up each time. Eventually the cat died. The elders of that time went out to find another cat and started tying this one up.

Is it possible that our own organizations and departments might have cats tied up with great and regular ceremony? Or maybe we need to start tying up the cats causing the commotion--the elders, or even the headman in our organization! We need someone to ask why we do things, do they have any meaning anymore, is there a better way, and what can I do to make the change? The people who can make these changes are you and me.

Project accountability can be looked at from many angles. I will look at just two of them: financial reporting and reporting on project implementation. From an audit perspective, I will look at the Bank and through it to the borrower and on to the projects themselves.

Let me begin with the Bank. As auditors, we are critical of much of what it does and does not do so far as project accountability is concerned. But, we are fully aware and involved in many of the initiatives that Bank management has recently begun to address--the many problems, weaknesses, risks that are inherent in any institution in our line of business. To us, the changes going on in the Bank, starting at the very top, make sense to us and should ultimately favorably impact the recipient through the borrowers.

The whole purpose of financial reporting is to ensure that the proceeds of loans and credits to borrowers are used for the purposes intended. What we find is that in many cases, financial reporting is weak--audited project financial statements are not produced at all, or very late. Statements are sometimes poor in quality and are therefore unreliable. The Bank lives with this. But this is not the whole story.

We do not do enough to evaluate financial management and reporting capacity at the borrower and project level at the project preparation stage to ensure that reports which emanate from them are adequate for our purposes. We might even use people who do not in themselves understand the importance of financial reporting, and so spend more time looking at other aspects of the projects. We sometimes ignore your local financial reporting requirements and insist rather on an additional set of statements in our own format. We make the receipt of audited financial statements a condition of the loan and then allow borrowers to produce them as it suits, so to speak. When we receive the financial statements, we might even ignore the contents for many reasons, including lack of expertise or capacity on our part to do justice to the work actually required.

Obviously, we and others in the Bank see this as a real risk.

As far as reporting on project implementation is concerned, the Bank needs to ask some searching questions. We do not tailor our requirements to that of the project--consequently, the project and the borrower get swamped. We throw the book at the borrower and the project. We are inflexible and even unreasonable. Sometimes we really do not consider where a project might be in physical terms versus financial terms. For example, we make loans to governments who give it to the ministries, who pass it on further. Down the line, people have no clue where the money actually came from. Government and Bank money is intermingled. We then insist on separate audited financial statements. Perhaps we ask the near impossible.

An official from a State Auditor General's office in India told me of the nightmare he faced annually trying to pretend that he could separate the source of funds received by a major forestry project and their application. He agreed he and his staff did much work to meet conditions. However, he suggested in the end he was required to do a "thumb suck" to come up with reasonable numbers to satisfy the state government and the Bank. To do his job, he had to do a sort of financial brain surgery on the activities and finances of the project. I was embarrassed. It seemed so senseless.

Then, if we turn to those organizations that many of you represent--the governments of the world--I see issues that need understanding and then addressing. There are critical shortages of qualified financial managers and financial professionals in many of your countries.

A recent study shows that fifteen African countries with a combined population of close to 200 million people have fewer qualified chartered accountants than Malaysia, with a population of 20 million. It must be obvious to anyone who cares to look that many of the project implementing agencies and borrower departments charged with financial management and reporting (e.g. Supreme Audit Institution) simply cannot hope to cope.

The dilemma is that lenders, like the Bank, should know this, but have conditions that need to be met. Our conditions are met or worked on in the first instance, because we are a life blood to finance. I presume, therefore, that other even more pressing needs for financial management, reporting and appropriate use of scarce audit resources, are simply not done, done late, or done less thoroughly than any of us would really want. How does any of this improve capacity at the borrower or project end?

Another concern we see is that often neither the Bank nor the borrower sees prudent financial management and reporting as critical to the development process. Proof of this would be to see how little time is devoted to evaluating the capacity of the implementing agencies in this regard and the qualification of those allocated to, or running, projects to even start doing a reasonable financial management evaluation or monitoring.

As far as the borrower and project is concerned, progress reports are often seen as a bureaucratic requirement to the Bank. This is a pity, for, if seen differently, they could act as an important management tool. For this to happen, reports must have useful information--actual results, expected results, variations found and reasons therefore. Right now, the progress reports are close to useless as management tools.

Much of what I have said is becoming recognized in the Bank. It is looking hard within and without at the issues, the risks, the gaps, the overlaps, the disabling bureaucracy, the lack of client focus--it's mindset actually--in order to address the issues comprehensively and appropriately. One such project is called Loan Administrative Change Initiative (LACI in short) that will link disbursement of loan proceeds with sound financial management systems and regular, appropriate reporting on project progress. The importance of linking project management and financial management to ensure a favorable outcome of the project is now recognized.

Another initiative is to take all senior management and teach them the importance of sound financial management. Believe it or not, this is a new concept to many in the Bank.

Also, the resident missions are being progressively strengthened to take on increased responsibility for monitoring project financial management and reporting on implementation.

COSO is being introduced throughout the Bank. This is having the effect of alerting all management to the importance of controls over financial reporting within the Bank itself. As this involves changing the mindset on a broad front--from executives all the way through to task managers--it is no easy task, but we will succeed.

With so much needed, so much being done, what is your and my challenge? We all have five hurdles to jump over to ensure good project accountability.

The first hurdle is accountability, a controversy itself. We have enough project accountability, but not enough personal accountability. Avoidance of this is an art form. We leap over this hurdle or try running around or under it. Unless we jump over it, we face disqualification.

The second hurdle is bureaucracy. I'm not against bureaucracy. If bureaucracy is put in place, in fact as a series of hurdles, if the hurdles are well spaced, if the hurdles face the same way, if the hurdles are the same height, we have a chance of succeeding at the end. But if bureaucracy is alive in your organization and mine, to have the hurdles facing the wrong way, bunched in an uneven manner, some strange things happen, and we fall. We need to ensure that these control hurdles are placed carefully so that reaching our goal is possible.

The third hurdle is the hurdle of corruption. This takes many forms, but really are the voices of the onlookers to the race and sometimes, and sadly, even fellow runners. We must become deaf to these voices, for they will force us out of our lanes.

The fourth hurdle is disappointment. We will all hit the hurdle bar from time to time. We will all make mistakes and fall. We must be man enough to pick ourselves up and run on, or even start again.

The final hurdle is the hurdle of education. This is the hurdle that we all need to work on. If we use education to break out of our mold, we will find ourselves jumping higher and running faster than any of us would have imagined.

If we look at these hurdles, we say to ourselves, it requires humility, it requires courage, and it requires some common sense. Ultimately, if we apply all three of those to all five of the hurdles, and add to that our basic professionalism, which all of us have, I believe that we'll go a long way to succeeding in what we want to do, with regard to personal accountability and with regard to project accountability, whatever that project might be.

Many years ago I was in Nambia--a country which I love. I was working in Walvis Bay and spending the nights in Swakopmund, some thirty kilometers away. The situation of these towns are unique. They lie on the Atlantic Coast and are surrounded by the oldest desert on the earth--the Nambib. I saw a concert was to be held on a certain night. Coming home in the afternoon from Walvis Bay in expectation of a piano concert in such surroundings was satisfying. On the right of the coastal road, the setting sun painted each sand dune a different shade of pink or orange. The sea was blue and the wave crests white. It was perfect.

I made my way to the Lutheran Church Hall for the concert. The audience consisted of many sand-blasted inhabitants of the town--severe and upright, but expectant. The music was to be Beethoven. A piano stood ready between two enormous arrangements of pampas grass. The pianist appeared--wispy, slight and delicate. She took her seat at the piano, instantly becoming part of the arrangement. We all settled back waiting for the music. What we got was a very long explanation, in German, about the piece of music, the composer, herself (I suppose)--who knows, for I do not speak German. And then she played a short, tiny, unknown piece. This whole process was repeated at least four times. To my surprise, she suddenly stood up, bowed to the audience, walked to the corner and stood under a sign which read, "Nicht Rauchen, Moenie Rook Nie, No Smoking." After more polite clapping, she returned, bowed and vanished. What had been so promising turned out to be all talk, using language I did not understand, and almost no music.

As we return to our place of work, our colleagues there have expectations of you and me. We need to return with little talk, in understandable language, and show what we have learned through action. They deserve music more than words. If we can demonstrate this, coming to Miami will have been well worth the trip.

A Vision for Financial Management in Latin America

Ricardo Gutierrez, Former Secretary of Finance, Argentina

I wish to take this opportunity to thank the ICGFM for the Oscar Vargas award. I am honored not only by what the prize itself means, but because of the human and technical qualities of those who have received the prize before me. It has been very exciting, and I am very grateful to the Consortium and Jim Wesberry.

I would like to refer now to a subject that we have discussed before: Financial administration--how it works, the different systems involved and the characteristics of the integration of the systems. We talked about the financial management system of Argentina at the conference last year, and we explained, in detail, the model with all of its concepts and operations.

What we are going to discuss today is what is happening in the financial administration of Latin America: Why it is happening, and what I believe we must do to get the best results quickly in the reform of government financial management. Obviously, everything that I am going to say is my own personal opinion. I do not feel that I own the truth. This is open to discussion and to other ideas. However, based on the accumulated experience and knowledge I have of the region, I am going to say what I feel.

To begin, I believe that the reform of government financial management in Latin America has slowed down. It has stalled in the area of reform processes. We will discuss some of the reasons, but I note a general paralysis. I don't believe basic reforms have stopped, only that implementation of the reforms has slowed down.

We notice considerable conflict in the process of implementing reforms. There is conflict among the different people who work in the project--government authorities, project managers and those who benefit from the projects. Generally, this is almost homogenous in all of the countries.

In trying to determine the causes for the slow forward movement in reform, and in formulating corrective measures, I would divide the problem into two parts. The first is the need to downsize government in the Latin American countries. Reform processes began three or four years ago--first Chile, then Mexico, Argentina and Bolivia. These reforms are all stagnated at this moment. The privatization systems have become slower, and the regulation of the economy and the autonomy of the central banks in some countries has stopped. Obviously, progress in reform of financial administration is also affected.

Another cause of the stagnation: Many of these projects were started by multilateral organizations with a condition to give loans. Many countries were not convinced. They had no idea that they were accepting a condition. At the moment of truth, when you have to start these reform processes, stagnation occurs because political debates begin as to whether they have to reform or not, when it is time to disburse loan funds. In all the loans that are occurring in Latin America, there is a condition established requiring financial management reform. They have to do it. It is not an option.

I notice that little use is being made of available control organizations. These control organizations maintain formal controls for reviewing. They carry out the rules and laws for handling checks and in accounting for those who handle funds. They enforce the rules to prove that taxpayer funds have been used efficiently and economically and in accordance with enacted regulations. This review system is used in very few countries and, I believe, is not working anywhere in Latin America.

There is also a lack of understanding about governmental financial management. Government financial management covers several areas. There is political interest, technical interest and internal energy that goes beyond a technological change. It is a change of political power. It is a change of the political power because it makes it more democratic. The administration of the public administration, the availability of information, the massive use of information, makes it more democratic, and this we have to understand. Those of us who advocate reform must understand this. Reform touches political interests, both of big politics as well as internal politics within the public administration.

Another problem is the lack of immediate results given by the projects. Sometimes these projects do not give results to the political power that is pushing them. For example, we have many colleagues here right now from the new government in the Dominican Republic who took office in August of last year. Included in the presidential platform was reforming the financial management system. Help was sought from the Inter-American Bank, and a plan was formulated for May of this year. This project will be approved by the BID in August or September of this year. After that, the Dominican Republic has to pass a law approving the loan, and another year will go by. When this project finally begins to show results, the current president will be out of office. Policy changes must be made to solve this type of problem by multilateral donor organizations and in host governments to avoid this bottleneck. It is going to be very difficult to promote projects like this to political officials if we cannot promise results.

In Honduras, something similar is happening. They have been trying to organize a project now, and are working to sign an agreement with the consulting firm that was chosen. Unfortunately, the government's term finishes in December of this year. So, when the project starts, it will be for the new government in power. The truth is that a political leader wants to see results of the program that he has initiated.

Another problem area is public administration which is not committed to financial management reform. We know what is happening to the salaries of public administrators and assessors. Public sector managers must have some degree of job satisfaction and compensation to provide the necessary incentive to move the project forward. We need multilateral organizations to provide additional compensations, as in the case of the SAFCO project in Bolivia, where the World Bank created a system of allotments for managers who were committed to the SAFCO project.

Also, societies need to have an interest in receiving information from the public sector. There are some countries which are accustomed to having information. For example, in Argentina, to not publish information about the public administration would be a scandal. But, there are other countries where the governments never publish information. We know nothing about the treasury, we don't know anything about the budget figures, we don't know the amount of the deficit, and we don't know the floating debt. We have to acclimate people--journalists, political analysts, economic analysts and managers--of the benefits of having financial information. After they are accustomed to having it, they are going to demand it. This will guarantee the continuation of the reform process.

In cases related to the system itself, I would say that we are unable to overcome technological complications which come from integration. The interface points between the systems are known by very few people, and they are not known by the majority of those who implement the projects. In the area of integrated financial management, all of the concepts have been put forward, but there is much work to do to educate more users. We need documentation of this work, which will present answers to these methodological doubts. The scarcity of computer analysts who can formulate integrated systems and document the technical terms of the system is a critical concern.

So, there is a lot to be learned about the integration of systems. The strategies of design and implementation are very slow. The processes are very long. I have experienced the Argentinean case where we have limited human resources and financing. In five years, we have not been able to implement the system fully. Those people involved in the reform process have to know that it is not an overnight process; it is a very long process that has to do with all the sectors of public administration.

There are many different ways to approach financial management reform. There are strategies which progress two or three years in one direction, and then they come back. As an example, Venezuela and Ecuador, both, after working for a long time toward reform, had to start all over again. Their problem is related to what we were saying before, that is, the lack of conceptual clarity of the methods and the lack of basic documents which exist in this material. So, I am suggesting to the Consortium that we all be obliged to present documents for everything we have done in reforming our financial management systems.

The other thing which I have found is the difficulty in understanding the informatics as presented in models which not all the administrators understand. The manager is unable to comprehend or "put them all together." They don't understand the computerization. We have to spend whatever time is necessary so they will be able to understand it. We will say a little bit more about this later on, and the suggestions I have.

Another problem is that financial management plays a small part in the big picture of government. We know that governments are interested in seeing immediate results. People do not cast a political vote because the candidate is interested in financial management reform. They measure the efficiency of the government by how the government has attended to their demands, socially and economically. For that, we have to improve not only financial administration, but all the products of the administration. The success of government is not going to be measured only by reformed financial management. We could have the best financial administration in the world, but when it gets to the real level of the executive agencies, the government must have the necessary funds. But, here, there is a system of contracting which paralyzes the action, and a system of assigning human resources which do not have the necessary training to carry out the tasks assigned. For that reason, in this process of reform, we have to look at it within a broader context, and improve the productivity of the administration.

We have talked about several things here. I would say that we have to answer some tough questions to assure the success of the reform projects in financial administration. In order to achieve success in the reform of financial administration, certain conditions must be satisfied before beginning a project. This is valid for multilateral organizations, for technicians, and also for companies. I believe if these conditions are not satisfied, it will be very difficult for a project to be successful.

First, there is a need for political support from the highest authorities of the administration, whether it be the president, the head of a cabinet, or whomever. Without political support and without leadership, projects really bog down. They bog down because, as a nature of reform, they can cause embarrassment to people in positions of power. In order to obtain the support of the politicians, they must realize the benefits of reform.

Politicians need to be convinced that these projects, whether financial administration or not, deserve a more rational allocation of public resources. In almost all countries of Latin America, public resources are allocated by the directors of the budget. That is, the allocation of resources goes one way, and the government policy goes another. The profound discussion or debate regarding resources and the budgetary demand is simply not being done. So what happens? Public policy exists, but the resources are not allocated in terms of public needs, in terms of legislative growth or the opinion of the public bureaucracy which manages the allotment of the resources. Since the control of the budget is not greatly discussed, the whole project bogs down within the budget process. So, we have to explain to the politicians that, if we really want to apply the policies and have success, they have to have the necessary mechanisms to allow them to assign resources rationally, and afterwards measure if the allotments are successful. Good financial management will help them achieve success.

Tax policy is an important theme. We know that tax policy has to do with the monetary program and the balance of payments, and this all has to do with the whole economic policy. Tax policy reveals the intentions of the government regarding the assignment of resources to social areas or for macroeconomic equities, and this is shown by the public budget and financial administration. There is no doubt that balancing the budget is imposed in all of Latin America. As part of the battle against inflation, it is a fundamental tool in financial management.

Good tax policies are those which apply pressure. They lead to a balanced budget, sound investments and favorable public perception. Also important, we have to demonstrate a credible financial administration program in order to operate in capital markets outside of each country. We cannot go out and ask for money in a capital market, which is perhaps more beneficial than the rates of the multilateral organizations, if we cannot show our financial program is credible and understandable. The rate of risk in these countries determines the cost of interest in the internal market and, of course, the cost of national production. This can be done only if we have developed systems of financial information. We have to explain this and show it. This is what might open the eyes of the politicians from whom we need the support. Otherwise, the projects are doomed to failure, or slow growth.

I am completely convinced that neither laws nor control entities will give us any assurance of success without controlling corruption. We have to have transparent financial administration. Transparency means to publish financial information, and to show it clearly, with simplicity and with reliability. What do I mean by this? In the area of public bids, for example, four bidders are invited to bid in a public process, and the contract is awarded to the lowest bidder. But we know how most of the competitions are handled. Either the buyer asks the one who makes the purchase to present four offers, or sometimes the bidders get together among themselves and divide the bids amongst them. This is reality. We have to be aware of this reality as we obey the formulas for control. We have to publish each purchase order the state carries out, so that the public knows they are paying market price. These are very simple things that lead to transparency in public administration. The government must advertise transparency of operations--information about public salaries and subsidies. This cannot be closed information known only by the public managers, because it simply helps to develop corruption if this carried on in secrecy. Every day we need to encourage the government to be more transparent in financial matters. Public government financial administration has a fundamental role in this. We have to continue with plans for formal controls, and have to add transparency in all processes of public administration.

Another area of concern, common in Latin America, is the need to create and strengthen the organizations which will be controlling public finances. In most countries, the ministries of finance are divided into two entities: ministry of finance and debt services carried out by the central bank. In other cases, the budget offices are independent, and there is no controlling entity for the public financial administration. Sometimes, the central banks are operating as ministries of finance, which are parallel in most countries.

If we know about these conditions, and they are revealed before we begin each project, particularly ensuring political support and strengthening of the ministries of finance, there is a strong possibility of installing transparent methods of information about public accounts. I believe that, within that context, we must propose a strategy to try to strengthen the projects which are already underway, as well as new projects which are to begin shortly.

In the first place, we have to speed up the strategies for implementation. We were saying this four or five years ago. There is a strategy regarding the system itself. A system of financial management can be a deductive process or an inductive process. In a deductive process, you have to develop a central database which integrates the budget. Then you go to the unit of public credit. After you have the single account, then you incorporate the administrative services of the different ministries, after the centralized organizations. These processes take time. We did this process in Argentina.

I think that these days you have to work with inductive processes. That is, begin on all sides at the same time with work groups who are qualified. We begin at the same time with treasury, the ministries, and so on. There has to be a central group in each country that has a complete knowledge of the systems and how they will be integrated later. Unfortunately, we see systems developed which, when you want to integrate them, you encounter another headache. The whole project then needs another review. Deciding on a strategy before you begin the reform will avoid later pains.

Another theme which is very important is the development of a prototype in informatics. You may lose a couple of months developing an informatic prototype, which will show how the whole is going to operate in its totality, but it aids in explaining the reform to administrators. I can tell you a little story which happened in Argentina. At a certain time, everyone was saying, "Oh, this thing is working. The double entry is working." They showed me the entries and I said, "Well, let us see the auxiliaries and the accounts payable." They said, "The treasurer is going to do all the payments, so we have to see that in another file because it's in the treasury." That file has now been transferred into the system. It happened because the people in computers did not work with the controllers or the accountants in the design of the project. The informatics people had understood one thing, and we developed it in a different way. This would not have happened if the prototype had been prepared to emulate how it will work in practice. This is a complaint I have heard for the various projects that have failed. You will see that, for those projects that fail, there was no prototype developed.

Regarding contracts and the administration of goods, if we want to improve productive administration, it is not enough to just improve financial administration. This will not assure efficiency in what we are doing. We need those who are administering programs not only to have the funds at the proper time, but also that they have material and human inputs at the proper time, and with necessary quality. The investment in the projects, of course, has to do with all kinds of elements. Many of them are categorized and prioritized. We know which are the first which need to be assigned resources. Obviously you must have a committed public administration which is highly qualified and well paid. Without a doubt, part of good remuneration is connected with good training. You must improve the capacity of control entities so they can evaluate the performance of programs and authorities. This is a theme which goes beyond my competence, but I have no doubt that entities of control must be included.

For a long time, we have discussed how we can reduce costs. I think there are people here who have at some time tried to develop software packages which would serve all countries. When I worked in Argentina, I had a credit from BID for the provinces of Argentina. It was as if each province was starting out at the beginning. We had to do everything--the manuals, the instruction, the design of software. At one point, we just stopped. If we had gone on, the costs would have been measured in millions of dollars because it was a repetitive theme.

Really, I think the problem in terms of multilateral organizations is you can work with common software in the material of informatics. Not all software has to be adapted to the modalities and customs of each country, but there is no doubt that there are areas or systems which you might call common software. There must be programs like this, and with this we can speed up the process of reform. I am frightened when I hear small countries talking about costs of $10-20 million. This also frightens a lot of countries that have to finance with a loan which means a lot of public debt, and no immediate result for the government in control.

We need a change in the way multilateral organizations promote reforms in financial administration. There is nothing more lamentable than to carry out an evaluation on a country-by-country basis and see how once-successful projects have fallen down, others are suspended, or where there is a fight between the treasurer and the president of the country. This happens because there was not a good evaluation of political situations. So, if we evaluate, for example, we may find we have to carry the program out with great rapidity to take advantage of political situations. I think that these are valid points which experience has shown that we have to overcome, and which are feasible in order to have success in the programs of financial administration reform.

There are a few other concrete ideas which we discussed with Jim Wesberry. We need seminars to train the people who are more dedicated to accounting. One subject for a seminar might be the definition of an accounting body. Some understand that the accounting body is each of the entities. The most obvious case is Mexico, where there is an accounting office in each ministry. In the case of some countries, there is one central accounting body. It is the treasury, or the republic or whatever, but the accounting body or the unit is the unit of the central government. The ministries are not considered as accounting entities. They are considered as executors of programs or goods, or administrators of funds or goods, but funds which are administered are the property of the treasury. The goods which are administered are the property of the central government. This is a subject we are discussing with El Salvador and this is a discussion we are going to have to have in the Dominican Republic. I believe it would be a good idea to discuss this subject thoroughly in a seminar of accounting, because each high-level consultant hired comes with his own particular schematics and public administrators need to be informed.

In the case of Venezuela, we are starting from ground zero. At one time, they had selected the Mexican model. Now the present authorities are revisiting that decision. In the case of Honduras, we are trying to do a bid that only comprises the design stage. To hire out for the design is not the most beneficial thing for the country, I believe that when one hires an accounting firm to act as a consultant, the system has to be operating before the firm leaves. In Ecuador, a project is being developed that is financed by the World Bank. Documentation for the prototype is in progress, but I believe there is a problem on how the process is being handled. In Nicaragua, there was no central agency that would impose a policy of unification for their different agencies. Besides, there is an internal problem there. El Salvador, I believe, is starting over with a new project. Guatemala has a project that is functioning through individual consultants. They will hire a company for the computerization. In Columbia, I believe, constitutional and legal changes have taken place. They are already carrying out a project in a very interesting way, with companies that have already been hired, and important advances. Uruguay, after many years of not changing systems or laws, is now managing a project to work in financial administration. Paraguay has completed the first stage in budget and treasury. They have to develop and change the rules and laws, and develop the accounting portion. They need further financing for this. Bolivia, after great success in their project in all areas, emphasizes, more than anything else, the control system. They are going to have to have a new push in financial administration. In the case of Panama, Peru and Mexico, nothing very important is happening in government financial administration.

To finish my talk, the countries are being offered three models to follow--the Argentine model, the Spanish model or the Mexican model. The Mexican model is a model that was developed exclusively for the treasury department. However, everyone who knows of it says that it is something very interesting and important. Each country is reaching for one of these three models and trying to adapt it to the national reality. I think it would be good, also, to have an important discussion of these three models to see where they agree, and to see whether they have common software to make reality less expensive. I would say that we are at an impasse that forces us to reflect on solutions to many problems, and also to realize that to push reform projects of financial administration is not an easy task. We must prove to the political authority the benefits to be derived if they support the modernization of the financial administration of the state. And, of course, to modernize the financial administration of the state, we have a fundamental weapon in the struggle against corruption.

As a final comment, I would say that Latin America, in the last decade, has seen some processes of transcendental reform. In the first place, the entire decade of the 1980s was dedicated to recuperation of democracy in Latin America. We have eliminated dictatorships, the strong military government, and we have recovered the value of the citizen's vote. This was a healthy trend that occurred in all of Latin America. At the end of the decade of the 1980s and up until this moment, a new stage has come for Latin America--the reform of the rules of the economy, the reform of the state, and elimination of inflation. Nowadays when we look at the indicators of inflation in Latin America, one believes himself to be dreaming. That's a reform that has been successful. It has had some setbacks, but we know which way we are headed. I believe that we are now going into a third great reform in Latin America. This reform is the recovery of the ethical values in our countries. I believe that this third stage, beginning now, is the one that is going to help us recover the ethical values, honesty and justice, including social justice. Thank you.

MR. FONSECA (Columbia) (As summarized by translator): I work for the General Accounting Office in Columbia. I am very interested in the accounting of different projects and the reform of financial administration in Latin America. I would like to make some comments and ask a question of Ricardo. It is evident that, with the reform of financial administration, we will be able to obtain transparency and accountability from our government. It is necessary that the international organizations you mentioned also make deep reforms in their requirements, because in our country we evidently do not fully understand how they create the external credit. They have almost no control over them in the international organizations; they demand different types of accounting and different types of auditing requirements. Therefore, we feel that the international organizations must initiate a plan that would allow them to integrate into the budgets of our different nations the external credit under a unified accounting system. Also, in the auditing department to these processes, the role played by the general accounting office is very important, and our accounting offices and our different agencies have a long way to go in computer accounting. Therefore, I would like to ask you if your accounting office or the new accounting office in the Republic of Argentina has made any auditing report about the structure and reliability of the computer system that you have in operation there. I would like to know what part the government of Argentina had in implementing the different computer systems that you brought into the ministry, and their role in implementing this system in Argentina.

MR. GUTIERREZ: Well, in a single word, none. It is evident, though, that Columbia has done two audits because of this process, and we noticed that there are weaknesses in the structure of the computer systems. We therefore feel that international organizations, when they sponsor these reform systems in a country which invests a lot of resources, should help the controlling organization by providing a technical unit that is capable of auditing them in real time.

MR. FONSECA (Columbia) (As summarized by translator): I am not asking if they audited the system. The question was whether they participated in the design of the system.

MR. GUTIERREZ: No, they did not participate. The auditing was done through internal auditing and, in some cases, I believe they must have done it. You have to audit, you have to participate or not participate, but controls must be set up in the system.

MS. FRANCO (Dominican Republic) (As summarized by translator): At previous conferences, implementing good internal and external controls has always been emphasized. In your first talk, you mention influence in the financial department. I perceive, because of good financial reporting, a politician will not likely be able to get more votes. Therefore, my question specifically is, do I continue with a policy that is simply a good internal control and external control, and this will limit the corruption in our country? I would like you to explain that to me. Number two, you said, and this is something that I am totally in agreement with, that in our countries, specifically Latin American countries, you do not really know who is the organizing entity. I will go further. Many times, when the minister or the budget director is a friend of the president, that is the one who controls. Do you propose that there should be an organization that controls public finance?

MR. GUTIERREZ: I will start with the second question. That is the easiest one. No doubt, yes, there should be, in my point of view, and I insist that I do not own the entire truth, there should be an organization that controls public finance. You pointed out a case in your country that is valid for many countries, and that is financial roles that have the central bank independent of the treasury department--the public credit is handled independently of the treasury. That is unbelievable. But, they work with total independence. As a matter of fact, the multilateral organization negotiates with the central banks, and not with the finance ministry. We are not going to be able to solve even the most elemental thing when the budget acts as a loose wheel. The budget authorizes credit, thus the quotas, and really they do not even coordinate them with treasury.

As to your first question, in the case of the struggle against corruption, I believe that is transcendental. Not only is this fundamental, that is why I talk about the recovery of ethical values. In the long run, people work very efficiently in the struggle against corruption, but public administration does not function. It does not function for education or public health. It does not handle public security. It does not control justice. This is what will affect the vote of a political party--reward it or punish it. For that to work, it is not a sufficient condition to do a reform of financial administration. What is necessary in your country, in the Dominican Republic, is a project through BID that not only covers the financial administration and internal controls, it also covers the administration of goods, and also the financial system of human resources. This is a perception, an integral perception for the organization to handle that, that society is claiming it should be done efficiently so that they can function. If something fails, let us not blame the director of supplies, or the chief of purchasing. Let us blame the public health ministry that was incapable of carrying out a health policy. But to judge a ministry of public health or an education minister, the first thing we have to be sure of is that he had the necessary resources at the appropriate moment in the appropriate quantity. Otherwise, it is impossible to measure efficiency and efficacy. It requires that all mechanisms of supply work at the same time. It is important in the struggle against corruption, because all the statistics prove that there is a social demand. But together with this struggle, we have to improve the attention of the rest of the social demands.

MS. ACOSTA (Nicaragua) (As summarized by translator): I am the Executive Director of the Commission for the Promotion of Integrity and Transparency in the Presidency of the Republic. You are telling me that we are going into a new stage in which there is an enormous importance in the recovery of values, especially the recovery of ethical values and transparency in governmental functions. I would like to know what it is that you are doing in Argentina in this sense, since, as far as I understand, in the reform of the state, they are the ones that are most advanced in all of the countries of Latin America.

MR. GUTIERREZ: I believe that perhaps we are most advanced. In the matter of recovery of ethical values, the best thing Argentina did was to reduce the size of the state. Now there is only one public company, and that is on the verge of being handed out. Companies that have more than 1,000 employees, like the post office, had the power of hiring or contracting for goods and services up to $16 billion. I am talking about the national government. I am talking about goods, services and public works. After privatization, state purchasing and hiring power was reduced to $4 billion from $16 billion. You can imagine what this means in clarity and possibilities of transparency in order to measure and evaluate how ethical the public sector is being handled. But we are talking about the Argentine case. I do not believe that in almost all the other countries, we are still behind in transparency--that we publish the information, but we do not publish the purchase prices. As Jim Wesberry said yesterday, Argentina publishes purchase prices in the Internet. I am going to be very happy when purchase orders from all the ministries are on the Internet. With that, we are going to go toward transparency, and we are on the right road toward ethical government. We can have catalogs so that we know what type of goods are available to purchase. That is why I never tire of saying, on this subject, we are an appendix of what is the reform of the state. New roles that we are giving, investing, producing and distributing are being left in the hands of the private sector.

PARTICIPANT COMMENT (Haiti) (As summarized by translator): Sometimes it is necessary to replace people who are doing a good job in order to accomplish reform. This is very difficult.

MR. GUTIERREZ: Public administration is evolving. For example, in New Zealand, the term of a civil servant is limited to three, four or five years. It used to be that a civil servant started work and stayed with the same organization until the time he retired. Nowadays, with globalization of the economy and flexibility in work, stability in the public sector, in any job, I think, is going to be a remote thing. There is no doubt that sometimes stability in civil service helps to carry out reforms. Not all the laws of civil service foresee the transfer of personnel from one side to the other. I do not know about the situation in Haiti, but I think we are on the way toward the loss of job stability in regard to civil servants.

PARTICIPANT COMMENT (Chile) (As summarized by translator): I represent Chile in the area of internal auditing. More than a question, Ricardo, I congratulate you for your talk. I refer to some of the strategies which give us financial administration. Our country, twenty-two years ago, began the process of reform in financial administration. Today, we have delivered to the highest authorities, consolidated reports regarding financial administration in Chile. At this time, we are determined to meet the challenge and implement new processes to make our present system of financial administration more robust. Departments such as budgeting, treasury and other controls have new processes in regard to globalization. We are involved now in our second reform of financial administration. In Chile, agencies, public service ministries, all of these are independent from a financial point of view, that is, accounting entities exist independently, and the different systems are integrated.

Introduction to Integrated Software

Guillermo Urena, Mexico

Good morning, everyone. I would like to thank Jim Wesberry for the opportunity to speak with you. My presentation is about the information systems we have developed in Mexico. I am a pinch hitter here today, and have been told to keep the presentation short and to the point. I've decided to focus on the system automation itself, and the financial resources system of Mexico.

When we talk about information systems, in a way we are talking about the most elementary system: that is, one person gets an idea, another person takes the idea and executes it. To make good decisions in each of our areas, we must have information which is true and timely. Therefore, we rely on information systems.

A company information system acts in accordance with the structure of the organization, including the operational structure, personnel and human resources, and the functions and procedures that have been established previously. Now, that system, based on technology, is to be automated, but the system should also exist in written form, and perhaps in telephonic form. A very important point is that automation cannot occur if we have not carried out first a system analysis, and this point is very important from the beginning of the project. It is important that, from the time we think we are going to automate, we do it from the birth of the project. After a process is in place, it may become difficult to automate the process. This is where problems start. This is where the divorce comes in, as Ricardo Gutierrez mentioned, between the administrators and the computer people. If the process and its automation are born together, we can have the opportunity to have good communication, and then, finally, we will have good results. Another important consideration in automation is existing conditions and resources. I cannot talk about the same automation where geographic conditions differ from one country to another, or where systems of communication are different. We need to take into consideration the characteristics and the technology of the automation developed previously. It is important to see these two points.

So far, we have had a tradition that when we talk about systems of information, we mean it in a way which is traditional. But that does not mean there are no other ways or other paths to be followed to develop an information system that provides necessary information to make decisions. Let's look at the traditional system. I am sure that all of you have seen it or lived through it. It is the system in which we meet with the user, we gather information, we gear up, we close ourselves in, we make the design, we construct some tests and we free the system. When the system is free, we have the first request to correct the system.

I have come to believe we should never adapt nor adopt a system which has functioned in another country. Never. We should form bases. We should have software which is semi-common, possibly, but to adapt and to adopt it is not going to work. In regard to my requirements and budget needs, perhaps I have a longer arm than someone else. Perhaps I am shorter; perhaps my feet are wider. I have to make a program which fits me, and the way that we have done this is what we call evolutionary development.

What do I mean by evolutionary development? We have noted that eighty percent of information is normally used for the same routine procedures. The other twenty percent is used occasionally and for some specific procedures. What we have done is gather specific information from people most knowledgeable in their areas--facts, standards, hierarchical distribution--what you have in each and every country. Each of the entities, each of the locations, all of them, are brought together into a common database which we call the database of knowledge. Each person provides their logic in the process of the decision making. I put that in one sole database.

What benefits can we realize from this system? Well, we make the area of action definite. In the traditional system, we go to the budget area that says I use data for this, this, this; the treasury area says I use data for this, this, this. So we develop a database for each of them, two databases that never communicate with each other. We are talking about the same data.

With the newer method, we have a common database, used by both the budget and treasury areas. This guarantees the rationality and national use of resources, and we do not have to buy different computer equipment for each area. This also gives us information that is timely and relevant. I am going over this quickly to get to the methodology which we normally use to develop our systems, which is called Dynamo.

Dynamo is a methodology for action to automate the systems. You have already started the system analysis of your project. You have determined your budget and your controls. Now you are going to take that analysis and automate it by means of expert systems. That means we are not married to any particular database. We are not married to any operating system. Why? Because we use the tools of development--call it whatever you want, the database, the operational system, a system of communications, whatever you want. We take those data, and according to the requirements of those data, we link them with the database of knowledge. That database of knowledge has to give us the characteristics of the data in order to develop a system. We go through four stages: the strategic planning, the analysis and design, development, then production. Let's look at each one of them quickly.

What do we do in the strategic planning? We look at the organic structure of the company, of the organization, of all the organizations. We find common objectives. What are the functions of each of the areas? What are their procedures, standards and policies? We format these in such a way that later we can make crossroads and horizontal and vertical performances of this data. The user needs this in this system so that he can do process A, and this in the system so he can do process B, and this to do process C. What is the importance of doing it this way? Well, normally, if you have a change of procedures or standards, you must reprogram the system. Depending upon the degree of the change and the complexity of the system, reprogramming may require changes to up to 3,000 programs. To change 3,000 programs is crazy. It is insane. In this method, the only thing we change is one procedure, because that standard affected that specific procedure.

After all relational data is gathered, we apply certain rules, statistical data and mathematical data, and we have a central database for knowledge. This central database for knowledge is the result of making models for each of the functions or each of the expectations that we have. In terms of the models, we feed each of them by means of their transactions, their references, their validation, their calculations, their interaction and their logical procedures to the database of knowledge. We then connect this knowledge or database with the necessary development tools previously mentioned. Again, it can be any database, in any language that you select, and in accordance with the specific technologies for each country. We do not need to change your equipment. You do not need to buy new equipment. You do not have to adapt and adopt our needs. We have the obligation of adopting and adapting the needs of each country. We cannot demand that each country incur a tremendous expense in new equipment, new software or new hardware to have their automated information system.

We can provide the capabilities for a graphics component that keeps in mind that not all decision makers are computer literate. The user need not learn 352 different programs and 352 different commands to create a graph. We have a calculating spread sheet that goes into a personal computer and we have numerous reports that are already programmed.

In Dynamo, development of the system is based on the functions, rules, procedures and objectives of the users. What happens at this point? If a procedure tells me that we must make decision A, the system automatically will allow me this flexibility. But, if it tells me to make decision B, I have to consult an index. I am automatically connected to that index and it tells me whether that decision is valid. And all of this is a function of programming the rules, the procedures and functions and the objectives of each user. If a new process is introduced to the operating system, it must be modeled and incorporated into the system. We cannot take some parts and try to adapt it to what already exists.

This method also encourages the use of categorization and integration of data. It facilitates the use of common data by all system users. It can adapt quickly to legislative change. Why? Because of what I said to you before; I change the data, I change the logistics of this data, and I have final system development. It elevates the computer culture and the professional development of all personnel because it allows everyone to be able to use a personal computer with the basic functions of that personal computer, and administer the implementation, operation, production and security of the data. This means that it allows us to have controls and basic auditing points for the system.

We believe that, with this methodology, we can not only give results to public administration, but also to private business. We do this model of integration depending on the framework of each country. We have administration, we have a telecommunications network, we have infrastructure, we have printer servers and the operative systems that go with the printers and the processors. We've selected a database to use the information. Then there is the Web or the network that we are to establish among all users. Well, what happens if we do not create a good system for all this? What happens if we have incurred tremendous expense and we are not able to utilize the information?

The methodology I advocate can do the job in an inductive or deductive manner. Why? Because we start through the locality, taking the characteristics of that place and take it to a middle level. We have the municipalities. We have government. We have several companies of financial centers. From there we can take it to a macro system or to a corporate system. This unit is reproduced within the same company, within the same organization. These same cells are reproduced again and, when they reproduce, they can join together the entire public administration. Not only that, we have begun thinking at the government level and what happens in Europe with the European union. They are not controlling the budget because they lack systems. This is a far bigger project than reproducing for some locality or some country. We have used Dynamo to automate systems for financial resources, human resources, material resources, strategic resources and management control, and continue to plan new uses for the future.

Very briefly I am going to comment about financial resources. I am grateful to Ricardo Gutierrez and Jim Wesberry for choosing to discuss Mexico's financial system in a paper which compared systems in Argentina, Mexico and Spain. I am very happy for their comments. We did a system for human resources which controls the staffing of any organization within the government. It feeds into the budgetary system, and facilitates the development and utilization of public sector human resources. We have a system for controlling purchases of goods and services. As a matter of fact, in Mexico, they are already doing purchase orders through the Internet. Another system we developed is for strategic resources. It allows us to evaluate, geographically, politically and socially, all of the resources in the environment of a given company, government or entity. We have a management system just for decision making.

But back to financial resources. This is the one with which we are basically concerned, and this is the one in which we are mainly interested. This system allows the input and output of any institution or company, from programming of goals to budgeting, and it is based automatically in the budget and accounting principle.

Let us consider the budget. The budget is formed by income, output, treasury, accounting and auditing. It is important to tell you that these are not five separate systems. This is only one system. The data resides in one place and, if the treasury needs it, they take it. If auditing needs it, auditing takes it. This does not mean that it has been centralized. Let us please remember that the computer allows us all the technological advances we need to have a distributed database, to have a centralized database, to have distributed processes, centralized processes, and to have common information without necessarily having it in one person. Let us look specifically for income. What is it that we do with a database of knowledge? Well, in the Mexico system, we see what has come in, the modifications and the programming. What is it that we have that feeds the system? There are transactions that we need, the original programming of the income, any modifications, whatever was received, what was collected. The moment that we get the logistics to each of these aspects, we have a product, what was received, what was collected, to be collected, certification of balances, and all the auxiliaries of the transaction.

This is an example of the Mexico system. We did a specific model for Venezuela, according to their needs. It is not a ready-made system. It is a tool, a generator of systems that allows us to take the system analysis you do for each of your countries, and provide results according to that analysis.

For output and treasury, the system looks for components similar to income, e.g., previous projects, modifications, what is received, payments. The system provides ratification and banking reconciliation, and a money flow. We have this automated for the entire Mexican republic and we have been doing this now for a year. As for accounting, at the moment that I do the transaction for the budget, I am also doing the accounting transaction. There is no intermediate step. Auditing is closely supervised and system-controlled. To satisfy auditing requirements, the system knows when, why and who performed a transaction. It controls who has the authorization to do the transactions, and when they have the authorization and when they do not have it.

One of the benefits of this financial resources system is the ability to plan the budget with various projections. We can make models with a projection of ifs. What would happen if, what will I do if, what happens if, why does it happen if? Ratification of funds is viable from the first working day of the year. There was a time in Mexico we were distributing the budget for each of the entities in March. Now, the first week of January, they have their entire budget. I remember the Chamber would get together in June and look at the results of the previous year. Now they are doing this review three to four weeks after year-end. The Chamber has the results and they know exactly what they are doing for next year. Adjustments are reduced because the accounting is done automatically at the moment a transaction occurs. We do not have intermediate steps.

Thank you for the opportunity to speak.

MR. UZCATEGUI (Venezuela): I have two comments. One is a technical aspect, and the other concerns my participation in the evaluation of this product. In the first place, from a technical point of view, from the moment that we evaluated the system or the product of the company belonging to Mr. Urena, we had some differences in theory about whether this is an expert system. In my view, it is not an expert system. It is just a tool, a backing case, or what is known as a lower case. The other thing that I wish to say is, yes, we evaluated this product. To generate our own system in Venezuela, we created a commission in which I participated. The accounting office was not only a user, but also an observer. We were to guarantee that the evaluation was proper, and did not have any problems. We selected this tool for reasons that perhaps I should not comment on at this time. This decision was not approved. I believe there were other interests that had nothing to do with the technical interests or the evaluation of this product. That is all that I wanted to say.

The Government Auditor's Role in Investigating Fraud: USGAO Experience

Donald Wheeler, Acting Director, Office of Special Investigations, GAO

I think any discussion of fraud needs to start out with a definition. We are going to spend the better part of the next hour talking about lying, cheating and stealing. For, after all, in its simplest of terms, that defines fraud. If you add the element of corruption, you have a situation in which either an elected official or a career government employee abuses their trust in the commission of fraud involving programs or agencies for which they are responsible.

Now, you can't get too far down the road in a discussion of lying, cheating and stealing without getting into a discussion of guilt. So, I'm going to get my guilt out of the way right now. I have to tell you that, when Jim Wesberry called me in December in Washington, and it was eighteen degrees out and snowing, I was really not focusing on this conference and what it was Jim asked me to come and talk about. What I was really focusing on, what was beckoning, was eighty degrees, the sun, the sand and the water. I have to tell you that my guilt didn't last long. It passed quickly when I read the program that Jim sent me and I saw the rich agenda and the number of countries that would be represented at the conference. I am very happy that Jim and Mort Dittenhofer extended an invitation to me, and that I'm here to join with you in talking about one of the most important issues of the day--the role of the auditor in investigating fraud--and to tell you a little bit about our experiences at GAO in that endeavor.

Now, we've identified, or put a definition to, fraud and corruption. But, as auditors, I think we all need to consider whether or not fraud is material. I'd like to give you an example of materiality. In fiscal year 1996, the Medicare program in the United States, the largest federal health care program that provides coverage to the elderly and disabled, cost the American taxpayer $197 billion. Now, a number of estimates suggest that anywhere from $6 to $20 billion of that was lost to fraud and wasteful practices--that is some three to ten percent of the total program costs. I'm certain that many of you can cite similar examples from your own experiences. I think it is for these reasons that national governments increasingly are concerned about what they are going to do about fraud, waste and abuse in government agencies and programs.

Any number of international studies have identified the disastrous effects that fraud and corruption have on government programs and international trade, particularly in terms of economic costs and the achievement of national goals and foreign investment. Fraud and corruption increases costs, distorts public expenditures and deters foreign investments. In addition, they have a negative impact on the effectiveness and efficiency of government operations, as well as citizen confidence in public institutions, elected officials and career government employees.

What I would like to do today is give you some sense of what the role of the auditor is in investigating fraud in the United States; a sense of how that role was developed and where that role comes from; an approach the GAO has taken over a period of time in addressing fraud issues; and then several case examples that illustrate the approach that we have endeavored to take.

I believe, without any doubt, the role of fraud encompasses both an awareness of fraud and a consequent search for indicators, as one conducts either a financial statement or a performance audit. Additionally, while not contained in the standards, I believe the auditor can play a critical role in the prevention of fraud through the financial statement/performance audit process.

Audits strengthen financial management systems and program management by evaluating internal controls to identify and correct weaknesses, and to make recommendations for improvement.

The Yellow Book, or GAO's government auditing standards, is the bible by which both financial statement and performance audits are conducted in the United States. The standards set forth very broad statements that establish the responsibilities of auditors and define their roles. Simply put, there is a heavier requirement on government auditors involved in auditing government agencies and programs to assess compliance with relevant statutes and regulations, and to report significant irregularities and illegal acts to appropriate authorities.

Now, I realize that the standard for public accounting by the AICPA has recently been issued (I believe it is SAS-82). I understand that the standard now provides a higher level of responsibility to the public accountant in terms of conducting audits. I am told that the Yellow Book is in the process of being reviewed, and that one of the most important improvements will be greater clarity of language in terms of what the responsibilities will be for the government auditor. In fact, rumor has it that the changes will go so far as to use the fraud word in the Yellow Book.

Very specifically, I think these standards are very important in terms of establishing the role and the responsibilities of the auditor in investigating fraud. The Yellow Book requires that an audit is to provide reasonable assurance of detecting material irregularities and illegal acts. It is not a requirement that an audit find every illegal act or irregularity, but it is a requirement that audits be designed so that they at least identify indicators of significant criminal misconduct and serious abuse.

These next two standards have to be read in tandem: Audit steps are to be expanded when the evidence of irregularities or illegal acts appear; and due professional care is to be exercised so as not to interfere with an investigation. I think what this is telling the auditor is: There is not an expectation that we, as auditors, will become policemen or will be responsible as criminal investigators to carry out our work to determine individual criminal culpability. I think what it is saying is that you are supposed to look for, and be able to identify, indicators of significant misconduct. And, when you find those indicators, you are expected to coordinate with your law enforcement or investigative counterparts, and work with them in terms of deciding the best strategy to move forward. In some instances, that certainly will involve expanding your audit steps to ferret out exactly what happened and the reason why it happened. In other instances, it will require you to defer, for a period of time, until the investigators can do their work. As we get into the material, I'll have a case example from GAO's experience in which following these standards resulted in significant audit and investigative impact.

Finally, the last standard is that irregularities and illegal acts are to be reported outside of the audited entity. I believe the public accounting standards primarily require that irregularities or illegal acts be reported to the audited entity. Government accounting standards require that if matters are reported to the audited entity, and that entity does not immediately report that information to an investigative organization or a law enforcement organization, the auditors are to report it. Additionally, that standard requires, and in certain circumstances is required by law, rule or regulation, the auditors to immediately report the information to either an investigative entity or a law enforcement agency.

Now, I don't believe that the auditors have a primary responsibility or a sole responsibility for fraud prevention. But, I do believe they can make a significant contribution in terms of strengthening financial management systems, and identifying weak internal controls. A strong financial management system limits opportunities for fraud and corruption by providing for ongoing accountability through timely reporting of complete and accurate financial information. Second, a strong financial management system always includes a strong system of internal controls, and those internal controls are always the main line defense against fraud and corruption. I also believe that making recommendations for corrections and improvement, and having a system for following up on those recommendations for improvement, encourages those responsible for government programs and agencies to be more accountable, and it increases the odds that you will have impact in your work.

Timely and public reporting of audit findings also stimulates accountability for those who are responsible for government programs, or those who receive public funds. Public reporting serves as a deterrent to those who would engage in fraud and corruption by communicating the government's efforts to identify and deal with fraud, the consequences for those that commit fraud, as well as the corrective actions designed to prevent future occurrences.

Now, over the years, GAO has engaged in a variety of initiatives to strengthen and intensify its efforts to expose and eliminate fraud. These efforts have included a number of very specific initiatives, as well as general ones, that affect the entire organization. These include strategic planning, the identification and targeting of particularly vulnerable programs--the high-risk program; fraud awareness training; use of a fraud hotline; and an in-house investigative capability.

The strategic plan, which is a three-year plan in GAO, identifies five organizational objectives for GAO's work. The second of those five objectives is exposing and eliminating fraud. What this essentially does is it sets a priority for the entire organization and clearly communicates from the leadership, in a continuing way, the priority the organization gives to exposing and eliminating fraud. Traditionally, GAO's thirty-five issue areas that cover the programs, activities and functions of government have always engaged in annual planning. As a result of establishing an organization-wide strategic plan that sets the priorities, these thirty-five issue areas are now responsible for incorporating one or more of the organizational objectives into their annual strategic plan. In particular, those issue areas that focus on the most vulnerable programs of government will always have in their plan efforts to expose and eliminate fraud.

In the aftermath of the scandals at the U.S. Department of Housing and Urban Development and in the Department of Defense, GAO began organizing its resources to focus on the most significant problems and the most vulnerable programs of government. Particularly, they began focusing on those programs that were high-dollar programs in which there was a history of problems over a long period of time. Instead of moving from one audit to another, and having a significant passage of time between audits, GAO felt it needed to focus its audit resources on a continuous basis in those areas that presented the most difficult problems.

Just this past January, GAO issued its new high-risk series and, in that high-risk series, it again focused on what it felt to be the most serious problems in government programs and those that have the highest vulnerability in terms of dollar loss. Those problems and programs include accountability and cost-effective management of defense programs; collection and accountability of revenues; an adequate return on multibillion-dollar investments in information technology;

benefit programs such as Medicare; loan program losses; and management of federal contracts at civilian agencies.

The effect of the high-risk series has been impressive, and I have to tell you that, in addition to GAO's own high-risk series, the executive branch of the U.S. Government also has a high-risk series, and in many instances there is commonality between their high-risk list and ours.

The effect of both of those lists and the concentration of efforts over time has had a significant impact in terms of strengthening financial management and internal control systems. An example would be the Department of Education's guaranteed student loan program, one of the first programs to be placed on the high-risk series. As a result of a focused concentration on that program over several years, and a number of recommendations made to the Department of Education, the Department has been able to save or reduce losses between 1991 and 1995 of over a $1 billion. It did this through requiring lenders and guaranty agencies to absorb more of the risk of losses, which means that they are paying more attention to who they loan the money to, and they are paying more attention to collection efforts. Also, it was through improvement in financial management systems, and oversight of educational institutions, that assisted the Department of Education in administering the program.

The high-risk series has proven to be, I think, very successful, both for GAO as well as the executive side. By all indications, the series will serve, in many instances, as a road map for oversight by the legislature during the second session of the current Congress.

Another initiative that GAO developed was providing and improving fraud awareness training for its audit staff. This program was started in the mid-1980s. It began with a basic program intended to develop awareness and communicate to the staff that the identification and exposure of fraud had been given a higher priority. As time passed, and a number of the audit staff took that course, an advanced course was developed that provided more information in terms of detection skills.

Another example of a means of collecting information and indicators of fraud is the use of a fraud hotline. GAO established the first government-wide hotline in 1970. In a number of instances, on the executive side, departments and agencies have established Inspectors General that have broad responsibilities within their departments to conduct audits and investigations. Just about all of these Offices of Inspector General now also have fraud hotlines. They find them useful in terms of obtaining information on indicators of fraud that they might not otherwise receive. One of the things I want to point out is that we recently transitioned our hotline from an 800 number and a live phone being answered by somebody in my office, to the Internet. What we have found, is the quality of the information coming in through the Internet and through GAO's home page is considerably better than what we were getting through phone calls from the 800 line. I believe communicating in writing through the Internet requires a great deal more thought and effort than just picking up a phone. It eliminated a lot of the information that was not particularly valuable. We began this effort approximately a year ago and were the first organization in GAO that could be reached through its Web page.

The last initiative that GAO established was the Office of Special Investigations, which is my office. In the mid 1980s, Congress increasingly began asking GAO to conduct investigations of very specific allegations of criminal misconduct and serious abuse in government programs and activities. They were looking for work that really went beyond auditing to focusing on very specific allegations, and determining the facts of what occurred in a particular instance and who was responsible for that kind of activity. The office essentially focuses on conflict of interest and ethics matters, contract and procurement irregularities, official misconduct and abuse, and fraud in federal government programs or activities.

In 1990, we further evolved the program through an effort to integrate GAO's audit, evaluation and investigation functions. Until 1990, we worked as an independent unit within GAO responding entirely to requests from Congress. I would guess that, at that point, close to ninety-five percent of our investigations were based on specific requests. In 1990, we began working more closely with the auditors and evaluators, attempting to further develop indicators of fraud and misconduct that were identified in the course of their financial and performance audit work. Now, our work is comprised of about half and half--half of the work comes from Congress, and the other half is developed as the result of audit work done by GAO's auditors and evaluators. The integrated approach permits GAO to sharpen its message and improve its findings, because now, in a number of instances, not only are we able to describe the program weaknesses--the loose internal controls, the poor program oversight--but we are now able to attach to that the effects or the results of that kind of activity.

An actual case example is oftentimes what gets the attention--what gives understanding to sometimes dry audit findings. I'd like to give you some examples that illustrate the approach that GAO has taken to exposing and eliminating fraud, and how investigators, evaluators and auditors can work together.

In the first example, GAO had been asked several times over a period of years to conduct an audit of inventory control systems involving small arms parts. These small arms parts are the type that can be used in a civilian weapon to convert it from a semiautomatic weapon into a fully automatic assault rifle. GAO's effort in the past had indicated that there were serious and significant internal control weaknesses that made those parts vulnerable to theft. Those audit findings, for the most part, fell on deaf ears at the Department of Defense. They really weren't taken very seriously, and no significant changes occurred in improving their control systems. So, in this particular instance, the Chairman of the Senate Committee on Governmental Affairs asked GAO to do a third audit. A GAO evaluator who had been through the fraud awareness training program and was aware of the higher priority given to fraud, was assigned to this particular job, and went to the government agency, the Army National Guard Unit, to obtain documents and information. The person he received the documents from told him that, in gathering the documents, it became apparent that there were certain units within that National Guard organization that were receiving these parts, but they had no use for them. What this suggested to the auditor was that people were receiving parts they didn't need, because they didn't have armories or repair weapons, and that possibly the parts were being stolen. So, that auditor brought us into that audit, and from there we conducted both an audit and an investigation of this particular system.

What we uncovered was that theft was occurring. It wasn't just a single individual taking parts, but it was several individuals taking parts. We found that, due to weaknesses in the automated inventory control system, the individuals were able to order and receive parts, steal them from the warehouse, and then eliminate any evidence of the transaction. As a result of the audit and the investigation, we were able to get DOD's attention. When they learned that we not only had the audit findings, but we had the investigative findings as well, they came to a congressional hearing committed to focusing on improving those internal controls. In addition, three national guardsmen were convicted for stealing parts. In a very compelling and, I think, dramatic moment, one of those guardsmen appeared in the televised congressional hearing and began his testimony by apologizing to the chairman of the committee and the American people for stealing those parts. He then proceeded to explain exactly how he had done it, and how the weaknesses in the controls and the lack of oversight by his superiors enabled him to steal with little fear of ever being caught. One of the other interesting things was that this individual admitted that he was selling them to a national black market made up of gun dealers. We were able to determine that some of those parts that had been stolen from that guard unit and were in turn sold to a black market gun dealer, ended up in Waco, Texas, in the compound of David Koresh. Some of you may be aware of the incident that occurred in Waco several years ago.

So that was a very compelling situation in which audit and investigation actually complimented each other, and improved GAO's audit findings and certainly GAO's impact in the matter. One other interesting thing, which goes to the issue of coordination between audits and investigations, is the audit was ready to be reported out in February of 1993. However, there were investigations that were continuing. Some of those investigations were undercover in nature, so GAO willingly deferred reporting out those findings until the following November, when the investigation was complete. But, in turn, it was then able to elicit the cooperation of one of the individuals who subsequently was the witness at the congressional hearing. So GAO was able to improve the impact of its audit findings by coordinating with the investigative side, in deferring the reporting of findings until both audit and investigative findings could be reported.

In another instance, a congressional committee came to GAO and asked if it would audit the controls that the Health Care Financing Administration has over its Medicaid prescription drug program. What they were concerned about was the diversion of legitimate prescription drugs into an illegal, black market. The audit plan initially encompassed taking a look primarily at internal controls--the kinds of controls and information that were built into the system to identify pharmacies that might be diverting drugs. We began working with the auditors and developed an investigative aspect of this work. In developing that investigative aspect, we were able to identify a number of instances that demonstrated the effects of the weaknesses in the controls over the program. In addition to that, we were able to demonstrate that the problem was more than just one of diverting prescription drugs and abusing the Medicaid program, because every time someone presents a prescription for drugs that they shouldn't have, that individual has had to go to a doctor, and that means that there is also a bill submitted to the government by that doctor.

In a final example, the Army's financial management system was identified as a high-risk program, based upon a series of audits that had been done over the years. As a result of that, GAO began doing a structured set of audits, focusing on the most significant problems. In the course of doing that work, the auditors uncovered what they felt to be indicators of possible fraud, or at least serious problems in terms of internal controls. This was during a period of time in which the Army was building up its forces and activating a number of reservists.

As the auditors went further, they discovered that there were serious discrepancies between personnel records and payroll records. They discovered that, in a number of instances, controls that had been in place had been eliminated. With that in mind, they brought us into the picture, and we began working with them. As a result, we were able to identify a number of situations in which there were individuals on the Army payroll who were actually not in the Army. In a number of other instances, we were able to identify situations in which individuals were receiving salary or pay that they weren't entitled to. This resulted in dramatic testimony by the controller general before a congressional committee, in which he was able to not only demonstrate the larger internal control and program management weaknesses, but was also able to demonstrate the effects of those weaknesses.

I believe that our work, along with the auditors, resulted in over 2,000 referrals to executive branch law enforcement agencies, and a number of those cases were ones that resulted in individual thefts that exceeded $100,000. We identified one individual that erroneously received a check in the amount of $800,000. He proceeded to deposit that check and, over a six-month period, depleted that account. The Army was not aware of it. It is unlikely that their controls would have discovered it, but for our audit.

I think that GAO, over the years, has endeavored to develop a comprehensive and integrated approach to dealing with fraud and abuse. This has evolved over a period of time. It is beginning to bear fruit. We're able to cite a number of success stories. My guess is the program will continue to evolve. But, I think, in all of this, perhaps the most important aspect is that the leadership, through a variety of initiatives, communicates on a daily basis to the employees of the General Accounting Office its priority in exposing and eliminating fraud in government programs.

(See Question and Answer Session at the end of Wednesday's presentations.)

Update on Bolivia's Integrated Financial Management System

Rafael Vargas, Accountant General, Bolivia

To begin, I would like to thank God for the opportunity for this distinguished group to share experiences. I also want to thank the organizers of this conference for the invitation to speak before this forum.

I would like to reemphasize Jim Wesberry's remarks in his opening address. He said that while we are thinking about reengineering and reinventing government, we should also reinvent our personal lives--our character, our spirit and our attitudes. To paraphrase, the master of reinvention was saying that no one can see the government as perfect if he himself has not gone through the reinvention process. Jim, thank you for that reflection, and the excellent testimony of your own life regarding accountability in all countries. May the Lord bless you.

This presentation would not be complete if I failed to mention that the system which we are presenting is made up of contributions of many people who understand financial administration--Ricardo Gutierrez, who spoke before me this morning, Marcos Makon and many others who participated in the conception of the original model, and who left a very important legacy for our country. Also, it is good to mention that this is a system and an application which takes in all the contributions left by many international and multi-disciplinary counselors.

The system today is a product of contributions of professionals of different nationalities--Colombians, Argentines, Peruvians, Ecuadorians, Brazilians, Mexicans, North Americans, and many others. Since 1993, the system has evolved because of international advising that began to move us forward incorporating other cultures, and other types of experiences. Today, the project's implementation is in its third phase. My presentation concerns the present status of this integrated system of financial management in Bolivia.

I would like to talk about the aspects which have had an important impact regarding the evolution of the system and the whole project which began in 1989. The law of administration and government control, called SAFCO, began in 1990, and gave rise to all these reforms. This law is not as it was in 1990. We have seen many reforms of the state government. Many laws have been passed in the last three years. The laws we are going to mention are those which are related or which have been in existence since the original models were established. We had to rethink and readapt some of these. For example, rather than change the state organization, instead we opted for an internal change which changes the budget process.

The law of capitalization was enacted in 1984. When SAFCO was approved in 1990, it caused changes which created problems in the ownership of businesses and public enterprises. It also affected the relationship between finance administration and business administration in parts of the capitalizing. Current law frees us, or will free us, to have control over all administration. Under SAFCO, the administration was centralized within the power of the capitalizers. This was a completely different ball game from the 1985 models that decentralized administration to the different countries. This current law, this redesign of an introspective, unheard of happening, returns to the countries the authority to make decisions with regard to the use of money. These laws, and, obviously, many others, such as the pension law, educational reforms, judicial reform, are being carried forth by the government of my country to enact fair laws and provide improved services to citizens. Changes to some of these laws were necessary before we could begin the system itself.

Modifications to the budget process were particularly important, as we found after talking to 400 different institutions, 300 municipalities, 39 businesses which sooner or later will be capitalized, and 64 institutions which make up the central administration. It is a very important aspect because we now can have our say in the composition of the budget and in its control and management.

You can see clearly, without capitalization the phenomenon brings central administration closer to public administration in the most important areas where the budget will be carried out. If the laws of capitalization had been followed, we would have had a completely different composition which would have required centralized administration and controls.

SAFCO did have very important features because from the first they emphasized the importance of planning systems. Their national system of public investment and their position in administrative personnel of goods and services, of the budget, of the public credit and the treasury, are good standards. It is important to mention that most of these standards are about to go into total effect. Also, when we talk about the virtues of this law of systems, we are talking about government control for external areas as well as internal areas. It is also important to point out, under this approach we not only do the planning but the program execution as well under one sole model conceived for this purpose.

The system support of the financial administration program is called SIIF. What is SIIF? SIIF is nothing more than an integrated system of financial information. Let us discuss the different technical aspects which the system presents to us. The software evolved under a UNIX environment which has allowed us to carry on several applications of different sizes using different size computers. The languages which have been developed in this application are language C and language INFORMIX. At the present time, the hardware supports any type of computer program which is compatible with UNIX and INFORMIX. Currently, we are using these applications in different computerized installations.

Regarding these technical aspects, I have mentioned that in the auditing system, they record information in various programs in the system, but use only information which resides in the database. This is a very important aspect, since it allows us to follow types of operations which may have been carried out in an anomalous fashion. Also, it is important to point out that the system has three different levels of security. One for the operating system, the second, which is administered by the manager of the database, and, finally, a system of security which protects the system and the information from unauthorized access. The system also incorporates modules which digitize the function of all applications to provide on-line help for the user.

In regard to the reports manager on the screen, the user may select blocks and files of data to format the information he needs on the screen, in line with the desire for a paperless society. To obtain printed material, the report goes directly to the printer and portions of the reports can be selected so that we can print only those parts we need.

There is another tool which has been developed to provide management information. It is called SPIN. SPIN is an electronic page which carries out consultations directly with the database by means of an interface. It is the electronic page. This computer tool has characteristics of an electronic manager home page which allows us to not only bring information to various levels in Spanish, but also it allows us to prepare modules, projections. It has a very special characteristic which people like, and that is that the addition or the removal of information is very simple.

The integrated financial information system in Bolivia has basically three main modules. The budget module, the accounting module, and the module which supports the treasury. The budget module has several aspects which are important. It works from the point of view that it can be any type of budget you wish. As you may understand, it is a system which not only has been used in the central administration of government, but additionally it is a system which at this time is being implemented in regional governments. Therefore, the budget burden is distributed in several areas. There is a module which manages changes, additions as well as subtractions, and a module for what we really need, budget reports.

The treasury is supported in this operation with six modules. There are reports which have to do with programming expenses, and a module to divide the pie when restrictive levels of liquidation occur. We have payment systems which allow us to make decisions day to day in regard to which payments will be made. In accordance with good cash management practices, all checks can be tracked in the system, including those in transit. A new module which is being worked on in a parallel form with the central bank of Bolivia is electronic transfer of payments. We also have a reconciliation model for current accounts.

Continuing with the next module, accounting has fundamentally four important elements. The first is the compilers, which at first could only work by matrix, but have been built differently, just as today we have a set of countries very similar but with different characteristics. We have different filters to convert everything which has to do with the budget in the accounting system. Approximately seventy-five percent of present operations in the general category are converted through the model automatically in the accounting system. Additionally, we have a model account of the accounting module, which allows us to incorporate some types of operations which are special, such as those referred to different exchanges or other operations which are not routine. We should mention that if we want to adopt different possibilities to have automatic accounting, it can be done on-line directly or we can do it by vouchers. However, this involves input by the user.

It is also important to point out that we have other subsystems within the SIIF, many of which are at the experimental stage and some are being developed. We have already mentioned the feature of electronic transfer of funds. At this moment we are working directly with private banking in order to get support through the regional government. We have come very far in this project. I can tell you that by the end of next month, we will be in full operation within the different departments of our nation where we have installed the system. For the electronic transfer of expense vouchers, we have been working on mechanisms that will allow the user to work within the system and eliminate manual operations. Up until a few months ago, the treasury took care of all the expense vouchers. We have put a pilot network of telecommunications through which it is possible to do electronic transfer of expense vouchers. We have not implemented it yet because we need to make a change in the legal framework, but, technically speaking, the system is already in operation.

We have been able to automate, in one way or another, the money in the custody of the treasury, and we have managed to do the bonds and letters of credit from treasury. It is important to note that we have received consulting work and the support of the Treasury Department of the United States. We would also like to mention that we have already begun parallel testing the control of the notes of credit, and we have a different application to manage fixed assets. Another important thing we discovered is some of the branch offices are developing SIIF under Windows in order to have one single common application that can be published for the entire public sector of our country. In a similar goal, we are implementing the system we presently have in the national administration at the regional level. In a few days, we will be able to do our first testing of implementation at the municipal level to achieve the possibility of having one single standard at the national level, one great database distributed within the entire Republic of Bolivia.

The integrated system of financial information now installed at the treasury department provides coverage on the operations of the budget department, the treasury department and general accounting office. We have terminals connected to the system that are available to the national congress, so they can ask questions on-line concerning the budget. We hope to provide more than seventy-three percent of the budget information to five of the nine departments in our nation with a single system this year. We estimate that we will finish implementation of the other four departments towards the end of 1997. We are proceeding to implement this in several different types of platforms. Nowadays we have departments that have 486 computers. We have other departments that are more like the Department of Santa Cruz. They have equipment equivalent to what we have within their accounting office with total transparency and with one great advantage. Everything is under the same model. We hope that this standardization will contribute to making decisions within our country.

As I told you before, we are now providing service to different ministries through a metropolitan web of internal communications. We have worked with a pilot program, and we are now interconnected with the central bank of Bolivia, with the Ministry of the Treasury, with the national ministry of presidential coordination, with the national secretary of education and the national institute of health through a framework which has allowed us to interconnect the different networks from these different ministries with the integrated financial information system. This has improved greatly through scrutiny of the documentation explaining each institution's accounting process, process for requesting money, etc. We will conclude this year connecting eighty different central administration institutions from which we capture information. We have had problems, legal problems, as when we tried to eliminate documents, like sworn statements. We are working on this and we hope that with the incorporation of these reforms at the judicial level, we can have the benefit of faster approvals. At the same time, it is important to point out that even though it is not part of this project, of the electoral project, we are also working to create a wide web connecting ports in the Pacific with a new process for the collection of taxes. The new model that was developed last year is reaching forty-eight remote localities from the city of La Paz. They can obtain on-line information which enables us to do a better job collecting taxes across my nation.

So, I hope you can understand better the operations of SIIF. This is the operation that is working today in the different municipalities. The only prerequisites are a budget, financial laws that have been approved, and that you are dealing with the treasury or the treasury of the municipality that can assign expenses. Our system will be done exclusively in a two-step process--the programming of the payments by the issuance of checks, or the programming of the payments via electronic transfers. If we had wide availability in the economic sense, and the availability of money was great, we could actually eliminate the program of payments. We cannot do it because we don't have the money. We can also account for receipts, since accounting of payments is done parallel and in a totally transparent way to the operation of the user. Therefore, these two aspects of the accounting are handled and administered by the system itself.

Concerning the modernization of the payment process, I mentioned to you before that we had a little problem. We found that laws from 1929 regarding approvement of payments were impeding progress. However, we are now working very quickly to implement electronic transfer of funds, and eliminate issuing checks from the national treasury. The elimination of issuing checks in the treasury will improve levels of security and eliminate the possibility of fraud that exists with forgery of checks. Also, we have electronic transfer of expense vouchers. The treasury will be able to verify the vouchers of the different institutions connected to the network. These institutions will be able to ask on-line the status of their vouchers and the status of their budget. Within the same network we will have electronic mail that will allow us various ways to handle this process. As I said to you before, we are interconnected among different networks with different characteristics.

Recently, we have tried to make more democratic the way we handle information within the Bolivian public sector. One aspect that is important to point out is that we have made one unique development in order to do several installations. We need to emphasize training, disseminating all the information that has to do with this process of modernizing our financial system. We determined that dissemination of information is a weak point. Nowadays we are trying to do the third phase of this project. We are making training a priority. We want to put these systems in a completely different orbit in order to get total openness, a total framework that would allow us and the executives that are making the decisions to really trust the systems we have and the information they are producing. Therefore, we have been working lately in developing and conducting courses and seminars, and we have just developed a new application with the Internet. We are putting out information on the Internet about the evolution of the co-participation and payments for access by executives. At the end of 1997 we plan to have a Web page within the Internet that might be attractive and available to all of you.

Finally, not everything has been easy or continues to be easy. There have been many problems in the implementation of these systems, for example, the lack of commitment from executives for a long-range project. Not all of the executives were directly involved in this project. We were also subject to the whims of the executives. Sometimes they supported us and other times they didn't. The resistance to change in the middle echelon was a constant obstacle we faced because these systems bring transparency. The system demanded additional time to study and time to dedicate to it so that the system could be implemented as conceived.

There was a lack of resources from our partners. We had problems in getting the necessary resources from the financial organizations. On many occasions, the resources were not available when we needed them due to the circumstances of a nation such as ours.

The smaller system formed in the different undersecretarial areas was another one of the serious problems we faced. To some of the undersecretaries, this smaller system was very, very important. Unfortunately, not all of them understood that these modernization processes are positive and beneficial for the government. They see them as dangers, sometimes real and sometimes imagined, that affect them and could cause negative attitudes from different levels of public administration.

Another problem we found was inefficient use of the on-line services. We hope this is a thing of the past. We see a trend toward supporting the "on-line" consultant. We started to see improvements last year, and we feel we have solved this problem.

Finally, personnel rotation in the different public institutions can really affect a project, particularly the implementation of a system with the characteristics of the one that I have just demonstrated to you. In order to have these applications running in a harmonious manner, it is important that we are provided with appropriate human resources.

I want to finally express my gratitude to my guide and my friend, Jesus Christ, who inspired us to make this a reality for Bolivia. Thank you so very much.

MS. CABRAL (Dominican Republic) (As summarized by translator): I would like to know specifically about the lack of commitment of the executives and resistance to change. Could the lack of commitment exist because they are not identified with the new system, or they don't identify with it? Or, could it be that there could be changes in the government if you do not apply the civil service law? I would like to know the experience that Bolivia had. What type of resistance did you have in applying the system? Did you have some type of political commitment to carry out this project? Were you able to continue with the project even though there may have been some change in the authorities, change in government? We had a case in the Dominican Republic where we tried to implement a computer system for the general accounting office, and there was a change in the controller general. The new incumbent understood, with this computer program, considerable information would be available to the public and to anyone. Therefore, he decided to break down the entire system we tried to implement. My question is, from your experience, is there any way to prevent new authorities from dismantling what you have already begun?

MR. VARGAS: Concerning the lack of commitment from executives, how did we handle that, or attack that? Initially, we were received with indifference, but after they saw the different applications and the technological advances and the advantages inherent with this implementation, the attitude changed. Once we demonstrated results, we were looked on with favor. Additionally, I think we were successful for two basic reasons: we demonstrated the ability to perform the technical management of the project, and we maintained open communication on-line with the different undersecretaries in the controller general's office. Where activities interconnect, it is much easier to resolve problems in a frank and direct manner, and leave the runway open for direct relations with them.

Concerning resistance to change, I consider this a phenomenon not only associated with this type of system. I think that all change has resistance whether in the implementation of the system, implementation of law, rules or any type of thing.

Regarding the matter of political commitment, the people in charge of the project and the people in the financial institutions were somehow able to maintain commitment from the general accounting office for ten years. We obtained the commitment of the two controllers general. Mr. Losada was the one who approved the SAFCO law and the present controller general maintained continuity so the financial system would not be orphaned. I am thankful for the very important participation of both in continuing this program.

I would also like to mention that we are going into the third change in our government and I am sure that the project will continue with as much or greater enthusiasm.

MR. ADDA (Ghana): I'm interested in the parallel run of the system at the pilot stage. How was this done to facilitate the preparation of final accounts? In other words, if you're working on a pilot basis with some agencies, do you just run the parallel system within those agencies alone, and allow the other agencies to keep doing the manual accounting, and then try to compile the final statements at the end of the period? If so, how will this affect the timing of the final accounts preparation?

MR. VARGAS: We had several ways of applying the system, and one was focusing on what information supports the budget and accounting at the national administration level, and the other one was to refer to the different departments that were within implementation for each municipality. What we did was, we added, at the central level, everything that had to do with the budget. Adding the different financial statements should be simple through the standardization of a single accounting program that would allow us to do the same treatment through a single system in all the different institutions. This is the way we handled the implementation of these different systems.

The Comptroller and Auditor General Combatting Corruption

Ileana Colon-Carlo, Comptroller General, Puerto Rico

I bring warm greetings from the Commonwealth of Puerto Rico. We are joined by links of companionship. My presentation today is about the struggle of the Comptroller's Office to combat corruption, while at the same time stimulating growth and ideas in the public administration.

Before anything else, I would like to thank the Consortium for the invitation to appear here before you. Second, I would like to congratulate the Consortium because this is the eleventh year they have taken on the arduous task of organizing this conference for new developments. In regard to my participation, the first time that I came was in 1989, thanks to the invitation of Jim Wesberry. I spoke about financial administration. My second time, I talked about the Inspector General and the capabilities of that office. In the third participation, I spoke about the annual report of the Comptroller General's Office and how that has become an instrument of promotion and knowledge about the work done in the Office of the Comptroller General of Puerto Rico.

To put this year's presentation in perspective, we need to know about the powers and rights of the Office guaranteed by the Constitution of Puerto Rico and by its organic law. First, the Comptroller is named for a period of ten years. He cannot be removed from office except for bad behavior. The designated candidate is approved by both chambers of the Congress. His term cannot be reduced. The Office is completely autonomous and, as a result, it recruits its own personnel, sets its own rules and distributes its assigned budget according to the program designed by the Comptroller. Furthermore, we are vested with the power to subpoena people to require their appearance in matters under investigation.

Jim Wesberry commented earlier about the philosophy of the former Attorney General of the United States, Robert Kennedy. He said that some people see the world in such bad condition and ask themselves, "How come?" and others see the world as it should be and ask, "Why not?" That's what we asked ourselves in 1987: "Why not?" That year, we took on the task of reforming, reinventing the process of conducting audits. We have to point out that the reform of the Comptroller's Office was as much a quantitative as a qualitative reform. We have grown in size, in resources and, even better, we have grown in the quality of service which we give to the public.

When we began our administration in the Office of the Comptroller a little more than nine years ago, we had 239 auditors and 64 professionals and administrative staff. In the beginning, our auditors were provided with notebooks, pencils and a calculator upon entry. I had a constitutional mandate from the people to oversee the public accounts and a personal commitment to fulfill it.

The ministerial function of the Office of the Comptroller is documented in Article III, Section 22 of the Constitution of the Commonwealth of Puerto Rico dated 1952. Its mission is to oversee all income, disbursements and accounts of the state to determine if they are made in accordance with the law and regulations. On the 24th of July, 1952, our Office was created to respond to this legislative requirement.

We prepared a study of what needed to be done and earnestly began to work. That study allowed us to discover our strengths and weaknesses in order to focus our efforts in the correct areas. We also decided to draft a strategic plan to identify our goals, objectives and the human and economic resources we needed to complete our plans in short and intermediate time frames. We developed a mission statement and defined our organizational values to serve as a framework of reference for our decision making.

The next step was to draft a work plan that would help us consolidate our strong points and fortify our weaknesses. This step would help us review the situation existing at the time we took over the Comptrollership and move us into the reinventing stream.

In our analysis, we discovered that we had to focus our efforts in five different areas: economic development, legislative development, organizational development, professional development and collaboration with related government entities that enforce compliance of our recommendations, and promoting citizens' awareness about the Comptroller function.

Each year, over the last nine years, our Office's budget has increased. In 1987, we had a budget of $7.3 million. Today, it totals $18.4 million, an increase of 152 percent. According to the various laws that created our Office, our budget can be increased but may not be reduced. In the worst scenario, our budget must remain the same as in the previous year. These economic resources have allowed us to review salary scales and broaden benefits for our employees. In 1987, when I began as Comptroller, an entry-level auditor was paid $950 monthly. Today, an auditor receives an initial salary of $1,400 (an increase of almost fifty percent) in addition to other marginal benefits such as: employer contribution to the medical plan, Christmas bonus, productivity incentives, sick leave, vacations, job security, trainings and a retirement plan.

With these additional financial resources, a modern system of computerized information was designed, installed and implemented in our Office. This system provides us with operating programs to administer audits, conduct investigations, oversee administrative work and conduct other Office operations. Our most precious tool is the microcomputer. We have almost done away with the legal pad and the number two pencil.

When I started out as Comptroller, our office space consisted of 18,000 square feet. Today, our office takes up 42,000 square feet, up 133 percent from 1987. Our offices are subdivided by modular units and each employee has a microcomputer connected to our local area network.

In the legislative area, we have recommended and endorsed new legislation to complement existing laws to support our audit and investigative work. This includes bills dealing with penalizing fraud and helping government combat corruption such as the creation of the Office of the Special Independent Prosecutor (SIP) for the Government of Puerto Rico. The SIP is a special district attorney responsible for charging and prosecuting high-ranking public officials accused of government corruption. This official retains investigative autonomy, but responds to a panel of three judges who have appointed him or her to undertake a particular investigation.

One of our greatest accomplishments is having brought about convictions of high-ranking officials and employees who had committed crimes of corruption. Between 1994 and 1997, we referred thirty-six such cases to the Office of the Special Independent Prosecutor by way of the Secretary of Justice. These cases were distributed as follows: fifteen Municipality Mayors, six Representatives, eight Senators and seven executive public officials. Of these, the SIP's work resulted in the conviction of four Senators, five Representatives and four Mayors. These officials, including others who were not convicted, were obligated to return nearly three-quarters of a million dollars to the state treasury. Eleven complaints remain under the jurisdiction of the SIP to be resolved. In twelve of the thirty-six referrals, the SIP did not find probable cause to indict.

We also endorsed bills aimed at increasing the statute of limitations for embezzlement and disqualifying persons convicted of government corruption from holding public office.

The Comptroller's Office also had to make efficient changes to fulfill its mission. We established new working divisions that have allowed us to do our job more effectively. We also incorporated new technology into our operations.

We have enlarged our audit and support staffs in order to perform more frequent audits, especially since one of our goals was to issue timely audit reports. When I began as Comptroller of Puerto Rico, there were 239 auditors. Today, our Office employs 411 auditors, an increase of seventy-two percent. To achieve our goal, we encouraged the development of new work techniques and acquired the most advanced systems and software in the field of audits. Most of our auditors know and routinely use Lotus 1-2-3, IDEA, Report Writer and statistical sampling programs. They also use WordPerfect for their drafts of reports, minutes and all correspondence generated by their audits.

In its 1994 catalog, the International Organization of Supreme Audit Institutions, INTOSAI, places us on par with the United States and Singapore, the world's two most technologically advanced nations in the field of information systems as applied to audits.

Another of our accomplishments has been to bring audit reports up to date. In 1987, eighty-five percent of the 125 audit reports were published after two years of concluding the field work. Only fifteen percent were published within the same year. Since 1990, we inverted that proportion: this past year ninety-eight percent of 169 reports were published within one year after the field work was completed. Only seven reports, or two percent, were published two years after concluding the field work. With current audit reports at their disposal, government officials can take prompt and necessary corrective actions to improve public administration and to help expose crime and punish those responsible.

When I was named Comptroller, we only had the use of seven computers. That led us to define our objectives and we purchased the necessary computerized equipment to bring our information systems up to date. Today, we have nearly 350 "notebooks" and stations available for our auditors to do their work. Thus, when our auditors return to the Comptroller's Office from the field, their work is almost completed. In that way, the process of reviewing, editing and publishing the audit report is streamlined and accelerated. We are proud to be leaders in the use of information and operational systems. In fact, we're already preparing ourselves for the Year 2000. Right now, we are evaluating the use of voice identification and video conference technology, as well as an image bank. Keyboards and paper will soon become obsolete and we'll be literally talking with our computers.

The investment in computers and the growing use of information systems led us in 1992 to create, in the Comptroller's Office, the Division of Information Systems. This division is in charge of designing, setting up and running the computer systems we regularly use. They also offer technical advice and training both to our auditors and other employees.

One of our main pet projects is what we call the Contracts Registry Information System. Since 1990, this system allows us to obtain information on all contracts granted by Puerto Rico Government agencies. As a result of the multiple activities of the modern state, the number of contracts granted by different government agencies, instrumentalities and administrative subdivisions has significantly grown in Puerto Rico. To guarantee the greatest purity in the administration of the public funds involved in those contracts, we have a law which stipulates that every contracting public entity must send a copy of all its contracts to the Comptroller's Office within fifteen days of its execution. The Office received in 1996 more than 100,000 contracts.

Our registry's database provides us with information by the name of the contracted firm or individual, social security number, type of service, or the name of the contracting government agency or department. Our Contracts Registry Information System is public and available to every citizen. Government agencies can access the registry by use of a computer modem if they so request.

The purpose of this contract law is to permit the Comptroller's Office to judge the legality of the contracts before examining them in our regular audits. It also serves to help these government organizations improve their job performance, since in notifying them of any contractual anomaly or legal error they can quickly take the corresponding corrective action.

In addition to the Contracts Registry Information System, we established the Corrective Action Plan Information System (CAPIS). This system contains data on corrective action plans due and submitted, and measures taken by public officials regarding our audit report recommendations. The Comptroller's Office requires that audited government entities submit a Corrective Action Plan stating those remedial steps they have taken regarding our audit report recommendations. The plan must be submitted within ninety days of making public our audit report. Besides making government administrators aware of their responsibilities, the Corrective Action Plan has permitted the Government of Puerto Rico to recover more than $30 million of public funds that otherwise would have been lost. Different government agencies have also set in motion some 6,800 corrective action measures.

We also have other systems, including the development of a databank to store the numerous findings included in our reports and e-mail. We also maintain a network of information through which we obtain data about other governmental agencies.

In introducing these systems, it became necessary to create manuals to standardize their operations and train our staff to use them. We have designed users manuals for every product that we've developed.

We established and reinforced our in-house training division with more employees, using the most advanced technological equipment. Nearly all of our manuals and audio-visuals are done by us. Our available resources in this area go beyond our Office. Our technological progress serves as a model for other government agencies. We regularly offer seminars on subjects related to audits and the Corrective Action Plan to state and city officials.

We have bolstered all of the support divisions, especially our Legal Division, with additional staff, modern technological equipment and trainings. The Legal Division now has fifteen lawyers, two law clerks and three consultants in specialized legal issues, including constitutional, criminal and administrative law. This has allowed us to conduct better investigations and obtain the necessary evidence to support our findings of irregularities or corruption before the courts.

The high incidence of corruption in the public sector is one reason which drives us to keep up-to-date professionally. The prevailing loss of values in our society and the lack of adequate internal controls in government entities dealing with public funds have led to an increase in criminal acts against the public treasury. Furthermore, with the advent of new technologies, ways of breaking the law have become more sophisticated.

To confront this problem, we have redefined the vision and the role of the Comptroller's audits. We have reintroduced the concept of the auditor as an investigator whom we call the "audigator." We have trained our "audigator" in the techniques needed to detect and investigate fraud and corruption in order to develop the necessary skills to perform in-depth investigations. To do that, we established a legal procedure which calls for a "Crime Classification Memorandum" made by our lawyers in which they analyze the facts and determine which, if any, crimes have been committed against public funds or property, and our lawyers also prepare an Evaluation of Sufficient Evidence Memorandum in which the evidence is weighed to determine if it is sufficient to prove the different crimes against public funds.

Our Legal Division had to be reinforced in order to support our "audigators" and we have urged a greater participation by our legal advisors in our audits which reveal possible situations of fraud. Once the "audigator" finds a fraud indicator, he compiles the facts and the necessary evidence, including sworn testimonies, and consults with our legal advisors to determine the probable crimes committed against public funds or property. In said process our auditors develop their skills in both audit and legal aspects.

Since the Comptroller's Office is part of the legislative branch of government, our work requires the collaboration of other government agencies and departments within the executive branch of government in order to file criminal complaints and punish those found guilty. Nothing was done in that regard in the past decades.

To ensure compliance with our recommendations, we solicit the collaboration of every government agency that is related in any way to the audit findings. The Governor of Puerto Rico decided to coordinate this effort with us and issued an Executive Order dealing with our Corrective Actions Plan previously mentioned.

In instituting the Corrective Actions Plan and redirecting our audits toward the detection of fraud, we had to gain the participation of those agencies whose job is to process criminal offenses and impose criminal and civil sanctions. For that reason, we established a closer working relationship with the Department of Justice, Office of Comptroller Affairs, the Office of Government Ethics, the Office of the Special Independent Prosecutor and the Department of the Treasury. These agencies, in turn, have beefed up their human resources to more quickly address the many referrals we send them.

We have set up a mechanism to refer the recommendations in our audit reports to the Secretary of Justice. Our auditors and legal advisors have been essential in preparing a dossier of the necessary evidence so that the previously mentioned government offices can work on the findings we submit. That allows us to take an active role, within limits, in processing the criminal acts that public officials and employees commit against the public treasury.

On the other hand, we have urged citizens to be aware of the responsibility public officials have to account for the use of public funds and property, and further to demand the accountability. To accomplish this, we participate in a weekly television program which is broadcasted by a leading TV newscast during prime time in Puerto Rico. These public service programs, at no cost to the taxpayer, alert both the public and the public officials about findings in our audits and the correct way government transactions should be carried out.

The Comptroller's Office maintains a direct line of communication with the press. That is vital to our work. The law that created us stipulates that the Comptroller's Office must divulge the main findings of its reports to the mass media. The media, in turn, is charged with disseminating that information. The press in Puerto Rico is always ready to scrutinize the inappropriate use of public funds and property, and to report acts of corruption. The strengthening of the Comptroller-Media relationship, as well as the enormous amount of work we have done, has helped us obtain the respect and support of the public. Besides, media coverage helps to dissuade public officials and employees from engaging in irregularities.

I have tried to summarize in very broad terms the strategies used in our institutional battle in Puerto Rico against corruption, implemented by reforming our watchdog role. The struggle against corrupt politicians and public officials and employees has been tough. The changes we have instituted, however, have come about by maximizing our efforts to do a very difficult job in the best possible way. Thank you.

MS. ASSELIN (United States): In most of the comptroller's offices we have visited, one of the single most important questions is budgetary independence. How did you get your budget raised?

MS. COLON-CARLO: As I stated, the function of the Comptroller comes from our Constitution. With the adoption of the Constitution of Puerto Rico, the organic law of the Comptroller's Office was adopted. Thanks to the School of Public Administration of Harvard University in Boston, who sent a number of people to help in the creation of our Constitution, the Comptroller's Office has its own budgetary independence. The Office has complete independence on how assigned funds are utilized within its work program. Funds cannot be reduced from the previous year.

The second important aspect is the relationship between the Comptroller and the media. When citizens find out that there is a comptroller's function which they can trust and which is protecting their public interest, then those citizens express themselves through public opinion. Politicians who are responsible for assigning funds see that they must work together to improve public administration and not attempt to silence the voice of a comptroller who is trying to do his work in an effective manner. I have been through three elections, and in one there was a change in government. The former governor is no longer in power. The new governor and I got together and talked about the objectives of the Comptroller's Office. He understood my position. My position was, is, and continues to be that you cannot derive full benefit from the total budget dollar unless you address the ten percent of the budget lost to corruption and bad administration. I am talking about an $18 billion budget. He who has an ambitious program will need the total budget to attain the goals he has set for Puerto Rico. This requires communication. When I mentioned how important it is to have communication, I meant we have to make ourselves sales people and communicators without losing our criteria, independence and our autonomy as a supervising activity.

MS. ROBINSON (United States): Your Office has expanded, and you've obviously taken on some very tough and complex assignments. Tell us more about how you handle the training and development of your staff, especially how you meet your continuing professional education requirements.

MS. COLON-CARLO: Well, when we got to the Office, within two years we created a training division. There is a special assistant in charge of training. We have also placed great emphasis on good training manuals and other documentation, e.g., documentation necessary to go to court, documentation necessary to make a finding and make a recommendation that states the legal requirement. We have invested a lot of time and money on this, and also managed to gain the commitment of our employees. Each person becomes involved to the point that there is considerable pride, and a great spirit of work and commitment to defend the national treasury.

MS. LARSEN (United States): Did you say that contract information is available to the public? You were talking about the system where the details about the contractors, social security numbers, et cetera, were made available.

MS. COLON-CARLO: All contracts granted by the government of Puerto Rico are public documents. We have a contract registry and anybody can walk in the contract registry and ask for a copy. He has to pay for each copy, but it is available.

MR. BALGOBIN (Guyana): You said that the laws that allow you to carry out these functions came out of the Constitution. Are you saying those laws were promulgated prior to your operation, giving you these powers, or did you lobby for them? If you lobbied, in what form?

MS. COLON-CARLO: I spoke about two types of laws. Our Constitution was there when I got into office. Our organic law, the one that created the Office of the Comptroller, was already in existence. It had been in existence for close to forty years. All the laws were there. The vision of what a comptroller general should do was right there. All we had to do was put it in practice. Now, there were other laws that were passed later, such as the one that established the Independent Special Prosecutor and the Office of Government Ethics. We enacted laws, too, in the area of ethics regarding public employees. In 1988, the Special Prosecutor's Office was legislated, which gave rise to the prosecution of elected hierarchy and appointed public servants.

MR. BALGOBIN (Guyana): But to follow up, what about those laws that came into being while you were holding office? Could you say how difficult it was to get the politicians to agree and the lobbying that took place to allow that to happen? I can anticipate in these Third World economies the difficulty of getting them promulgated in the Parliaments.

MS. COLON-CARLO: I mentioned previously that the joint venture between the Office of the Comptroller and the media is very important. If you have good press, you have good radio and TV coverage. If information gets to our citizens in terms of things not working the way they should be, then change can occur. Most legislators want to legislate. Sometimes they don't really know all the implications of the legislation, but they want to do something to solve the problem so that public opinion will be in favor of what they are doing. So, we worked very hard. We let people know what we were doing. We let them know what could be done to improve public administration, and that we were in favor of the legislation. That was enough pressure for our legislators and our governor to sign the measures. They wanted clean and transparent government. That's what our people wanted.

Fraud Detection: The Extraction of Valid Evidence

John Capizzi, Principal, Internal Audit Services, Inc.

In the United States, organizations lose six percent of their annual revenue to fraud and abuse. Fraud and abuse costs United States organizations more than $400 billion annually. The average organization loses more than $9 per day per employee to fraud and abuse. In addition to the direct economic loss to the organization from fraud or abusive behavior of employees, there are indirect costs to be considered: loss of productivity from hiring and firing the abusive employees, legal actions, increased unemployment of both management and staff employees, government intervention, and other hidden costs created from fraud and abuse in the workplace.

As managers, auditors, fraud examiners and government officials, we need to know how to extract valid information from suspects or witnesses to fraud and abuse. We need to know if the information is valid or deceptive after we complete our investigation, and we need to know how to extract that information from people we work with or we work around to further our case in court. When we use the term forensic as in the title of our session, Forensic Fraud Detection, forensic means for court. After we complete our investigation and review all information gathered in our work papers, we are going to have a talk with individuals.

We need to first distinguish the difference between an interview and an interrogation. An interview is simply what we do every day, all day, and that is talking to people and gathering information. In interrogation, our objective is to have that person admit that they did whatever it is that we are investigating. The definition of the type of interview that we will be conducting in forensic questioning is called a behavioral interview. The definition of a behavioral interview is a non-accusatory interview in which a structured set of questions are asked, some of which are for the purpose of eliciting verbal and nonverbal behavioral symptoms indicative of truth and deception. The purpose of this interview is to determine potential involvement of the suspect or witness in the offense under investigation. The investigation does not necessarily have to be a criminal offense, it could be a human resource problem; i.e., a manager and an employee are having a dispute in the workplace, for example, a sexual harassment complaint. It could be an operational audit problem to which, as auditors, we need to explain and verify facts and evidence and policy and procedure violations, or basically any time a person or an organization or a government official needs to know whether or not the suspect or the witness is telling the truth or not. This interviewing/interrogation process must be kept for job-related activities. It must be stressed that these techniques are not to be used with family and friends. The reason you do not want to use these techniques is because sometimes you basically just do not want to find out if someone is telling you a lie.

During this presentation, I will be showing you a training tape detailing various aspects of verbal and non-verbal behavioral cues. Prior to running this tape, I would like to point out a few scenes in the tape which I would disagree with and which could provide a hindrance to obtaining valid and truthful information.

First, in the opening scene of the tape, you see the suspect sitting on a chair with wheels. I prefer utilizing a straight-leg chair with no arm rests. The reason that a wheeled chair would provide a hindrance to your interview session would be because the guilty person or someone that is not being truthful tends to roll away from the interviewer during the interview session. Further, the arm rests tend to restrict the interviewee's natural arm movements.

Another problem that I recognize in this tape is that the interview is conducted in front of an open window. Conducting an interview in front of an open window provides distractions both to the interviewee and to the interviewer. The behavioral interview not only distinguishes the deceptive interviewee, but it also clears truthful subjects in your organization by distinguishing truthful verbal and nonverbal characteristics.

The ideal size for an interview room is approximately 10 feet by 10 feet. It does not have to be elaborate. All that is necessary is two straight-leg chairs and a table in which to rest your case file and to allow the suspect to write their written statement.

(Video is presented.)

The most important point of this tape that we must realize is that lying is unnatural to most people and, as a result, most of us act and talk differently as a result of the stress that the lie creates. Verbal and nonverbal clues are produced by the stress of the lie. It is very significant that the interviewer pay attention to both the verbal and nonverbal clues at the time the question is asked. In order to do this, the interviewer must pay attention to the suspect, and not so much detail as far as writing his notes is concerned. The interviewer looks at the subject and pays attention to his or her verbal and nonverbal behavioral clues. For forensic examiners, the linguistics of the interviewee plays a very important part in the examination process. The use of pronouns and adjectives of the interviewee plays a significant part in our decision in going from an interview session into an interrogation. An example would be, in the training tape, where the subject stated, "Is the child dead yet?" versus "Is my child dead yet?" There is a distancing that the interviewee places between herself and her child.

The ultimate objective, after concluding an interview/interrogation, is to obtain a written statement in which the suspect confesses what they did, how they did it, how long it has been going on, and why. In addition, this always includes any information that they can provide in identifying other people committing other losses or breach of policy and procedures and violations of the organization. If other individuals are identified in this process, then the fraud examination from gathering evidence through interview and interrogation starts all over again with each individual identified.

I would like to point out a significant point between truthful and non-truthful interviewees. Truthful subjects will sit quietly from the beginning while the interviewer is speaking to them. They will not object. There is no attempt at friendliness. They sit very politely, up straight, like their parents taught them to sit up, and pay close attention to the interviewer. The longer the interview takes, then the subject will start to complain and become grouchy and somewhat belligerent. The reason for this is because the intrigue of the investigation has worn off and now the subject is thinking of how far they are falling behind in their other duties. With an untruthful subject, the person starts out immediately from the beginning of the interview/interrogation in either acting belligerent, grouchy or overly friendly. This is an attempt to try to intimidate the interviewer to go away and end the session quickly. Untruthful people will set time restraints for the interview session, indicate that their rights are violated, identify medical problems that they may have, and have exact dates and alibis memorized. The longer the session takes, the quieter the untruthful subject becomes and all time restraints, for example, time stipulations that they have to be out of session in order to pick up their children from the baby sitter, are forgotten with aggressive behavior toward the interviewer diminished to non-existent. The untruthful person goes into the characteristic phase from denial to submission, which is a step away from their admission to whatever it is the interviewer is investigating.

PARTICIPANT QUESTION: John, do you always allow the individual to write his own statement? Are there occasions when you are better off if you write that statement, based upon what he told you, using his words?

MR. CAPIZZI: I prefer to have the suspect write their own statement and commit to it, for two reasons: One, it is something coming from them; and two, I find that, as people write, they usually expand on what they are talking about verbally and remember other details that we may have missed during the verbal dialogue during the interview/interrogation. If someone is illiterate and has a problem with writing, then, of course, we will write the statement for them, however, we will insert various obvious errors that the person will initial and correct, indicating that they have read the statement, they acknowledge it, and that they have corrected it.

MR. RIVERS (United States): I was just wondering, what impact do lawyers have on your ability to determine whether someone is lying? For example, if he gets a lawyer before you can begin your interrogation, are you allowed to interrogate while the lawyer is there? Does that have an impact on determining if someone is lying?

MR. CAPIZZI: Not at all. Normally, we will show up at the location unannounced, so that there is no advance warning to the subjects to be interviewed, and so that the person shows up alone without the attorney present. If an attorney does show up, it does not make any difference whatsoever. If the lawyer permits the interview to proceed, you conduct the interview with both subjects in the same non-threatening, non-accusatory manner that you would conduct an interview with the subject without counsel present. Many interviewers get intimidated because counsel is present. The only difference between the attorney and yourself may be a few years of advanced schooling. Conduct the interview with the idea that both subjects have knowledge of the incident under investigation and proceed with the objective of an admission or an acknowledgement of the subject's involvement in the incident. I would like to stipulate that you will find confessions come quicker and easier if the interview/interrogation is conducted one-on-one between yourself and the subject. Some organizations may require a witness present. If so, follow your organization's policy and procedure. The same format is followed if you have a union representative present with your subject during interview.

When conducting a behavioral interview, if you follow the procedures that the interview is non-threatening, non-accusatory, and remain sincere and develop rapport with your subject once the subject confesses to you, no hostility will be exerted from the interviewee to the interviewer. Interviewees may thank you for interviewing them and feel relieved due to the release of the stress that lying creates after confessing. An interesting point is that after your subject goes home to family and friends and acknowledges that they have confessed and placed their statement in writing, what we call "buyer's remorse" sets in to where they regret, due to advice of family, friends and counsel, confessing. This is when the phone rings from a defense attorney, and the only defense that they have to use against you would be everything from emotional distress, intimidation to false imprisonment. Keep in mind that this interview is non-threatening, non-accusatory. In essence, the person is telling us what they did. We are not telling them.

(See also the Question and Answer Session at the end of Wednesday's presentations.)

Control Objectives for Information and Related Technology (CobiT)

John Lainhart, Inspector General, U.S. House of Representatives

Good afternoon. I very much appreciate the opportunity to be here at the Eleventh Annual International Conference on New Developments in Government Financial Management.

The topic that I am going to talk about is CobiT, or Control Objectives for Information and related Technology. This is a major research project that has been recently completed and published by the Information Systems Audit and Control Association.

The objectives and scope of the CobiT project were to develop, through a research project, generally applicable and accepted standards for good practice for information technology, or IT, control. We wanted this project to be applicable for enterprise-wide information systems, whether it be at the level of the personal computer, the mini-computer, the mainframe computer, or even spread systems like the client-server environment. We started with a framework for control in the IT environment. We based it on the Information Systems Audit and Control Association's Control Objectives, but we changed it dramatically to make it more management-oriented, away from the auditor's perspective and to the management perspective. We aligned the document with *de jure* and *de facto* standards and regulations that existed worldwide. It was based on a critical review of tasks and activities, such as business reengineering.

CobiT is based on generally accepted worldwide standards and regulations: technical standards from ISO, EDIFACT and others; codes of conduct issued by the Council of Europe, OECD, and others; qualification criteria for information technology systems and processes, such as the ITSEC, ISO9000, TCSEC; professional standards in auditing, such as the COSO report, IFAC, the Institute of Internal Auditors, the Information Systems Audit and Control Association, the AICPA standards, and also the General Accounting Office's "Yellow Book" standards, and others as well. We also used industry practices and requirements from industry forums, such as the ESF and the I4, and also government-sponsored platforms, such as IBAG, NIST and DTI. Finally, we looked at emerging industry-specific requirements, such as those in banking, in the electronic commerce area and IT manufacturing.

There are actually three parts of CobiT. What I am going to talk to you about today deals with Part I. This is what we have completed to date. In fact, the kick-off meeting for Phase II of CobiT is the first week in May. What we have completed to date is an Executive Summary, which is available to everybody participating in the conference--the Framework, Control Objectives and Audit Guidelines. Those last three items are what we are going to talk about for the next few minutes in this presentation--the Framework, Control Objectives and Audit Guidelines. There are other parts of CobiT that we are continuing to develop as we speak.

The first part of CobiT is the Framework. As I mentioned earlier, we tried to change the audience for this document. We looked at it from the perspective of management and users. Of course, we could not forget the auditors, who got us where we were with the Information Systems Audit and Control Association. But from a management perspective, we wanted to help management make sure that their information technology investment decisions balanced risks and controls, and we wanted to provide some benchmarks in the IT environment. With respect to users, we wanted to help users obtain assurance on security and control of the products and services that they acquired. Finally, for the auditors, we wanted to help provide a tool for being able to tell management what types of internal controls existed, making opinions on the internal controls for management, and also identifying the minimum controls necessary that are cost-beneficial for the organizations.

The Framework is based on the principles identified in CobiT--the first one being the business processes. The key to the CobiT document is the business processes, the mission-critical activities of the organization, the business objectives. What you need to achieve those objectives are the criteria that we have identified--criteria such as effectiveness, efficiency, confidentiality, integrity, availability, compliance with laws and regulations and reliability of information. That is what is needed in the business processes.

On the other side, we have resources, IT resources, such as data, applications, technology, facilities and people. Those resources produce information. That is what you get out of the use of those resources. The key issue is to make sure that these two match, that we are getting cost-beneficial results from our IT processes.

The business requirements drive the IT resources, which drive the IT processes. We come back to achieving successful business objectives and missions as a result of effectively using the IT resources and processes.

With respect to the business requirements, we broke this down into three categories: quality requirements, fiduciary requirements and security requirements. The quality requirements are what we need to satisfy in order to say that we are meeting our organization's mission, that we are satisfying the objectives of that organization, whether it be manufacturing widgets, controlling Social Security payments, welfare payments, payroll checks--whatever the nature of our business is--making sure that we meet those business objectives and those missions.

For the fiduciary requirements, we did not reinvent the wheel; we used COSO. We have the same requirements and objectives as the COSO report.

With respect to the security requirements, we identified confidentiality, integrity and availability as the key elements. It is interesting to note that these happen to be the same criteria that are used by the United States government in Office of Management and Budget requirements. But as we did the research, we learned that these were the same qualities that were looked at in Japan, in the United Kingdom, in the E.C., in Australia and in private industry as well.

The CobiT Framework is based on identification of information technology domains and processes. We define a domain as a natural grouping of processes, often matching the organization's domain of responsibility or the accomplishment of the business objectives, the business mission. Processes are a series of joint activities with natural control breaks. Activities are actions needed to achieve a measurable result. Activities have a life cycle, whereas tasks, which are below activities, are unique and discrete operations.

That is the framework that we are using in developing our Control Objectives, which is the second part of CobiT. We took those domains and broke them down into four broad categories, which are: planning and organization, the first; acquisition and implementation, the second; delivery and support, the third; and monitoring, the fourth. We took these out of the auditor's jargon and tried to use wording that management would use in the day-to-day activities of the organization.

The first domain, planning and organization, addresses topics such as the strategy and tactics for the information technology's contribution to our organizations, making sure that we are meeting the business objectives. These activities need to be planned, communicated and managed, and proper organization and technological infrastructure must exist in our organizations. These are the topics that we talk about under planning and organization.

The second domain, acquisition and implementation, talks about the realization of the IT strategy. The solutions have been identified, developed or acquired, and implemented. Solutions need to be integrated in the business process. We would also see in this area the change in maintenance of systems, to make sure that the life cycle is continued for these systems.

The third domain is delivery and support. In this domain, you see the actual delivery of the required services, from operations through security, and including training. These activities support the processes that are the main life blood of the organization or the establishment. In this domain, we see the actual applications processing of the data.

The fourth domain deals with the regular assessment of all the IT processes, all that we have talked about before in the first three domains: How well is the organization meeting its objectives through its IT resources and processes? We are also looking at compliance and quality of controls.

I am going to provide a little bit more detail on each of these in just a second, but I would like to give you the bottom line, if you will, for the Control Objectives. CobiT's golden rule is that the IT resources need to be managed by a set of naturally grouped processes in order to provide the information that the enterprise needs to achieve its objectives. That is our bottom line in establishing Control Objectives, and, as you will see later, that is our bottom line in auditing to make sure that we are achieving those objectives, to ensure that our business can meet its mission and its objectives.

With each one of the four domains, we actually created IT processes underneath them which are described as high-level Control Objectives. For the first domain of planning and organization, we have identified eleven high-level Control Objectives. I will highlight just a few. The first one is defining a strategic plan. It is amazing how many audits I have performed where organizations do not have any plan whatsoever as to how they want to bring information technology to bear to solve a business problem. Even those that have a plan do not seem to worry about it. They go off on a tangent very quickly and easily. It is very important that the strategic plan be defined.

With that, we would see the information architecture being defined and the technological direction of the organization being pursued. The other areas follow suit thereafter--managing the investment, communicating management's aims and directions, until we get to the issue of managing projects and managing quality.

I'd like to give you an idea of the level of detail that we go to with detailed Control Objectives for each of the eleven high-level Control Objectives. The first one deals with defining a strategic information technology plan--that first high-level Control Objective that I talked about a second ago. For each one of the high-level Control Objectives, we have more detailed Control Objectives that build on that theme. In this case, defining a strategic information technology plan, the detailed Control Objectives address information technology as part of the organization's long- and short-range plan; information technology long-range plan; information technology long-range planning approach and structure; information technology long-range plan changes; and short-range planning for the information systems function. So under that one category, defining a strategic information technology plan, an organization's information technology plan must match the organization's long- and short-range plan. There has to be an information technology long-range plan. To develop a long-range plan, you must have an approach and a strategy.

The fourth issue deals with change. The plan has to change. There must be mechanisms in place to ensure that the plan is updated on a timely basis. Then, in the last item, we back off from the long-range plan and state that there needs to be a short-range plan that helps you get to the long-range plan. It is a building block of the long-range plan.

The second domain that we have identified is acquisition and implementation. There are six high-level Control Objectives here. With acquisition and implementation, we are looking to identify solutions; to go out and acquire and maintain the software, hardware, the technology infrastructure; to develop and maintain procedures with respect to those; and to install and accredit systems, and manage changes. These high-level Control Objectives, with defining the strategic information technology plan, would have specific detailed Control Objectives under each one of those six areas.

The third domain deals with delivery and support. There are thirteen high-level Control Objectives with respect to this domain. I am going to emphasize DS11. It talks about managing data. This is really where the old application systems reside. This is how we characterize that in these new Control Objectives. It does not matter that you have an application system. The important thing is: What does it produce? Does it produce good, valid data and information? There are actually twenty-five detailed Control Objectives just with that one DS11 high-level Control Objective. We go into a lot of detail, dealing with input, processing, output controls, for the total systems process. We also talk about managing facilities and operations. So we get into the other areas of general controls, like we had in our old Control Objectives. Most of us have talked in those terms for years.

The last domain deals with monitoring. The first item identified is monitoring the processes. This is where we describe management's responsibility, as the stake-owner of the system or the business process. Management has a responsibility to monitor what is going on. In addition, we talk about a quality-assurance function that has responsibilities of ensuring the quality of the systems, the data and the processes.

The second item, obtaining independent assurance, deals with the internal and external audit functions, to ensure that there is a viable internal/external audit function that is performing independent audits of the activities of the information technology environment and of the business.

To aid in the Control Objectives document, we have developed some tools, if you will. The first is called the "waterfall" approach. We follow this in each one of the Control Objectives. We say that the control of whatever the IT process is which satisfies a business requirement--and we identify the business requirement--is enabled by control statements--and we list the control statements--and it has to consider the control practices or the detailed Control Objectives that we have talked about. It is like a building block. In this case, we call it a "waterfall" approach to coming to the final Control Objectives.

In addition to the waterfall, we also used a cube model, like the COSO report used, to describe the Control Objective's IT processes, IT resources and information criteria.

We put these two together in the document to try to tie the waterfall and the cube, to help out in the understanding of the document.

One other aid, a navigational aid, identifies the domain that we are addressing--in this case, acquisition and implementation. With respect to that domain, we look at the information criteria. We have identified which criteria are important with respect to each one of these specific high-level Control Objectives that we are addressing. We put a "P" for primary and an "S" for secondary, to identify which one of those information criteria is the most important, or of primary importance and secondary importance.

Pertinent information technology resources, where they are affected by the Control Objective, are tied back into the waterfall.

The third portion of CobiT deals with Audit Guidelines. Here we make the statement that the objectives of auditing are to provide management with reasonable assurance that Control Objectives are being met; where there are significant control weaknesses, to substantiate the resulting risk; and, finally, to advise management on needed corrective actions.

For the Audit Guidelines we use the waterfall approach as well--hopefully to make it easier to understand the tie between the Control Objectives and the Audit Guidelines. To achieve this, we state that the process is audited by obtaining an understanding of the business requirements, related risks and relevant control measures; evaluating the appropriateness of the stated controls; assessing compliance by testing whether the stated controls are working as prescribed consistently and continuously; and finally, substantiating the risk of the Control Objectives not being met by using analytical techniques and/or consulting alternative sources. The Audit Guidelines are built with those four premises.

In developing the Audit Guidelines, we first had to create an outline or a document that we would use to follow in developing the detailed Audit Guidelines. To do this, we developed a generic Audit Guideline. Each one of the detailed Audit Guidelines follows this format. They tie back to the waterfall that we talked about before. For example, the first element talks about obtaining an understanding. We say that the audit steps to be performed to document the activities underlying the Control Objectives, as well as to identify the stated control measures or procedures in place, are to interview appropriate management and staff to gain an understanding, to document the process-related information technology resources particularly affected by the process under review, and to confirm the understanding of the process under review, the control implications, such as having the officials we are auditing provide us with a walk-through of the process. That would be obtaining an understanding, in the generic sense. It is applied to each one of the Audit Guidelines that we use.

The second area is evaluating the controls. The audit steps to be performed in this area deal with assessing the effectiveness of the control measures in place for the degree to which the Control Objective is achieved. To do this, we would evaluate the appropriateness of control measures for the process under review by considering the information criteria that we talked about before and industry standard practices, and applying auditor professional judgment. We would document the process that exists. We would look at appropriate deliverables, responsibility and accountability, to make sure they are clear and effective. We look at compensating controls, if they exist. At the end of this step, we would hope to conclude the degree to which the Control Objective is met.

Next, in assessing compliance, we have the audit steps to be performed to ensure that the control measures established are working as prescribed consistently and continuously. These are the steps that we perform to achieve that audit objective. We would obtain direct or indirect evidence for selected items or periods to ensure that the procedures have been complied with for the period under review, and we would use both direct and indirect forms of evidence. We would expect to perform a limited review of the adequacy of the process deliverables. As a result, the auditor should determine the level of substantive testing and additional work that is needed to provide assurance that the IT processes are adequate.

The last part of the waterfall is to substantiate the risk. The audit steps to be performed address substantiating the risk of the Control Objective not being met. We would use analytical techniques and/or consult alternative sources. We would document the control weaknesses and the resulting threats and vulnerabilities. Finally, we would identify and document the actual and potential impact.

As I mentioned, this is the generic Audit Guideline that we have developed. This can be used in any environment to come up with specific Audit Guidelines. In the CobiT document we actually have this applied to the Year 2000 issue. We have an Audit Guideline for doing the Year 2000 audit. I think it was last week that I reviewed a client-server Control Objective. We are also applying CobiT to the client-server environment. The Information Systems Audit and Control Association is getting ready to issue that through a grant from the Japanese government, through MITI. That will be coming out soon. So this technique, this template, can be used whatever the issue is, whatever the area under audit is.

I will tie it back to that initial area that I talked about, dealing with defining the strategic information technology plan. The Audit Guidelines are addressed at the high-level Control Objective. So in addition to the generic Audit Guideline, there are a total of thirty-two Audit Guidelines corresponding to the thirty-two high-level Control Objectives. There is an actual Audit Guideline written for each one of these high-level Control Objectives that ties right back to the thirty-two IT processes that we just talked about in each one of the four domains.

This is the one dealing with defining a strategic information technology plan. We list the Control Objectives and then we go through the waterfall for this part of the audit.

In developing the Audit Guidelines, we originally thought that we were going to develop Audit Guidelines at the detailed Control Objectives level, so we would have 200 and some Audit Guidelines. But when we started doing that, we saw that there was so much repetition that it was better to take it up to the high-level Control Objective and allow the auditors to then modify them for the specifics down at the detailed level. So we actually have thirty-three Audit Guidelines (the generic one and thirty-two for the high-level Control Objectives) that help the auditor walk through an entire audit of an information technology process.

That gives you a pretty good overview of the CobiT. Please do not forget the complementary Executive Summary. Thank you very much.

(See the following Question and Answer Session.)

Question and Answer Session

John Capizzi, Principal, Internal Audit Services, Inc.
John Lainhart, Inspector General, U.S. House of Representatives
Donald Wheeler, Acting Director, Office of Special Investigations, GAO

Moderator: Lynette Asselin, Project Director, Casals Associates

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MS. ASSELIN: We have now had an overview of the control objectives, the way the supreme audit agency, GAO, performs its audits for control, and, lastly, how to get people to tell the truth. Do we have any questions in any of these areas?

MR. RIVERS (United States): Exactly what type of audit does the Inspector General of the House of Representatives do? I do not think it is just limited to information technology. I would like to know exactly, in a broad sense, what the program of the Inspector General of the House of Representatives is. Is he auditing the House of Representatives or the programs, the legislation, that they pass?

MR. LAINHART: We definitely do not audit the legislation that is passed. We look at the administrative and financial operations of the House of Representatives, which would include the information technology activities, the management of the House, the administrative side of the House, and the financial statements. We develop an annual audit program. We present it to the House Oversight Committee. They approve it, and we execute that plan. It includes two parts: performance and financial audits, and information technology audits. Each part has about eleven or twelve audits in it. Half of the audits are performed by in-house staff, half are performed through contracting with external audit firms.

MR. ADDA (Ghana): Mr. Wheeler, my question is about the effectiveness of the use of the fraud hotline, the telephonic and electronic reporting of allegations. In Ghana, we would like to use these systems in our computerized integrated financial management system which we are currently developing. However, in our part of the world, we have a peculiar experience, in the sense that people tend to use anonymous letters, in some cases, to victimize or do some witch hunting. In other words, the basis for some of the allegations may not be there at all. If we resort to using electronic and telephonic hot lines to report fraud, how do we minimize the cost of going on wild-goose chases? I may not like Mr. A, and I may decide to just call in or wire in something terrible about him, and then waste the time of the fraud office, investigating only to find out that it does not make sense at all. How could we maintain the effectiveness of the system by maintaining the anonymity of the genuine reporting of fraud through the electronic and telephonic systems?

MR. WHEELER: The fraud hotline is only one of a number of mechanisms that is used to receive information of alleged fraud. I look at it as a big fishnet, into which a lot of information flows. We review each piece of information that comes in. We look at the detail of it, the specificity of it, whether or not the information, on its face, suggests some kind of serious wrongdoing, and if it fits with our knowledge of the programs or the agencies. We make judgments as to which allegations we will investigate ourselves, and which ones we will refer to other government agencies, asking them to let us know what action they have taken and what has resulted. In some instances, we will refer information just as an information item. In some instances, we will not do anything with the information because, based upon our evaluation, it does not merit any action.

The fraud hotline is just one mechanism. It does provide a means by which government employees and others, either for the record or anonymously, can provide us information. But I agree with your concern. You have to evaluate each bit of information that comes in. You have to make decisions on whether or not it merits work, so that you do not go on wild-goose chases.

MR. ADDA (Ghana): So for every one thousand calls that come in, you take all of them and sift through them and decide which ones to look at?

MR. WHEELER: Yes. We will accept all information, but we quickly make judgments as to which ones merit some kind of action. There are different kinds of action that can be taken. I would guess that a sizable percentage does not merit any action at all. Yet I think that a hotline, particularly in the electronic environment, can be one valuable mechanism among many to get a sense of what is going on out there.

MR. ADDA (Ghana): Thank you. I have a second question, for Mr. Capizzi. Listening to you, I expected a lot more on dealing with substance, the substance of the fraud that has been committed. But it seemed as if the emphasis was more on behavior. In Ghana, if you go to our part of the world, language is a problem in the sense that our first language is not English. In the Ivory Coast, the first language is not French. Those working within the government sector speak English or French, yet we are not fluent enough to really express ourselves without having to maybe "twitch" or "itch." So if the emphasis is more on the behavior side of it and not on the substance, how do you really hold somebody responsible when, in fact, he is handicapped on the language side to start with?

MR. CAPIZZI: Prior to doing any type of interview, what we do is a fraud theory on whether or not the person may have committed the crime or the incident, or may not have, and then we start with our weakest suspects and move toward the strongest suspect. That is how we would prioritize our fraud case. By doing it that way, we are obtaining more information on the case at hand. Every auditor knows exactly what his case is, what his file is, in putting together his fraud file. The interview comes in after you have done all that intelligence gathering, taking the raw data and forming it into workable intelligence. The final step is speaking to the individual. Geared to what that person is saying, both verbal and behavioral, you want to clear the innocent people and proceed on with the guilty. In interrogation, your objective is to obtain an admission of "I did it."

It does not matter what language you are dealing with. It could be anything from Russian to English to Martian. Behavioral activity will be stimulated by the stress that the lie creates. That is what you are focusing on, whether to proceed into interrogation for that admission or to stop with the interview and say, "Thank you very much for your cooperation," and move on to your next suspect.

MR. FONSECA (Columbia) (As summarized by translator): Could you tell us a little about the follow-up process in each of your organizations, both for audit and investigation?

MR. WHEELER: GAO has a very structured system for following up on audit findings and audit recommendations. It is a very formal system that communicates to the agency or the program its recommendations, with an expectation that the agency will respond. In some instances, there are certain statutes or directives that require agencies to respond to GAO in terms of the recommendations that are made. GAO regularly follows up with the agencies to keep them honest, to assure that they do take action and they do respond. With respect to investigative matters, particularly those that are referred to executive-branch agencies, we follow up on those as well to determine what action has been taken and what has resulted from that action.

It is very important to us to know that both our audit work and our investigative work have impact. More and more there is emphasis, not on output or the number of audits or investigations that we do, but on outcome, what results from the work that we do. We build that kind of thing into appraisals of our people and into measurements in terms of how well the organization as a whole is doing and how well components of the organization do. So we definitely follow up.

MR. LAINHART: It is interesting that you should ask that question about the follow-up process. Since I came from GAO and came through the Inspector General community, we have followed a very structured audit follow-up process as well. We have a listing of each one of our audit reports with the recommendation and who the responsible officer is. This listing includes what evidence they have provided to close out an audit finding, as well as what is the status of the finding, whether it be closed, partially completed, or not started at all, with estimated completion dates for those that are not started or partially completed.

It is just coincidental that I have a follow-up report in front of me, with a letter to management to get them to agree to the status that we have provided of the recommendations, based on the information that we have gotten from them. It is a very structured process. I have dealt with GAO. It is not quite as detailed as theirs, but it is set up so that I know that the responsible officer has or has not taken action on each one of our audit recommendations.

We have issued probably over 500 audit recommendations. Each one of them has been agreed to by management. There has never yet been one that they have refuted. It will happen, but it has not happened yet. We are following up on each one of those recommendations in the financial statement audit every year, but in the audit that we perform that relates to the area--when we go in to do a new audit in the same area--we would follow up at that time as well.

To answer your second question dealing with the difference between audit and investigation, I issue audit reports to the Speaker of the House, the Majority Leader, the Minority Leader and the House Oversight Committee. I issue investigative reports to the Ethics Committee or the House Oversight Committee. The audit reports are made public. I follow up through this system that we talked about. The investigative reports are also followed up through the system, but they are not made public. When we do our investigations, we make the subject very much aware that there are penalties that go beyond just an audit, where we issue a public report. Penalties could range from legal action that could put somebody in jail to ethics violations that could get employees fired--the whole range. We try to make it clear to them the distinction between an investigation and an audit. An investigation can result in a major criminal or civil action against the individual. We do draw that distinction. We make our audits public, but our investigations are not public.

MR. CAPIZZI: As a fraud examiner, I follow up along with the investigation aspect of proving whether or not the person did commit a violation--criminal or policy and procedural. I follow up with what procedures need to be implemented to enhance the audit process by dealing with the people in the workplace, in the business entity, and what their perspective is on whether controls are maintained.

MR. HAMILTON (United States): Mr. Lainhart, early in the conference, we had a question about the Senate: Does the Senate have an Inspector General? Is it subject to audit, like the House? The suggestion was to wait for your answer. Could you help us out in that regard?

MR. LAINHART: The Senate does not have an Inspector General or an audit function at all. The House created the Inspector General function because of the House banking and postal scandals. The House created the position as a result of some action, if you will, that was needed. The Senate has not felt that they needed the same type of position, I guess. I cannot answer for them.

MR. DESIERTO (Philippines): My question relates to fraud and corruption in development projects in Third World countries. Much has been said about corruption in Third World countries and the implementation of projects. It seems there are only three active role players that have been highlighted in the discussions. These are the donor country, the recipient country and its functionaries, and the auditors. It seems that we have lost sight of the fact that the main player in corruption in the development projects is the corruptor. Very few corruptions would occur without the corruptor. That means the private sector, those contractors who implement the projects. This is only a comment.

My question actually relates to something else. In talking about internal controls, we have discussed quite thoroughly the best procedure to be followed in order to ensure that the integrity will be maintained in all development projects. But have we not considered the need to ensure that the auditors do not conspire with the corrupt functionaries of government? In other words, who will audit the auditors?

MR. WHEELER: I can tell you that with respect to the General Accounting Office, I do not do that. However, the General Accounting Office has joined the House of the United States Congress and the fifty-seven departments and agencies of government that currently have Inspectors General, and we now have our own Inspector General. Part of her duties is to follow up on allegations of misconduct that she may receive concerning both auditors and investigators in the General Accounting Office.

Who investigates the Inspectors General? There is an organization in the executive branch of the U.S. Government that has oversight and coordination responsibilities with regard to Inspectors General, and, of course, the FBI and the Justice Department continue to have authority, regardless of what the organization is.

MR. LAINHART: I will answer that with respect to the Inspectors General in the executive branch of the government. There is a peer review that is performed of those activities on a three-year basis. That is in the GAO "Yellow Book" standards. I think that is the first leg of the mechanism to ensure control of the Inspector General activities. In addition, the Office of Management and Budget has an activity that looks into high-level executive corruption or potential abuses within the Inspector General community as well. That is under the President's Council on Integrity and Efficiency. So I think the Inspectors General in the executive branch have a pretty good mechanism to look at that.

Answering personally from the House, I will have a peer review performed on my activities every three years. But that is about all I have, except for the visibility that I have. I guess that is the other side that we did not talk about. The Inspector General activities in the federal government and the GAO activities both have such high-level visibility that the best control mechanism we have is public disclosure of what we do and public reaction to that. That would certainly ferret out inappropriate activities, I think, pretty quickly.

MR. WHEELER: I can also tell you that the Inspectors General are required to file semiannual reports that set forth both their audit and their investigative activities. I can tell you that there are also oversight committees of the Congress that pay very close attention to the Inspectors General. In fact, recently we completed a review of how the Inspectors General investigated themselves over a five-year period. We did that for the Senate Committee on Governmental Affairs, the Senate Oversight Committee. That report is a public report.

So I think with regard to the Inspector General community there is a great deal of attention given to them because, as John indicated, they have a very high profile.

MR. BLOT (Haiti) (As summarized by translator): My question is general. The Haitians have followed with great interest all the different measures that have been discussed and presented during the conference to strengthen internal control and auditing functions in certain countries. They are concerned with what measures can be taken to do the same in other countries. What assistance is available from the countries with stronger structures to help those that do not have the structure?

MR. WHEELER: GAO has been very active in terms of providing assistance to other countries, primarily through the International Organization of Supreme Audit Institutions. I think that has been the primary vehicle through which we have endeavored to work with other countries and provide them assistance, exchange ideas and communicate, and provide a forum for developing standards for audit and procedures for audit in their own countries. I understand, for example, that GAO's government auditing standards, the Yellow Book, has been translated into a number of languages. I understand that INTOSAI has adopted parallel standards that, in fact, in many instances, have become the international standards. For us, the primary vehicle is INTOSAI.

MS. ASSELIN: I think on the part of the donor community as well--and I am not speaking for any of the three--I have seen where the World Bank, the Inter-American Development Bank, and USAID are supporting efforts in countries, and also on the subregional and regional levels, of supreme audit institutions. Part of the follow-up of the Summit of the Americas has put a renewed emphasis on the role of control.