

# The International Consortium on Governmental Financial Management

Proceedings of:

FOURTEENTH ANNUAL INTERNATIONAL  
FINANCIAL MANAGEMENT CONFERENCE

*Think Globally, Act Locally—  
The Transformation  
to Fiscal Federalism*

September 30 to October 2, 1999

Holiday Inn on the Hill  
Washington, D.C., USA

Sponsoring Organizations:

International Consortium on Government Financial Management

National Association of State Auditors, Comptrollers and Treasurers (NASACT)

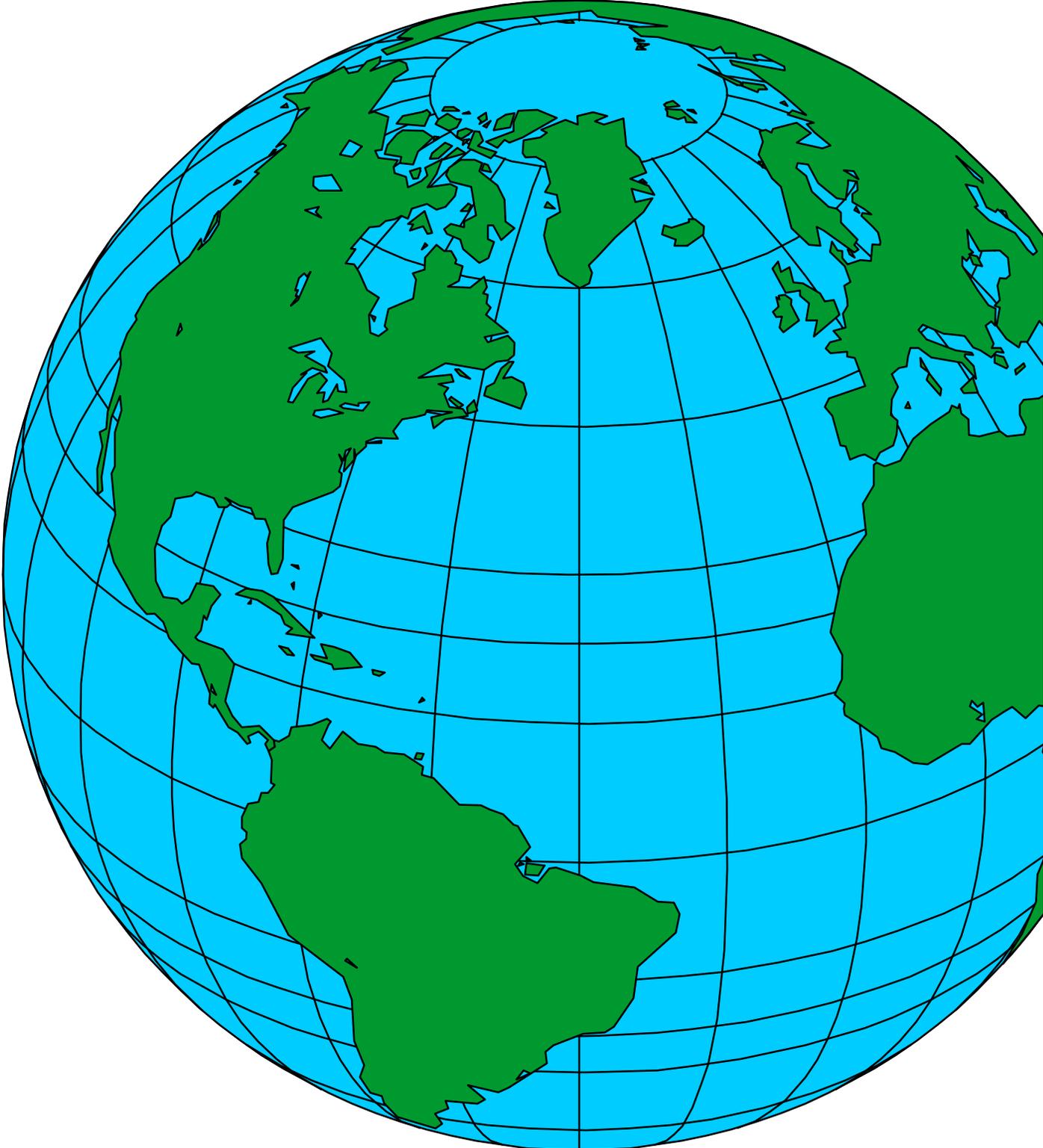
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**President, National Rural Electric Cooperative Association**

**Jim Hamilton, ICGFM Vice President - Conferences and Information**  
**Special Projects Officer, International Monetary Fund**

## **Keynote Address: “Government in the 21<sup>st</sup> Century**

**David M. Walker, Comptroller General of the United States, United States General Accounting Office**, is in the first year of a 15-year term as the 7<sup>th</sup> Comptroller General of the United States. He elaborates on the mission of the General Accounting Office (GAO) and its core values. He discusses the GAO’s focus on strategic planning to help the Congress to “Think Globally–Act Locally,” and concludes with his thoughts about the importance of accountability organizations, now and in the future.

## **Session: Africa**

### **Decentralizing Government Financial Management—Zimbabwe’s Experience: Past, Present and Future**

**Abdulman Eric Harid, Comptroller and Auditor-General, Zimbabwe**, discusses the decentralization of government financial management in Zimbabwe which began with the Public Service Review Commission’s review of delivery services by government. With the transfer of authority from central government to local government, tremendous improvement in performance occurred. Ten ministries, such as Health, Transport and Energy, Lands and Agriculture, were involved in the transfer and are discussed in the presentation.

### **Financial Management in the Public Sector—Malawi**

**H.B. Kalongonda, Auditor General, Malawi**, details several key reforms, including privatization of state-owned organization, the adoption of a cash budget system and implementation of Medium-Term Expenditure Framework procedures, similar to zero-based budgeting. Since the implementation of these financial policy reforms, Malawi has seen a decline in their fiscal deficit.

## **Session: North America**

### **Innovative Investment Education Approach: Training for Investment Managers at the State and Local Levels of Government**

**Orvell Johns, Director, Center for Public Investment Management, Office of the State Treasurer, State of Ohio**, takes an innovative approach to training in public finance and investment management. Among other learning tools, he uses a bond market board game he created called LUQUIDITY.

### **Training in State Government: Good for the Staff, Good for the State**

**Patricia O'Connor, Program Manager, National Association of State Auditors, Comptrollers and Treasurers (NASACT)**, discusses the continued shrinking of the governmental sector of the nation's job market and the corresponding trend toward more complex and technical methods of work. With this comes the need for comprehensive training. Ms. O'Connor advocates in-house training as a less expensive approach to meet this need.

### **Federal Government Financial Management**

**Philip Calder, Chief Accountant, U.S. General Accounting Office (GAO)**, talks about the GAO's desire for agencies to structure their programs to meet overall objectives in terms of outcomes, rather than inputs and outputs. He discusses the need for timely and reliable information and a certain amount of behavior modification to accomplish those objectives.

## **Roundtable Discussion**

**James B. Durnil, ICGFM President, President, National Rural Electric Cooperative Association**, with a background in both the private and public sectors, relates several incidences of corruption he's encountered in his career. He moderates the roundtable discussion which focuses on solutions to fraud and corruption.

## **ICGFM Principal Organization Members Meeting on Sharing Functions and Increasing Benefits**

**Jim Hamilton, ICGFM Vice President—Conferences and Information, Special Projects Officer, International Monetary Fund**, moderates a panel of principal organization members who discuss how to share resources to optimize the impact of the Consortium on the profession of government financial management and to better advertise activities. The meeting explored ways to get the word out about the benefits of Consortium conferences and activities and ways to provide unique services to the membership. Networking through shared e-mail lists and establishing a clearinghouse database of government and private organizations providing technical assistance in government financial management in each country of the world are two suggestions.

**Friday, October 1, 1999**

**Session: Russia / CIS / Eastern Europe**

**Decentralizing Public Finances in Poland—Observations of the Supreme Chamber of Control**

**Jacek Jezierski, Vice President, The Supreme Chamber of Control, Poland**, shares information about the transition of fiscal authority from the national level to the municipal level in his country. The total success of early attempts to decentralize leads to an accelerated effort in selected cities.

**Preparation for and Conducting Audits of the Execution of the Federal Budget on the Basis of Information Technology in Russia**

**Katchim M. Karmokov, Chairman, Accounts Chamber of the Russian Federation, Russia**, chronicles the establishment of the Accounts Chamber of the Russian Federation, a new agency of financial monitoring in his country, which reports to the legislative branch of the government. He describes the process of the federal budget monitoring system—preliminary, real-time and subsequent monitoring and auditing.

**Session: Europe**

**The Decentralization of Public Expenditures in Spain and its Control**

**Miguel Angel Cabezas de Herrera, President of Public Sector Audit Institutions, Spain**, focuses on the European experience in decentralization of government services. Because of the three types of government in the European continent—federal, unitarian and regional countries, the task of distribution of responsibility is not easy. He suggests a wise combination of both centralization and decentralization.

**Broad Mission of the Office of General Inspectorate for Social Affairs**

**Christian Rollet, Head of the General Inspectorate for Social Affairs, Republic of France**, provides a general overview of the French organization in the field of public expenditures. He discusses internal control mechanisms and audit measures at the national level.

**Session: South America**

**Fiscal Federalism as it Applies to Argentina—A Case Study**

**Eduardo Benjamin Grinberg, President of the Tribunal de Cuentas, Province of Buenos Aires, Argentina**, discusses how the contracting process in the public sector can be improved. He advocates the modification of traditional procedures.

**Brazil in the Third Millennium: All the Truth Behind the Scenes**

**Alex Oliveira Rodrigues de Lima, Counselor Conselho Reg. Contabilidade do Estado Sao Paulo, Brazil**, speaks of Brazil's new liberalism and desire for technological globalization. He discusses investment from abroad and tax reform as alternatives to revenue from state-owned companies.

### **Fiscal Issues of Decentralization—The Venezuelan Experience**

**Filippo Vagnoni, Special Delegate of the Comptroller General, Venezuela**, delineates the obstacles in the administrative decentralization process in Venezuela. He describes it as a process with tremendous conflict between local and central entities, and is hopeful that solutions discussed by the Constitutional Assembly will head the process in another direction.

### **Roundtable Discussion**

**Patricia O'Connor, Program Manager, National Association of State Auditors, Comptrollers and Treasurers (NASACT)**, moderates a discussion of several topics including international accounting and auditing standards, duplication of audit work, and international certification of the government financial manager.

## **Saturday, October 2, 1999**

### **Roundtable Discussion**

**John Radford, Administrator, Oregon State Controller's Office**, moderates a discussion by governmental financial managers from around the world on the management of their offices and operations, the managerial concepts of leadership and ethics, and issues relating to financial systems. Much of the discussion focuses on anti-corruption activities and the power of the press in electing today's leaders.

### **Closing Remarks**

**Jim Hamilton, ICGFM Vice President - Conferences and Information  
Special Projects Officer, International Monetary Fund**

## Conference Welcome

**James B. Durnil, ICGFM President**  
**President, National Rural Electric Cooperatives Association Ltd.**

**James R. Hamilton, ICGFM Vice President - Conferences and Information**  
**Special Projects Officer, International Monetary Fund**

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**James B. Durnil, ICGFM President**  
**President, National Rural Electric Cooperatives Association International Ltd.**

Good morning ladies and gentlemen, and welcome to our conference. On behalf of the International Consortium on Governmental Financial Management, I would like to welcome you to Washington, D.C., and to our Fourteenth Annual Conference on Governmental Financial Management.

The Consortium is again pleased to partner with the Association of Government Accountants and PriceWaterhouseCoopers to provide you an excellent conference this week. The theme of our conference is “Think Globally—Act Locally, The Transformation to Fiscal Federalism.” We appreciate the support of the staff of the National Association of State Auditors, Controllers and Treasurers, and the AGA for planning the conference. Our appreciation also extends to PriceWaterhouseCoopers for sponsoring our reception tomorrow evening, and especially to Ron Points. Ron will not be here until Friday, so if you happen to see Ron on Friday, please tell him thanks. In the meantime, you can thank Paul Lohneis, partner from PriceWaterhouseCoopers, who is here with us today.

The International Consortium continues to partner with governments around the world in trying to keep abreast of the latest developments in the financial management community, and in the technology revolution that is facing us today. We continue to try to serve you better and to serve our membership. The Consortium provides you with ready access to information that we have today on our website. If you look in the conference program, you can find the address of our website where you can actually view information on public financial management in different languages. For example, the deliberations from our March conference in Miami are on the website, or you can choose a subject of your interest.

As I was going through the list of attendees for the conference here today, I was impressed by the number of countries that are attending. Looking at the participant list this year, I see delegations from the Philippines, China, Poland, Dominican Republic, all regions of the world, even coming from as far as Mongolia. I think that tells you about the interest that people have in our conference. Over 30 countries are represented.

We also have very active support for this conference from the World Bank and from USAID. I don't know if you are aware, but they usually try to schedule this conference to follow the World Bank conference each year, so we are able to draw some very good speakers.

I thank you for attending and supporting our conference. I also want to give special thanks to Michelle Shirley of the Association of Government Accountants, and Relmond Van Daniker and Evie Barry of the National Association of State Auditors, Controllers and Treasurers for the support they provided in arranging this conference. I also thank Jim Hamilton, our Vice President for Conferences, for helping in the planning.

On Thursday and Friday afternoons, we will have an hour and a half roundtable discussion. We had asked people to submit topics of interest to discuss and share with the attendees. We have received several topics, and if you have any subjects you would like to discuss with attendees in a roundtable manner, please contact Jim Hamilton.

As I said earlier, this is our fourteenth conference, and I believe we have an excellent agenda. I encourage you to participate, become involved, ask questions, and come to our special event Thursday evening. Again, thank you for coming to our meeting.

**James R. Hamilton, ICGFM Vice President - Conferences and Information  
Special Projects Officer, International Monetary Fund**

Thanks to all of you who have come and all of you who have helped to make this event possible.

I just wanted to thank some of the people who contributed to the organization and planning of this conference. Thanks, of course, to Relmond Van Daniker, the Executive Director of NASACT, who is the Chairman of our Conference Committee; Steve Keneally and Al Hrabek who started the planning but left for another position working in the same area; Evie Barry who did a lot of the administrative work; Charlie Culkin of the AGA, their Executive Director and his staff, which includes Michelle Shirley, Lisa Thatcher, Marie Force and Thomas Raevis, their financial officer; Audrey Dysland, our Secretary General who has provided a lot of continuity with her past experience with these conferences; and, of course, Virginia Robinson, who has provided some fine publications on the table and in your packet, including the newsletter and the Digest, hot off the press.

As Jim Durnil mentioned, USAID has also helped through their country offices by providing assistance where necessary to get you here. We appreciate that.

When you're putting together a conference team, it is similar to putting together a football team. It takes several seasons to get it rolling and to build a winning team. We've only had since January to put our team together for this game, and we've had some substitutions. As I mentioned, when Steve and Al left NASACT we had to compensate. Also, we didn't have a full-time conference manager until Michelle Shirley joined us. We hope by the end of the conference that you can say we won the game!!

We feel we selected a very interesting topic as a theme for the conference: fiscal decentralization. Over the past ten years, many governments around the world are decentralizing along a federal state model which gives more tax and spending authority to the state and local government levels. We hope by having speakers from the state and provincial level, as well as the federal level, we can promote a good discussion on the subject. Studies have shown that there is a positive correlation between good governance and decentralized structures. The challenge is to have well-trained financial management professionals at the state and local levels. If that isn't the case, the federal level will resist the process

of devolution. We are fortunate, as Jim Durnil mentioned, that Relmond Van Daniker, who is the Executive Director of NASACT, has brought his organization onboard as a major organization member of the Consortium, and that he took on the role of organizing this conference.

NASACT has given considerable technical assistance to many of the countries in Eastern Europe over the past few years.

Speakers will provide us their perspectives on this process in their countries and some examples of how it works. Or, if it doesn't work, they'll tell you that too. We have a great group of authoritative speakers from most of the regions of the world here for your benefit.

Mr. Van Daniker, based on his experience in managing other successful conferences, has incorporated the roundtable discussion format into the conference. This is a new format to our organization. It is formulated to encourage as much participation from as many countries and as many individuals as possible. Time won't permit as many questions after each presentation as we've done in the past. So we encourage you to bring forward to me and the other moderators the questions you would like to present. You may want to be the one to present your question, or we can put it together with other similar questions to make sure your topic is not missed.

A complete transcript of all the presentations and questions and answers during the roundtable discussions will be provided to you in a diskette format if you desire. You will also find the conference proceedings posted to our web page, <http://www.financenet.gov/icgfm.htm>, a couple months after the conference.

Welcome to Washington, D.C. and to the ICGFM. Enjoy the great presentations prepared for you, and feel free to participate in the roundtable discussions. At any time during the conference, please give us your informal feedback on how the conference is going, and at the end, fill out the conference evaluation forms so we can make each conference more relevant to your needs.

## **Keynote Address**

### **Government in the 21st Century**

**David M. Walker, Comptroller General of the United States  
U.S. General Accounting Office**

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I appreciate the opportunity to be here with you. In actuality, I just flew in last evening from Atlanta, Georgia, and I'm going to be leaving immediately after this to fly back. Those of you who know me know that I lived in Atlanta before being appointed Comptroller General of the United States, and in addition to addressing this distinguished group this morning, I have to do such things as oversee the packing and loading of my furniture at my home in Atlanta this afternoon. So it is going to be quite a diverse set of challenges today.

I noticed on the agenda that there is an hour and a half allotted for my session. In the United States, we operate under a constitutional form of government. In my opinion, for anybody to speak for an hour and a half is unconstitutional because it would be viewed as cruel and unusual punishment. Not just for me, but more importantly for you. Nonetheless, I know that we have people here from all parts of the world. I appreciate the opportunity to address this distinguished group. What I am going to do is remark on issues I think you would find of interest. Since I must leave for Atlanta after this session, I want to leave plenty of time at the end for interaction in the form of questions and answers before we wrap up at no later than ten o'clock.

As Jim Durnil mentioned, I am in the 10th month of a 15-year term. For the record, I am the 7<sup>th</sup> Comptroller General of the United States, so there haven't been that many. Believe it or not, of my six predecessors, four of the six stayed the entire 15 years. The other two had health problems, one of which was legitimate. The other probably came about because of a series of rough congressional hearings which can have an adverse affect on your health. So far I haven't had that problem, but I am still early in my term. I really think that my last two predecessors, Elmer Staats and Chuck Bowsher would have kept this job for life had they been allowed. But it is a 15-year nonrenewable term. There was a two-year period where we had an Acting Comptroller General who did a very good job, but after this two-year period there is a pent-up demand of both internal and external issues with which to deal.

What I would like to do this morning is to talk about who we are at the GAO, how we go about our job, and our focus on some strategic planning to help the Congress which is right on target with your theme, "Think Globally—Act Locally." Then, I'd like to talk a bit about financial management and the importance of accountability organizations, both now and in the future. And, as I said, leave plenty of time for questions and answers.

Think globally and act locally. A little later I'm going to talk to you about some of the things that we're doing in the area of strategic planning. One of the basic constructs of our strategic planning recognizes that many of the challenges that we face in the United States you also face in your various nations around the world. In fact, we have now started to focus on themes that have no borders. The

fact that they have no borders means that, by definition, we need additional communication, coordination, cooperation and, as appropriate, collaboration to try to address mutual issues of interest and concern, mutual challenges that face our nations and the world at large.

Before I get into those, I'd like to elaborate on what my job is and what the General Accounting Office is all about. There are some misnomers about GAO, and I think it is important to lay those to rest before I get into my other topics. As Jim Durnil mentioned, I am the Comptroller General of the United States and, in that, I am the Chief Executive Officer of the U.S. General Accounting Office which is the largest agency in the legislative branch of government. But I'm also the Chief Accountability Officer of the United States Government. I use the word accountability intentionally, because accountability is a much broader term than accounting. Accounting is a term that tends to subject oneself to being stereotyped. Yes, I have an Accounting degree. Yes, I'm a Certified Public Accountant in several states. Yes, I had a financial management and auditing background, among other things, prior to being appointed Comptroller General. I'm proud of that. But the fact of the matter is that there are many that believe when you use the word "accounting," you are a bean counter, you wear a green eye shade, you wear an arm band, and that all you are doing is adding up numbers. You and I both know that that is not true. But perceptions are important and must be addressed.

In reality, when you look at what we do at the General Accounting Office, it is much broader than accounting. Yes, we promulgate accounting and reporting standards for the federal government, working with the FASAB, the Secretary of the Treasury and the Director of OMB. Yes, we promulgate auditing standards for many state and local and independent auditors that deal with federal programs. Yes, we are the auditors and I am the audit partner on the largest, most diverse, most complex entity on the face of this earth, otherwise known as the United States Government, with over \$1.8 trillion a year in annual expenditures.

But the fact of the matter is that 75 percent of our time and effort is focused on program evaluation, policy analysis, legal research, investigations—items that don't directly relate to accounting and auditing, but nonetheless are important. The common denominator in all these different activities is the word "accountability." As a result, a better descriptor of us might be the Government Accountability Office. At least the acronym is still GAO.

We have an interesting mission. Our mission is to help our Congress maximize the performance and assure the accountability of the United States Government for the benefit of the American people. That is a fairly significant challenge. We are a multi-disciplinary professional services organization, and we have clients just like every professional services organization. Our client happens to be the Congress of the United States. It is comprised of 540 individuals—100 in the Senate, 435 House members and five delegates that represent the various U.S. possessions. It is challenging enough to have one client, but when you have 540 it makes it that much more challenging.

To add to the challenge and complexity, all 540 are politicians, all 540 have terms to which they are elected—in the House every two years, in the Senate every six. They all belong to a political party. They all represent a specific geographic area. They all have ideas and opinions, and they all are pretty self-confident that they know what the right answer is. So it makes our job particularly challenging.

Given these special challenges, we commit ourselves to a set of core values that will help us transcend what otherwise could be partisan political battles, and the natural tendency to focus on today

rather than today and tomorrow. Our job, to a great extent, is to help the Congress do their job today, but also to be able to bring to the Congress' attention information, facts and analyses that can help put them in a position to deal with issues before they become crises. Our job is to be able to look at issues that are at the horizon and beyond, to bring those to the attention of the Congress such that they can deal with them before they are required to deal with them, and to deal with them in a more timely and more considered manner. In many ways, you could say that our job is to take assertions, of which there are many, and information, which is virtually limitless in today's age of the Internet, and convert them into facts and knowledge.

Over half of our 3,300 professionals have doctorate or masters degrees from some of the best universities in this country, with specialties in virtually everything that you can imagine—health, accounting, information technology, transportation, weapons systems, the environment—virtually every issue that you can imagine.

So what are the key themes that we use to guide what we do? What are our core values? First, accountability. Accountability describes what we do. I've already discussed that. The second is integrity. Integrity describes how we do what we do—professional, objective, fact-based, nonpartisan, nonideological, fair and balanced. You may not normally be accustomed to hearing those last two words from an accountability organization or an auditor because part of our job is to find out where things have gone wrong and how things can be done better. I believe it is very important that we look for ways to improve economy, efficiency and effectiveness. As a result, we often will point out what has gone wrong and what can be done better. I think it is also very important for us to recognize where progress is being made, and to note where things have gone right. When we see that, we should acknowledge it. When we see best practices, we should share them. Our job is not just to hold people accountable. Our job is also to help maximize the performance of the government.

If all you do is talk about what is wrong with government, what went wrong, then it has a demotivating effect, and it also has the effect of having the press and the American public, or the public in your particular countries, believe that government is inept and that government can't do much right. I think it is important that we recognize that there are certain things that only government can do, and that government does do certain things well, and that government, hopefully through our efforts and others, will continue to improve and to maximize its performance. We also have to help assure its accountability.

Therefore, I'm hoping that, through our efforts, we not only will point out what needs to be fixed, but we can point out what is going right. We'll be fair and balanced and, in the end, we'll help to not only maximize performance and assure accountability, but we'll hopefully help to improve the public's confidence in and respect for their government. Because, ultimately, we work for the people. That is very important. So our second key core value is integrity.

Our third core value is reliability. That's how our work must be received—timely, accurate, useful, clear and candid. One of the reasons that I have a 15-year term, and can only be removed by impeachment, is because somebody in the government has to be able to look beyond today. Somebody has to be able to tell it like it is—to say what they mean, to mean what they say, on issues that aren't today's issues, but are incredibly important for our country and for our citizens. As a result, I believe that one of the reasons the Comptroller General of the United States was given that 15-year term was

to be in that position—to be in the position to say what you mean, mean what you say and tell it like it is.

In summary, three core values—accountability (what we do), integrity (how we do it, and reliability (how it needs to be received).

Our job, in part, is to help combat myopia, short-sightedness, tunnel vision, siloism and stovepipe mentalities, which can all-too-frequently afflict governments around the world. What we're trying to do is not just deal with today, but to help position the Congress and the country to focus on the issues of tomorrow—to be able to rise above partisan battles and individual interests to pursue what I refer to as the greater good, the collective best interests of all, rather than the narrow interests of a few.

I'll give you an example. In this country we're fortunate that today we operate in a position of unified budget surplus. After years of continued annual deficits, due to concerted action by both the legislative branch and the executive branch, due to continued fiscal discipline on a common goal to bring whatever the deficit was down to zero, we have eliminated the deficit. After many years of concerted effort and bipartisan action, we've accomplished that.

We're now in a situation where we have a unified budget surplus and we're projected to have a unified budget surplus at the federal level for a number of years in the future. But, believe it or not, things are actually, in some ways, tougher now than they were when we had a deficit. Why? Because when we had a deficit, everybody was unified to eliminate the deficit. We had one number that we were focusing on—whatever that deficit number was. Today we face a situation where we have surplus which is projected to grow for a number of years (and I'll come back to that) and where there is a pent-up demand for spending increases, tax cuts or other types of actions that would reduce or eliminate the surplus. This pent-up demand, if added together, far exceeds the surplus. It is multiple times the surplus. One of the great debates that we have going on in our capital today is what to do with this surplus; and how should we position ourselves going forward?

Importantly, one has to remember that these are projected budget surpluses. Underline the word “projected.” They are based upon assumptions which may or may not prove to be valid. The world today, in large part, is experiencing fairly good economic times. But the business cycle has not been repealed. The fact of the matter is that we have to recognize that these projected surpluses may not occur and, in addition, even if they do occur, we know in our country, and many of yours as well, that we face new deficits in years ahead due to pension and health obligations associated with the Baby Boom Generation, my generation, the group that was born from 1946 until 1964, and also the Baby Bust Generation, or Generation X. We know that we face emerging challenges and future fiscal threats because of those obligations.

So, as a result, we try to speak to the Congress and the executive branch, which is headed by the President, to help them focus not just on today but to help them understand that we have major challenges in the years ahead. Our Congress and the President need to be prudent about what they do today to help better position us for tomorrow. They have an opportunity to use the surplus in a way that can help increase the economic growth and economic capacity of the future, to help lessen the load on future generations with regard to some of these pension and health costs, and to help put us in a better position to continue to improve the standard of living for future generations of our citizens. But they also have an obligation to begin to restructure our pension and health programs to ensure that we

don't have these huge deficits in the years ahead. Many of your nations face similar challenges. So it is important, as accountability professionals, that we not just focus on today, but we also focus on tomorrow.

We're telling our Congress and the President that the least risk would be to pay down the debt—the trillions of dollars of public debt that has built up during years of deficits—because that will surely help us today and it will surely help us tomorrow. Paying down debt would be low-risk to no-risk. The next higher level would be temporary tax cuts or spending increases. The highest level of risk would be permanent tax cuts or entitlement spending increases. They would serve to hard-code, over a number of years, reductions in the bottom line, which is what we care about, and wouldn't begin to address some of the challenges that we face.

These are tough messages. They are messages that many people would prefer not to hear. But part of our job as accountability professionals is to say what we mean, to mean what we say and to tell it like it is, as long as it's backed up with hard-core facts and considered analysis—and as long as they are consistent with those core values that I mentioned before.

Let me get now to strategic planning, which I think directly relates to the purpose and theme of this conference. We in the United States have something called the Government Performance and Results Act (GPRA). This act was passed several years ago and is intended to help our government at the federal level focus on being more performance-oriented—more results-oriented. As you know, many governments around the world tend to have fairly consistently defined cultures. Those cultures tend to be described as hierarchal, process-oriented, and siloed or stove piped. We are trying to help effectuate a cultural transformation to make government more partnerial, more results-oriented, and more integrated in its approach. GPRA is intended to help facilitate the movement of government toward a more results-oriented focus, focusing on outcomes that make a difference to the citizens—outcomes they can relate to, understand and appreciate, whether it be at the federal, state or local level.

One of the things that you have to do under GPRA is to come up with a strategic plan. Frankly, any organization, whether it be in government, whether it be for profit or whether it be not-for-profit, needs to have a strategic plan of action. You've got to know where you want to go, and you've got to have a plan of attack to get there. At the GAO, we're helping our client, the Congress of the United States, by developing a strategic plan for the General Accounting Office that is based upon input from the Congress, and supplemented by our own extensive experience and institutional memory. The strategic plan will delineate the key issues on which we will focus for the Congress in the six years ahead.

These issues are based upon six key themes, themes which have no boundaries. They have no boundaries internationally; they have no boundaries domestically. Let me share with you what those themes are. First, globalization—globalization of enterprises, globalization of economies, globalization of markets, globalization of financial systems, globalization of information. Yes, we have an ever-increasing number of countries, of geopolitical boundaries in the world. But, with regard to many issues, there are no boundaries. They present global challenges.

The second theme, security—changing security threats. We live in a post-Cold War era. The challenges today from a security standpoint are very different than what they were not too many years ago. The bigger challenges today might be rogue nations, regional conflicts, terrorism, organized crime,

drugs and other things, rather than major military confrontation. Nuclear proliferation and proliferation of other weapons of mass destruction, obviously, is still a matter of concern.

The third theme is demographics. Many industrialized nations face aging societies; longer life spans; fewer and fewer workers supporting more and more retirees; and a change in the face of their work force with more women, minorities and immigrants coming into their work force each year. Probably one of the largest untapped natural resources that we have, which will become more important in the future, are our senior citizens, where more and more are wanting to retire earlier even though they are living longer. We are going to need their intellectual capital; we're going to need their other abilities to continue to fuel economic growth in the years ahead.

The next theme, quality of life—education being number one. If one does not have a good education, chances are you're not going to have a good quality of life. Environment clearly has no boundaries. Nor does urbanization or health or the work-family relationships among other things.

Technology is the next theme. There are the positive aspects of technology in the form of enhanced productivity and reduced costs, but there is also the concern side of technology—dehumanization of society and increased security threats, both as to national security and personal privacy.

Last, but not least, the sixth theme, government transformation. The process consists of trying to transform the culture of government; looking at not only the short-term but the long-term fiscal positions of government; delegating more and more responsibility closer to the people; privatizing parts of government that can better be done in the private sector; contracting out non-core functions; and managing for results and outcomes, rather than focusing on process and outputs.

These six key themes—globalization, security, demographics, quality of life, technology and government transformation—have no boundaries. In many cases, issues that we deal with involve multiple themes. What this means is that accountability organizations like ours and yours, to an increasing extent, will need to employ matrix management principles internally, and develop additional partnership arrangements externally—cooperative arrangements between national governments, between federal, state and local governments and more cooperative arrangements between the public and the private sector to address these challenges.

I think it is important that we as accountability professionals recognize that our responsibility goes beyond financial management. Yes, financial management is important. We all have responsibilities dealing with financial management. And accounting is important—accounting is how you keep score, whether it be in the for-profit sector, in government, or the not-for-profit sector. As anything in life, how you keep score counts. Here in the United States, our federal government has been a lag indicator. We have been behind the times in the area of financial management because our private sector enterprises, for decades, have had to have audited financial statements based upon generally accepted accounting principles, subject to generally accepted auditing standards to be able to render an opinion on those financial statements. Our state and local governments have for years had the same requirement. But the federal government in the United States has just recently been subjected to this requirement. While we've made considerable progress in a number of the major departments and agencies to get them in a position where they can receive a so-called clean opinion, or an unqualified opinion on their financial statements, and hopefully no material control weaknesses and no compliance

problems either, the fact is we have a ways to go in some of our departments and agencies, and in particular, the Department of Defense.

Let me share an example of how we as accountability professionals have a role to play here, and talk a little bit more about financial management. As I look at my responsibilities as Comptroller General and the GAO's responsibilities, there are two sides of government. There is the business side of government, where we are focused primarily on how can we help to improve economy and efficiency as well as assuring accountability. And there is the mission side of government, and missions vary. The Department of Defense's mission is very different than Health and Human Services. Health and Human Services is very different from the Environmental Protection Agency. So missions vary. But on the mission side, we focus on effectiveness—how can we help to enhance effectiveness in achieving their respective mission?

Let's use our Department of Defense as an example. In terms of effectiveness, I would respectfully suggest that our military is probably the most effective on earth. So, on that, we would get an A. But on economy and efficiency, our Department of Defense would probably get a D. They do a great job of fighting and winning armed conflicts. But they don't do as good a job on accounting and on trying to ensure economy and efficiency in going about their business of peacetime, and hopefully it will continue to be peacetime for many, many years ahead.

I recently was quoted on one of our network television stations as saying that our Defense Department had several billion dollars worth of equipment that it couldn't locate and didn't have accounting or control records to know where that equipment was. My quote was, "Well, they may have it, they just don't know where it is." The fact of the matter is that we live in a time of constrained resources. We need to get the most out of whatever those resources are. It is not just important to focus on effectiveness. Obviously, in the area of defense, effectiveness is the most important criteria, but we also need to be concerned with economy and efficiency.

Let me go back to financial management. There are many people that believe that the whole reason that we have financial management is to be able to get a clean opinion on financial statements. Well, that's not the case. While getting an unqualified opinion on financial statements, whether at the department or agency level or at the government level, is clearly a goal for which we strive, it is not the end in and of itself. The purpose of sound financial management is to make sure that government officials have timely, accurate and useful information to make decisions day in and day out to maximize performance and ensure accountability over public resources. You can get a clean opinion on your financial statements and yet not achieve that objective.

In fact, we have many departments and agencies that have done just that. They have undertaken heroic efforts to be able to get numbers that can be audited as of the beginning of the year and the end of the year. Then maybe ten months after the end of the year they can get a clean opinion on the prior year's financial statements. But during the year, they don't have timely, accurate or useful information to be able to make ongoing management decisions. In my opinion they've missed the boat. The clean opinion is important, but that's not the end game. Sound internal controls are also critically important. Effective mechanisms to ensure compliance with applicable laws are also important in order to maintain public confidence.

But our role as financial management professionals should not stop solely with financial matters. We have a broader responsibility. We have a responsibility to also assist in helping to maximize the performance of our governments for the benefit of our citizens. That means that we have a role to play with regard to strategic planning. We have a role to play with regard to performance management. We have a role to play with regard to information technology. We have a role to play with regard to human capital or people strategies. The three key enablers in being able to maximize the performance of any enterprise are people, process and technology. We need to help our respective governments address all three of these.

In a time of increasing globalization, more and more of the activities that we deal with are bilateral or multilateral in nature. As a result, it is extremely important that we maintain effective communication and cooperation arrangements to address these issues of mutual interest and concern. Let me give you examples. We have a number of multilateral institutions such as the World Bank, the IMF, the U.N., NATO, that by definition are intended to be above any nation, and are intended to be a multilateral institution whereby no nation can dictate in and of itself what should happen. For economy, efficiency, culture and other reasons, these organizations need their own accountability mechanisms in order to maximize their performance and assure their accountability to donor nations and to other interested parties.

Rightly or wrongly, our Congress increasingly is asking us to get involved in multilateral issues. They are asking us to review the controls of the World Bank, the planning process of NATO, the economy and efficiency efforts of the U.N., because we, and many of your nations, are committing considerable resources both in financial and non-financial terms to these types of multilateral entities. These put us in a very uncomfortable position, because I understand that by definition these were intended to be multilateral institutions. Obviously, it doesn't make a whole lot of sense to have each of the participating nations have their Auditors General or Comptrollers General doing work with regard to these multilateral institutions. That wouldn't be economical, that wouldn't be efficient, and it may not even be effective. You'd have so many people tied up in responding to these reviews, that they wouldn't be able to focus on their primary mission.

I think we have a collective responsibility to work with these institutions to ensure that they have strong, credible and reliable accountability mechanisms, whether it be their internal control structure, their financial information management systems, their internal audit function, the number of people they have, the skills they have, the resources they have, or the independence they have. I think it is in our collective interest to make sure that we're working together to make sure that these institutions have strong accountability organizations, that our respective legislators (e.g., Congresses and Parliaments) will be able to rely upon these institutions to a greater extent than they do today. I also think that we have an obligation as accountability professionals to try to partner with, as appropriate, the accountability institutions of these multilateral institutions to help them do their job to the extent that they are trying to do work within our borders. Ultimately these institutions need to stand on their own, and ultimately I'd like to not have to do much work with regard to these institutions. But we're not there yet. We need to work together to try to get to that point.

In closing, let me tell you what I would like to achieve as my primary objectives during my tenure as Comptroller General. There are at least three. First, I want to try to help the Congress, our client, move to a more performance-oriented and accountable federal government, one that is focused more on results than process with a significant emphasis on performance management—managing for results.

That means bringing together strategic planning, financial management, information technology and human capital strategies in a way that maximizes performance and ensures accountability.

Secondly, I want to help our Congress deal with the emerging challenges that have to be addressed—in particular, entitlement programs. The tremendous financial obligations associated with current unfunded promises associated with pension and health obligations will put us in a rapidly escalating deficit position in years ahead if something is not done to reform these programs.

Thirdly, I want to make the GAO a model agency, not only for the United States, but for the world as it relates to all major aspects of operations—strategic planning, financial management, information technology, client service, human capital strategy, etc. I believe, as an accountability organization, as an organization who reviews, evaluates and critiques others, that we have an obligation to be as good or better than anybody we review. Or else, we're hypocrites. I do not want to be called a hypocrite. Fortunately we're there in many cases. We'll get there in those that we aren't, and we're going to stay there.

And I would add a fourth, given this group. I want to help our Congress and our nation build stronger bridges both domestically with our federal, state and local governments and accountability organizations, and internationally with multilateral as well as in bilateral efforts to ensure that we are communicating, coordinating, cooperating and, as appropriate, collaborating to deal with the tremendous number of issues and challenges that we share. We have much to learn from each other. There are many ways in which the United States is a leader, but there are many ways in which we are not. We should share experiences. We should share best practices. We should learn from each other's mistakes, and we should learn from each other's successes.

One of the things we are doing at the GAO is when we address major issues, whether it be the environment, transportation or how to deal with surpluses, whether it be pension reform, health care or whatever other issue, we are asking, "What have other countries done?" We don't have all the answers within our borders. I believe the United States can do just about anything it puts its mind to, given enough time and enough resources. But I believe that we can do things better and faster if we share knowledge and experience. I hope to work with you and others to do that in the years ahead.

I thank you for your time and attention.

MICHAEL PARRY (United Kingdom): I'd like to ask you, for those of us who are not so familiar with the systems in the U.S., about the relationship between yourself and the comparable organizations in the states, and to what extent you are able to influence the way that they operate.

DAVID WALKER (United States): I am Chairman of something called the Intergovernmental Audit Forum. The Intergovernmental Audit Forum has representatives from a range of accountability organizations at the federal, state and local level. For example, in addition to the General Accounting Office which I represent, we have representatives from each of the Offices of Inspectors General. Our 24 major departments and agency each have an Inspector General. Their job is to focus on overseeing or conducting the financial statement audit for their department or agency, and to fighting fraud, waste, abuse and mismanagement within their department or agency. So they are part of this Intergovernmental Audit Forum.

In addition, state, city and county auditors are members of this audit forum. There are a number of them on a regional basis throughout the country where federal, state and local officials get together periodically to address issues of mutual interest and concern. Once or twice a year we get together on a national basis.

For example, in promulgating auditing standards, we get together on a recurring basis because we're finding in our country there is more and more shared responsibility. There are more and more circumstances where the federal government is providing resources to the state government and potentially the local government to accomplish an objective. Therefore, you have more diffused accountability and we need to work together to make sure that we're providing effective oversight and accountability.

Also, I might add, I travel frequently outside of Washington, D.C. Two weeks ago I met with the Auditor General of Texas and other state officials to talk about mutual issues of interest and concern. I quite frequently address state and local auditors and participate in forums with them as well.

FELIPE CASTRO (Dominican Republic): Here in the United States your job depends on the Senate presenting an option, and the President of the country making a selection. But in a country such as mine, the position of Comptroller is determined by the executive branch. There is no relationship between the legislative and the executive. So decisions that might be good, that might be favorable for the country, don't necessarily have any input from the Senate, or, should I say, from the legislative and the executive branches together. How would you bring attention to the need for a better relationship for the benefit of the country as a whole?

DAVID WALKER (United States): Well first, whether the Comptroller's Office reports to the legislative branch or the executive branch, there are challenges that have to be faced to address some of the issues such as strategic planning. Part of it has to do with how your government structure is set up and how your political system is set up. Let me share our experience.

In 1921, there was a budget act that was passed in the United States which did two things. It created something called the Bureau of the Budget in the executive branch. It is now referred to as the Office of Management and Budget. It also created the General Accounting Office in the legislative branch, because, in our form of government, we have three branches and each are intended to provide checks and balances on the other. We found that throughout the first 100-plus years of our nation the legislative branch did not have an effective mechanism to deal with many of the issues which I've discussed. So they created an entity in the legislative branch to provide a check and balance on the executive branch. Candidly, when the General Accounting Office was created in 1921, it was primarily focused on approving vouchers for payment. Now it is fundamentally transformed to conducting the operations I've discussed with you.

As far as how we can work together, INTOSAI, the International Organization of Supreme Audit Institutions, of which I'm on the governing board, is an organization comprised of Auditors General or Comptrollers General from 179 nations around the world. I am actively involved in INTOSAI. Yes, I'm on the board, but we are actively involved in INTOSAI in contributing to its committees and contributing to a number of its projects. I would encourage any Auditor General's Office to be actively involved in INTOSAI. There is a Latin American group currently headed by the Auditor General of Peru. I met with him and the Auditor General of Paraguay about two weeks ago, and we did a live

television broadcast to several countries in this hemisphere on the role of accountability organizations like ours in combating government corruption, money laundering and other issues you deal with on a multilateral basis.

In addition, we at the GAO have other unilateral initiatives. We have a fellows program where, right now, we have individuals from about 17 nations that have come to GAO to take part in a developmental program on what we do and how we go about doing things. In fact, I'm pleased to say that several Auditors General around the world are graduates of this fellowship program.

Again, I strongly encourage you to get involved with the Latin American Regional Forum of INTOSAI. This is the first step you should take.

AGUSTIN URENA (Costa Rica): Back in my country, we also have a Congress agency but we don't have as strong a relationship as the one you have up here with your Congress. So, in this sense, I would like to know if it is difficult to deal with the political features of your Congress. Is it difficult to deal with both Republicans and Democrats? And how do you balance this in order to be fully independent and avoid accusations of bias in your reports?

DAVID WALKER (United States): Excellent question. It is a considerable challenge. Let me touch on two things. First, the strategic planning process that focuses on key things is a first for us. We're working with the Congress to focus on this from a broader standpoint.

Your second issue: how do we deal with our client in a way that we don't get caught up in the partisan battles? Two ways. First, our congressional relations effort: I think it is important to have clearly defined, well-documented and transparent policies and procedures in how we set our priorities and allocate our resources in the work we are doing for the Congress. We want to prevent surprises. I also think it is important for us to have a very active and ongoing congressional relations effort, an outreach effort with our client if you will, geared to both members and key staff. I spend a lot of my time on that. Virtually every day I'm on The Hill for at least one meeting with either a committee or a member of Congress on some subject. That is important.

Secondly, our core values: one of the primary reasons I worked to define these core values for our agency (it was one of the first things that I did) was to help us not get caught up in these partisan battles. In order to do that, you have to be committed to a set of values to rise above partisan politics. You have to be committed to a set of values to which you can refer and that's what we've done. Part of those values, the integrity value, says, "professional, objective, fact-based, non-partisan, non-ideological, fair and balanced." We have to operate that way. If we don't, we're not very valuable to anybody. So I've found that having clearly defined policies and procedures, and the outreach effort with The Hill combined with a set of core values puts us in a position to deal pretty effectively. I have to invoke those quite frequently, as recently as yesterday. But it has worked.

FILIPPO VAGNONI (Venezuela): You spoke about the globalization of many factors. Perhaps one that affects our countries greatly is corruption. This factor of corruption affects the person who corrupts as well as the person who is corrupted. Corruption occurs in industrialized countries or in very wealthy countries. In Washington, at the beginning, there was a very interesting conference where they said that they were going to start programs of cooperation that could go far in resolving or at least containing this phenomenon of generalized corruption. You have spoken of relationships. You've

talked about regional organizations as you've spoken about auditors. Now there is an organization of special investigation that goes beyond the evaluation of programs or accountability. So what results have you had in this program of special investigation, and what are you doing in this context to contain this phenomenon of corruption?

DAVID WALKER (United States): One of the primary focuses of INTOSAI is how to fight corruption by ensuring sound, highly qualified and independent Auditor General Offices and Comptroller General Offices, and by providing training and other types of information sharing to do that. I mentioned one program that I participated in recently that dealt directly with that topic.

However, more needs to be done. If you look at corruption, there are several things that corrupt. One that is virtually universal is money. In today's global economy, where one can move money back and forth across borders electronically in milliseconds, I think we need to think differently about how we can best work together to address this. In some ways, it is more than just the Auditors General working together, it is the legislative bodies working together to determine what types of laws and what types of disclosures need to be in place. We need to work with financial institutions and other parties in order to provide information, an audit trail if you will, that can be followed to discourage participation in money laundering or other such schemes.

In most anything in government there are three things you have to have to get the job done effectively. You have to have incentives, safeguards and transparency. We don't have adequate incentives (and sometimes incentives can be penalties) or safeguards or adequate transparency with regard to a lot of the movement of money involved in corruption schemes. I think that's something that we as Auditors General must address. We're going to have to work with our client, and we're going to have to encourage our clients to work together. I don't think it can be done without working on a multilateral basis. It can't be done just by looking at accountability institutions. We must look at laws, regulations and disclosures as well.

I'll give you one example. We published a report recently dealing with Mr. Salinas and were able to trace what happened with certain funds. The money came out of Mexico; it went through a U.S. institution to an offshore entity. The corruption involved money and the money left the country very, very quickly. The money wasn't in our country, but there was some involvement from a financial institution in our country. And so one of the things that we're looking at is what can be done to provide better transparency in order to provide more disincentives for engaging in those type activities.

AGNESS CHILINDA (Zambia): You explained what the GAO does, and what you do for Congress. Would you please comment on the accountability of GAO? To whom are you accountable and how?

DAVID WALKER (United States): I do not report to a single person. Ironically, while I'm appointed by the President, my appointment process starts in the Congress and it ends in the Congress. I surely don't work for the President. In fact, part of my job is to assure the executive branch's accountability to the legislative branch under the constitution. So it is a little ironic that the President makes the appointment. The reason he does so to give the position more credibility, more power, more respect, because you being appointed by the tops of two branches of government.

There is a 10-member commission which had to come up with at least three candidates for Comptroller General. The commission is comprised of leadership of both parties in our Senate and in our House. I try to use those individuals as kind of an informal oversight board, if you will. That's what I did to come up with our strategic planning approach, our congressional protocols and outreach initiatives and other major initiatives that we've undertaken. Obviously you can't deal with 540 individuals. There are a lot of differences of opinion in the Congress, about what we should or shouldn't be doing. So what I try to do is deal with a small enough group that I can get to agree and then I roll it out to everybody else.

ANA SANCHEZ PACIELLO (Paraguay): Which institution do you think should do the performance auditing on the management of loans given by international financial institutions like the World Bank?

DAVID WALKER (United States): Well, with regard to the World Bank and IMF, my view is that they need to have strong, credible, reliable accountability organizations internally. They do have organizations, and they're trying to do what they can in this regard. But I think we need to work together as accountability professionals to make sure that they've got the independence, the resources and the ability to get the job done. I think in some circumstances we're going to have to work with them cooperatively in order to address selected projects. For example, I met with my colleague, Mr. Karmokov from the Russian Federation, for breakfast this morning, and one of the things we talked about is: what can we do to work together, what can we do to try to help the World Bank in whatever efforts it might be undertaking in Russia? So I think there will be circumstances in which we need to have cooperative arrangements between those institutions' accountability organizations and individual SAIs as well.

JOSE PADILLA (Honduras): What do you believe is the role of the GAO in advocating better methods of operation, such as the process of privatization or integration?

DAVID WALKER (United States): Well, I think that we all have to recognize that we all have clients. For most supreme audit institutions, the client is in the legislative branch. It is the Congress. There are some where the client is not the Congress. We do have to serve our client and, in our case, a vast majority of all the projects that we do is at the request of the Congress. I do believe that as part of that service we have an obligation to help our client in the area of looking at the broader picture, a more strategic picture, the longer view and the broader view. That is what we're trying to do through our strategic planning effort. That's what we're trying to do through our testimonies. That's what we're trying to do through the many reports that we issue.

For example, we recently had a request from the Congress to look at the implications of committing our troops in Bosnia. We wanted to answer the question that we were asked, and we did. However, I insisted that we put it in a broader context—that we not just look at the narrow issue, but at the broader issue of the Balkans, at the broader issue of the role of NATO, the U.S.'s role in NATO, so that our response made sense from a broader perspective. I think we have that responsibility. I think we have to give the clients what they want, but we also have a responsibility to give them what they need. Sometimes we're in the best position to look broader, and we're in the best position to look longer than they are. They may be primarily driven by committees, or primarily driven by parties. By definition those are limiting factors even though the individuals themselves may have the ability to do what we do, they may not have the time or they may not have the mechanism to be able to do what we are.

JAIME GONZALES (Philippines): You said that one of the trusts of the General Accounting Office under your administration is to put more emphasis on outputs, outcomes, rather than on processes and inputs. My question is: what mechanisms are now in place in your office to put these trusts into effect?

DAVID WALKER (United States): Well first, we have to define what our performance measures are as an institution. Then we have to define the appropriate performance measures for organizational entities and individuals within our organization. We're in the process of updating those right now. One example of an outcome measure is what we call financial benefits. By that I mean: how much, in money, did we save as a result of the work that we do? In 1998, the financial benefits, some of which are permanent differences, some which are timing differences, amounted to close to \$20 billion. We're also trying to measure the effects of some of the testimonies we give and some of the reports that we give—whether or not the Congress enacts certain laws or whether or not certain regulatory reforms occur or whether or not certain actions take place as a result of what we do. In other words, what results from our reports? What benefit is derived from those reports that we can relate back to our Congress? And, just as importantly, what benefits are derived by the American people who ultimately pay us?

You have to measure performance at the organizational level, and then you have to take it down to the individual level. I'm a big believer that the individual performance appraisals for everybody that works for us have to be linked to our overall mission, to our core values, and to our individual objectives. They have to be held accountable and they have to be rewarded for contributions they make toward helping us achieve our institutional objectives.

Thank you very much. It is a pleasure being with you, and I wish you a successful conference.

## **Session: Africa**

### **Decentralizing Government Financial Management**

#### **Zimbabwe's Experience: Past, Present and Future**

**Abdulman Eric Harid, Comptroller and Auditor-General, Zimbabwe**

### **Financial Management in the Public Sector - Malawi**

**H.B. Kalongonda, Auditor General, Malawi**

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#### **Abdulman Eric Harid, Comptroller and Auditor-General, Zimbabwe**

Good morning ladies and gentlemen. Before I get into my main topic, for those of you who have not been to Africa, I thought I would start by telling you what the name "Zimbabwe" means. "Zimbabwe" is a shortened name for a word that means "a house of stone." This is usually depicted as the palace which belonged to our King.

Zimbabwe is situated in southern central Africa between the two big rivers of Limpopo on the south and the Zambezi River on the north and northwest. The countries that border Zimbabwe are Zambia to the north, South Africa to the south, Botswana and Namibia to the southwest and Mozambique on the eastern side.

When we look at Zimbabwe, the 1992 census shows that the population of Zimbabwe is 10.4 million. It is estimated that by the end of this year in December, the population will rise to 13.1 million. It is expected that by the year 2005, the population will be 15.5 million. Zimbabwe's area is about 390,245 square kilometers. In other words, it is about three times the size of England or nearly as big as California.

In the Constitution of Zimbabwe, the President is the head of state and also commander of chief of the defense forces. There is a Parliament of 150 elected members. Of those, 120 are actually elected. The others are appointed by the President to represent the customary chiefs and other minority groups. We have a judiciary that is headed by a Supreme Court, and a Chief Justice who is the head of our judicial system. Then we've got a High Court, and below that we've got the Magistrate Courts. In the local areas, we have chiefs who preside over the customary justice of the country. We also have a Small Claims Court where people can go for claims without necessarily engaging a lawyer. We also have the Office of the Ombudsman which takes care of investigations on any action taken by an officer or authority in the exercise of administration functions.

Currently, Zimbabwe is in the fourth year of implementing the second phase of market-based economic reforms. The reform program, popularly known as Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) has as its main objective the creation of a stable microeconomic

environment which allows increased savings and investment in order to achieve higher goals and improvement in the standard of living for all its citizens.

During the first three years of the ZIMPREST program, the highest growth was achieved at seven percent in 1996, with a lower growth rate of two percent in 1997 and an estimated 1.6 percent in 1998. The major factors behind the weak performance during the last two years were: the sharp depreciation in the Zimbabwe dollar in 1998, which was mainly due to low prices for our major minerals on the international market as well as low international prices of some of our agriculture products like tobacco; the slowing down in global economic performance in 1998 which reduced demand for exports; and sporadic rainfall, because our economy is so dependent on agriculture it cuts across the economy itself. So in the 1997 season, agricultural output was reduced.

The one outstanding achievement during the first three years of the program has been the marked improvement in Zimbabwe's fiscal performance. Zimbabwe has managed to reduce its budget deficit as a percentage of GDP from 12.9 in fiscal year 1994-95 to 6.4 in 1997-98. I thought that might give you some idea of the Zimbabwe economy itself.

To go into the topic of my discussion, decentralization started off in Zimbabwe after the Public Service Review Commission looked at the delivery of services by government. The finding of the Public Service Review Commission was that it was taking too long to make decisions. As an example, workers from remote areas in our country knew exactly what their problems were. But when they made recommendations, these recommendations went to the provisional level and to the head office of the Minister of Local Government and National Housing. By the time the Minister of Local Government and National Housing made a decision, often it was after the financial year itself. So the recommendation was that government should transfer most of its powers to those people who had direct knowledge of the problems in the field. So the first step was the transfer of a wide range of powers, authorities, rules and functions from central government to local authorities.

Then came the decentralization within government itself and the promotion of progressive decentralization of government functions to rural district councils and urban local authorities. Central government was charged with accelerating the decentralization of responsibilities and the increased access of resources to the rural district councils and urban local authorities.

The central government was called upon to develop the capacity of rural district councils to plan, implement and manage their own development programs. The problem under this aspect is that central government, during the years, produced the expertise to run the whole country. When they transferred these responsibilities to local authorities, it meant that central government personnel would have to be engaged in training personnel to handle that job. This created its own set of problems.

Another step in decentralization is the legislative transfer of functions and authority from central government to local authorities. The government of Zimbabwe ensured that transfer of these responsibilities was clearly legislated so that nobody could say, "No, we didn't exactly mean that they should have those powers." They have that authority under an act of Parliament.

Ministries must use the same local institutions for the implementation and management of decentralized functions. The ministers, of which there are about 10 in our government, will be transferring their authority to the local authorities. But once they transfer that, they are not going to create any other means to implement those programs.

It will be the ministries' responsibility to supervise and ensure that standards are maintained and implemented cautiously and progressively. This is an important aspect in Zimbabwe. The process shouldn't be rushed at all, but should be done slowly and progressively while achieving results.

Sector ministries retain the power and the authority to set standards, monitor performance and consistency with national policies and standards, and intervene appropriately to ensure compliance. If the Ministry of Health transfers its health responsibilities to local authorities, it will ensure that standards are kept, and that policies are uniformly applied throughout the country. The same applies with the Ministry of Transport and other ministries.

Central government will continue to be responsible for the provision of trunk services which impact upon more than one local authority area or are of a national character. In other words, government will not ask any local authority to do a particular function that transcends other local authorities. Those will be taken care of by central government. The functions that feed the local authority itself will be the responsibility of the local authorities.

The Minister of Local Government and National Housing will coordinate and facilitate the transfer of powers and functions by line ministries. Instead of each minister trying to approach the local authorities, they will work through the Minister of Local Government and National Housing. The Minister of Local Government will take care of the legislation that will be needed to make such transfers.

All grant monies for recurrent and capital expenditure sourced by line ministries and earmarked for the rural district councils will be disbursed directly to the rural district councils. The line ministries will channel all loans through the Ministry of Local Government, who shall serve as a conduit and channel it to the rural district councils. The Minister of Local Government will coordinate and facilitate in the transfer of power and functions by line ministries.

In Zimbabwe, there are two levels for the collection of taxes—central government and local government. Rural district councils and local governments have also been given the power to collect taxes.

The Public Service Commission which, in our country, is in charge of employing people in the public service, will transfer personnel from central government to the rural district councils if necessary for decentralization. You don't want to transfer authority to do certain work without the capacity to be able to carry it out. That capacity includes human resources as well as financial resources.

There are 10 ministries involved in the transfer of authorities. I'll touch on each of them.

The Ministry of Public Service, Labour and Social Welfare had the responsibility for food relief in times of drought. Zimbabwe suffers from quite a few droughts. In the past, the Ministry of Public Service, Labour and Social Welfare was responsible for food relief to affected citizens. Now they will transfer this power to the local authorities. They are in the field. They know who is affected. They can address the situation in the field.

Also to be transferred will be responsibility for education and health assistance to orphans and other destitutes; food and health assistance to the aged, disabled and infirm; and the screening and identification of deserving cases, but excluding refugees. What used to happen in the past was that the Minister of the Public Service Labour and Social Welfare would try to screen people who are about 1,000 kilometers away from them. This was not really effective. In transferring this to the local authorities who are in touch with those people who are affected, at least one hopes that efficiency will be improved. The funds for such welfare activities will be sourced by the Ministry of Public Service Labour and Social Welfare, but disbursed directly to the rural district councils. So the Ministry itself will still carry on with sourcing of funds.

The Ministry of Local Government and National Housing, by its name, is the main actor in the transfer of these authorities. The rural district councils will be responsible for housing construction and management and where the Ministry intervenes and constructs houses, the management of such houses shall, subject to the granting of the usual borrowing powers and the relevant council by-laws, be handed over to the rural district councils. The Ministry of Local Government and National Housing would source for funds and disburse them directly to the councils. Also, loans to other districts would be channeled through the Ministry of Local Government and National Housing, including those loans from the National Housing Fund directly to the rural district councils.

The Ministry of Health is responsible for the procurement and management of ambulances. But once they get them, they send them to the rural district councils. The responsibility for the hiring of all staff and their conditions of service, including salaries and allowances, also will be transferred to the local authorities. The provision of public sanitary services including effluent treatment and removal has moved to the rural district councils. The provision of child welfare and nutrition services were transferred to the local authorities. The funds for these activities are sourced by the Ministry of Health and disbursed directly to the councils. All assets, moveable and immovable, such as buildings, vehicles, plant and equipment belonging to government will be transferred to the councils themselves. The transfer of any further responsibilities should (and this is the underlying principle) be cautious and gradual taking cognizance of the council's capacity to absorb and manage the new responsibilities.

The Ministry of Transport and Energy is in charge of the national roads. It will transfer responsibility for non-state roads and bridge construction and maintenance to the District Development Fund. Rural and urban authorities will be given that authority and empowered financially so they can help local authorities in building the roads.

The Ministry of Education, Sport and Culture will transfer the siting, construction and maintenance of schools, creches and school libraries; the establishment and maintenance of school grounds; the procurement of textbooks and stationery other than those materials procured using per capita grants which are disbursed directly to the schools; and the collection of levies, fees and other charges for the running of schools. The Ministry of Education would source for the funds, but the disbursements will be made directly to the local authorities.

The Minister of Mines, Environment and Tourism will transfer the management and sustainable utilization of natural resources in local authority areas to the rural district councils. The benefits of this responsibility should accrue directly to the rural district councils and benefit the local authorities. In the past, those fees collected would be sent over to central government, and then the rural district

authorities would have to apply at the beginning of the financial year for those resources now that that has changed.

The Ministry of Rural Resources and Water Development will also transfer the administration and use of communal land; the construction of small and medium-size dams; the provision of boreholes and wells; and the supply of potable water to growth points, service centers, mines and small towns. The income that accrues will accrue to the rural district councils.

The Ministry of National Affairs, Employment Creation and Cooperatives is more or less a service ministry. So, at this moment in time, nothing is perceived as needing transfer to the rural district councils.

We have talked about the Ministry of Local Government and National Housing. It will create the correct institutional environment for the implementation of the policies, laws and programs for other ministries; coordinate the implementation of the decentralization process in line with the agreed principles; and answer to other ministries where the local institutions inhibit the fulfillment of their policies, laws and programs. As I said initially, the Ministry of Local Government and National Housing is more or less the coordinator of the decentralization in my country. It shall also source both general development loans and grant monies and disburse such monies directly to the rural district councils. It will grant borrowing powers to the rural district councils in respect to borrowings from the National Housing Loan fund.

We come now to the Ministry of Lands and Agriculture who will transfer the collection of dipping fees to the rural district councils so that at least those fees will accrue to the local authorities. The Communal Area Cattle Sales Trust Fund is a fund that embraces the selling of communal owned cattle, and that is to be transferred to the rural district councils.

There are other areas for future consideration: the management of smallholder irrigation schemes and related infrastructure; marketing of agricultural produce; input, supply and distribution of construction of storage warehouses; livestock communal grazing schemes and feedlots; and drought mitigation activities. These are the areas that will be addressed. They have not been decentralized as we speak, but in the future this is what is going to happen.

Let me touch on the sources of revenue for local authorities. There is property tax and tax on licenses, wildlife tax, and on forests within a local government area. In Zimbabwe, we have hardwood timber. If it is situated in a local authority and people come and fell that timber, the local authority can levy a tax on that. Income tax and corporate tax are still within the control of central government, so this is one area where decentralization has not taken place.

Sources of revenue in the rural district councils include grants from central government to supplement earmarked programs. Another source is property taxes and levies. This includes the land levy and licensing of enterprises as well as vehicles. User charges are another source—refuse, sewer and water charges. There are also income generating projects. Some of the local authorities have formed trading companies. These companies can generate more revenue, and that generally will accrue to the local authority for the conduct of their own business. Interest on investments that accrue from surplus funds is another source of revenue.

There is also wildlife and campfire income, and this is quite an important aspect in Zimbabwe which is generally misunderstood. At one time we had a problems with scientists. We argued that we would like to cull our elephants because if we don't, they become so overpopulated that they destroy the fields and the crops of the people in the communal areas.

The Communal Land Forest Produce Act, which I have talked about, is a source of income whereby the councils have power to tax indigenous timber. There is also miscellaneous revenue like vendor licenses, vehicle licenses and other minor charges.

There are also sources of income for urban local authorities. There are user charges for water, sewer, refuse removal and rent; rate property tax on land and buildings—this is usually quite a big source; central government transfers including grants and loans from government; license fees on business activities; floating stocks on the market to raise funds; investment; the Capital Development Fund for capital projects; and miscellaneous parking fees, vendor fees and other minor charges.

The Urban Development Corporation brought in the aspect of decentralization of the audit function in the public sector and the Urban Development Corporation was given the power to audit all rural and local authorities. Until then, everything else was housed in the Office of the Comptroller and Auditor General.

Now I can talk about the decentralization within the government itself. The first issue is the budget reform. The budget reform will empower managers through control of their own budget. In the past, once budget items had been accepted by Parliament, no ministry could transfer money from one area to another area where it is more needed. They had to go to Treasury to get that authority. Now that function has been decentralized.

Budget control is being decentralized in two respects. In the first instance, the Ministry of Finance is decentralizing to line ministries. At the same time, line ministries are decentralizing to their departments and their provincial headquarters so that people in their own areas ultimately are able to control and utilize their budgets.

The Minister of Finance is looking at the new Public Financial Management System (PFMS) to replace their existing system which has specific problems. It is not totally computerized. When the ministries want the payments done, they send in requisitions. After a while, those requisitions get processed. Sometimes payments are only processed twice a month. The government's payment process has always been unpopular.

The Ministry is bringing in a new system, and it is expected that everybody will be online. The line ministries themselves will be able to control their own spending. Obviously, what it will mean is they will know what is committed, what is spent, etc., and this should create better efficiency and management.

In a nutshell, this is the decentralization that is taking place in my country, in Zimbabwe. I have brought a paper on this subject which you can get from the conference organizers. I've also brought a few books on Zimbabwe for those of you who are interested. We house one of the seven wonders of the world, the Victoria Falls. If you have seen it, you know it dwarfs the Niagra Falls, and I would say, "You ain't seen nothing yet." So, come to Zimbabwe.

## **H.B. Kalongonda, Auditor General, Malawi**

To begin with, I thank you very much, and I should thank Eric Harid for covering three-quarters of my paper. The decentralization of financial management in Malawi is also taking place, but it will be fully implemented next year after the local authority elections. The process of decentralization as regards to the budgeting aspect was started sometime back.

In my paper, you will see I indicated that the process of budgeting starts from the cost centers. The cost centers are in the remote areas, in the local areas, and it goes up to the Minister of Finance. If you like, the budgeting process is a bottom-up process. The Minister of Finance merely coordinates.

To begin, I should also say that the Government of Malawi is going through a policy reform process. Most of the sectors are reforming to adapt themselves in the new environment. Since 1994 we have seen a great change in financial management. We see that we have benefitted quite a lot from the transition to this stage.

My government took privatization as a key to financial reform. At one point, the government had over 100 organizations which were either fully owned by the state or the state owned some shares. These organizations were given preferential treatment. Privatization of these organizations would ease local capital problems. Local people may not have the resources to buy shares of the corporations, but government now sets up a fund that helps local people to participate in the privatization process. So we are moving in the right direction, trying now to move the economy from the government to the people.

Central to my paper, in connection with financial management, is the budgeting process. Now, public sector financial management in Malawi is regulated by several acts of Parliament. Among them is the constitution. Then we have the Finance and Audit Act which is going through reform as well. Then we have the Treasury instructions which state how money should be collected, accounted for in the consolidated fund, and disbursed.

Since 1993, we have seen a change in the way we budget. In the past, we used what we call incremental procedures where we said, "Ministry X last year spent Y amount. And this year, inflation has been so much, and the activities have increased so much, then we increase by 5 percent to 10 percent." That type of budget system actually had a lot of problems. It never recognized changing environment, never recognized what activities are falling off the system, new activities coming up.

The Government of Malawi, along with the World Bank, had to review the system. We found out that Malawi had to adopt what we call Medium-Term Expenditure Framework (MTEF) procedures. These procedures are tailor-made in a sense that they assume nothing. It is like a zero budget. And then you come up with, "Okay, what are our activities?" These activities gradually start from the cost centers. We have to justify what they are going to do with the money, what sort of things they are going to do, and are they really in the interest of the public? Are they cost effective? Then it goes from the local cost centers to the line ministries, then to the Treasury.

I must tell you why MTEF was conceived. Primarily there were four reasons. The first one was to improve the macroeconomic balance by developing consistent and realistic estimates of available resources, both domestic and foreign. The second one was to restructure the rationalization of resource allocation so that priority areas receive adequate funding. The third one was merely to move away from the incremental approach in preparing the budget. Therefore, we also had to integrate. We formerly had two budgets—one for the current budget and the other one for development. Now we have one. We had to integrate the current and development budget so that those who are controlling would be able to monitor it without any difficulty. The fourth one was to plan for the introduction of forward budgeting. That has yet to be done. We will attempt it when we see that MTEF works well.

For the budget process and preparation in general, the Ministry of Finance is the main coordinator. It has a budget department responsible for coordinating the collection of information and making decisions with the line ministries. The process starts in December. The ministries are supposed to submit their requirements based on need and priorities. I've already indicated that resources are limited. Therefore, each cost center has to justify what they want to do, the human resources they need, their capacity to implement.

The first control will be with the line ministry. The line ministry must be convinced that the cost center has everything in place. It has the capacity to implement.

The line ministries will consolidate all the cost centers' budgets and then send them to the Ministry of Finance. Then the Ministry of Finance will look at individual ministries, and invite the accounting offices in the ministries, one by one, to come and testify they have consolidated the requirement of funds.

Often, the Minister of Finance will say, "Look, you have given us all this. You are only supposed to spend so much. Can you go back and prioritize your expenditure?" And then they'll go home again and look at their priorities. Within priorities you must have more priorities because of the limited funding.

If after they have done the work they still say "We need this money," the Ministry of Finance looks at their priorities. Their highest priorities are those of the social sector, like education, agriculture and health. Those receive the bulk of the budget, just like any other developing countries. These ministries are crucial.

After the budget has been presented to the ministry and the Ministry of Finance is convinced, then it passes. In the event they are not convinced, sometimes the Ministry of Finance makes cuts with which nobody is pleased. They have to look at the whole picture.

Once the budget has been passed, it has to be consolidated. Before that budget document goes to Parliament, it goes to the Committee of Ministers responsible for the budget. They look at it according to the needs of the people. They always look at the needs of the people in the rural areas. Are we answering the needs of the people through this budget? Are we going to do these projects? If this committee is convinced, then the budget document goes to Parliament. The Minister of Finance delivers it during the budget session.

While the recurrent budget and the development budget appear in one document, one side is looking at the recurrent and the other side is looking at the development. Now, on the development side, as I said, they look at the macroeconomic situation. That is where you will find donor monies and also local money for projects. This one is scrutinized by our economic affairs section or department, and it goes through what we call the Public Sector Investment Program (PSIP). The PSIP is really a program which looks at all the development endeavors through the development budget. So they have the bits and pieces from the rural area and the cost centers, and project-by-project, they see who is financing it, how much comes from Malawi government and how much is donor, and so on and so forth. So that's the development budget.

After the budget has been approved, then we go backwards as a budgetary cycle. Then it goes back to the spending agencies, ministries, line ministries, and down to the cost centers. In Malawi, expenditure payments have been decentralized to the rural or to the cost centers. The line ministry has nothing to do with paying for a project. They pay for themselves. But what they have instituted is the control mechanism. The line ministry which has ultimately taken the responsibility ensures that, on a monthly basis, returns are sent to the ministry so that they are aware of expenditures incurred by that cost center.

The accounting offices, or controlling officers in the ministries, have very elaborate, clear instructions or mandates in regard to controlling expenditure. When we say expenditure we are talking about procurement of goods and services. I must also say that a system which has complemented the strength of the Medium-Term Expenditure Framework is cash budgeting. We have a cash budgeting system in the sense that government spends only what it has. That is the cash budgeting system. You don't just borrow. To allow this system to work properly, the ministries are funded on a monthly basis. To make the control even stronger, they are only funded to the extent of the previous month's return to the Minister of the Finance.

You can say that the budget itself is divided into twelve parts, on a monthly basis. But it doesn't mean that you get equal funding. "Okay, I have a \$12 million budget, and that translates to \$1 million a month." It doesn't work that way. The Minister of Finance looks at it differently. "Minister X's budget, on a monthly basis, is \$1 million. Now, then how much did we collect last month?" If they collected less than that from you, you won't get \$1 million. What the Treasury receives determines your expenditure pattern. In itself, that's a control. Government, then, is left with borrowing for very essential services. So the MTEF is well complemented by the cash budget system.

As I said earlier, after the Parliament has authorized the expenditure, the process goes on to the accounting officer. Then we come to the Auditor General. The Auditor General's Office is an independent supreme audit institution. It reports only to Parliament, although it audits Parliament as well. In this case we will talk as it pertains to the taxpayer. When the Auditor General's Office reports to Parliament, their findings are discussed by Parliament. After they have discussed them, they may isolate certain issues for which they require more information. After these isolated issues have been culled, the remaining findings are put forward to the Public Accounts Committee within Parliament. That committee is mandated to review and report on the public accounts of Malawi. It is a mandated review and report on all Auditor General reports. The Public Accounts Committee is also mandated to examine all accounts laid before Parliament as decided by the National Assembly.

That Public Accounts Committee will take the full information as required by the Parliament. Then they will summon the individual agencies or line ministries or accounting officers to explain. Now, at

that point, when the Auditor General plays the role of advisor to that committee, it is no longer the Auditor General's report. It is the Public Accounts Committee's report. The Public Accounts Committee may seek clarification from the Auditor General, but he plays only the advisory role. The individual controlling officer or accounting officers are summoned to appear before the Committee. During the appearance of these accounting officers, the Public Accounts Committee requires exhaustive information from them until the issue is resolved. If the Public Accounts Committee is not convinced, they will make recommendations for action.

Action is taken in many ways. If there had been a loss of public funds, the Public Accounts Committee may recommend a surcharge action against the people who were negligent. They have even recommended a demotion of someone who has not performed well. They might just recommend a strengthening of the internal check systems within a ministry or within a cost center. I must say that most of our findings are based on misappropriations, negligence and noncompliance in general. One looks at it and says, "Why did this happen? Is there any way we can strengthen the system? Is there any way we can make someone accountable?" After the Public Accounts Committee report has been discussed with all the controlling officers and the managers, it goes back to Parliament. The Parliament must be convinced that all the issues have been exhaustively pursued.

I don't need to go into greater detail on what has transpired since we started the MTEF auditing system and the cash budget. From the audit point of view, as an Auditor General, I find it very rewarding and indeed MTEF has helped to change the pattern of expenditure. We used to talk about excess expenditures every year, year in and year out. We no longer talk about that. What we are talking about now is performance—are we performing well, are we directing our resources in the right direction? We are becoming results-oriented. We have to see that the bottom line, the public, is actually benefitting.

Since the implementation of the financial policy reforms in Malawi we have seen a decline in the fiscal deficit. Our budget is never a balanced budget, it is a deficit-oriented budget where we always need to borrow something in order to balance our budget. Since we started this MTEF and cash budget system, we have seen a decline in the fiscal deficit from 20 percent of the GDP in 1994-1995 to around 12 percent of the GDP in 1997-1998. We have allocated expenditure to social sectors, with the expenditure share of education and health increased from 14 percent to about 25 percent of the GDP.

The government also introduced the Treasury Bill market system which issues shares or buys bills from you when there is excess money circulating to avoid inflation, and sells back to you when money is needed. There is a control mechanism in the Treasury Bill market system, and it is working very well.

There is also civil service reform where we are trying to identify areas where we don't need as many people, where people are being retrained, and so on. It has a political side, but it is a benefit to the whole economy.

On the agricultural side, we had to get a voice to allow local people to grow certain types of crops formerly limited to the big estates. With liberalization, everybody can grow anything they want and sell anywhere they want. That too has helped the economy to grow.

So you see, the public citizen in Malawi truly is benefitting. Thank you for your attention.

VIRGINIA ROBINSON (United States): Thank you very much for a fine presentation. Both speakers have indicated that they have a procedure that I think is a little bit different from what we have in the United States. Both have indicated that they perform audits of their legislature. Now, our General Accounting Office does something that they refer to as reviewing certain books in the Congress, but they certainly don't audit our legislature. Would they each take a minute to tell us how they go about this audit, and the extent to which they are allowed to review the activities of the legislature?

ERIC HARID (Zimbabwe): The Constitution of Zimbabwe provides that every dollar appropriated by Parliament should be reviewed, examined and audited by the Comptroller and Auditor-General. So if Parliament has appropriated funds, the Office of the Comptroller and Auditor-General would follow those funds to ensure accountability. The report on the audit is tabled in Parliament. The Public Accounts Committee, a select committee of Parliament, examines the issues raised in the report and interview the accounting officers before the matters are debated in Parliament.

H.B. KALONGONDA (Malawi): Thank you very much. We do it the same way as Zimbabwe with a slight difference. As he indicated earlier, the Auditor General is mandated to follow every cent that has been appropriated. And we do that, be it on the security, be it on Parliament, we follow it. Now, the accounting office of Parliament, in our case, is the Clerk of Parliament and his staff. Indeed, if we have findings, he is called to appear before the Public Accounts Committee. The Clerk of Parliament is a civil servant, and the Public Accounts Committee is made up of politicians—they represent the people. So they don't spare the Clerk of Parliament in accounting for resources that have been appropriated.

## **Session: North America**

### **Innovative Investment Education Approach: Training for Investment Managers at the State and Local Levels of Government**

**Orvell Johns, Director, Center for Public Investment Management  
Office of the State Treasurer, State of Ohio**

### **Training in State Government: Good for the Staff, Good for the State**

**Patricia O'Connor, Program Manager, National Association of State  
Auditors, Comptrollers and Treasurers (NASACT)**

### **Federal Government Financial Management**

**Philip Calder, Chief Accountant, U.S. General Accounting Office**

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### **Orvell Johns, Director, Center for Public Investment Management Office of the State Treasurer, State of Ohio**

I will be talking to you about training in public finance and investment management. There is a lot to this, but I want to just give you some background and give you a chance to ask questions at the end.

In 1992 we lost a lot of money in some of our state funds. California is known as the worst. There was a situation in Orange County where there was an investor who lost \$1.6 billion of taxpayer money. We also lost about \$115 million in the State of Ohio. There were other states that lost a lot of money. So we began to push for reform in Ohio.

In 1994, the Treasurer of the State of Ohio began to push for legislation for a training mandate. The training would be comprehensive and far-reaching, which meant that we would actually require each public fund manager to have a signed investment policy. The legislation was enacted. Now, each public fund manager must have an investment policy and have it signed by all those professionals doing business with that entity. They are also required to attend annual investment training. So every professional who manages tax dollars in Ohio must receive investment and public finance education annually, or they may file for an exemption.

We also did another very important thing. We created a list of eligible and ineligible investments. So if I'm a treasurer, I actually know my limitations for investment. This prevents other states or other investment professionals from asking me to invest in securities that may not be as prudent or safe. Again, when you have taxpayers' dollars, you want to make sure that you have everything under control.

Our local governmental subdivisions for city auditors are schools, libraries and townships. We have a clerk of courts, housing authorities, county commissioners, county treasurers and city treasurers. There is about \$19 billion in Ohio in those areas.

To make sure that we can cover those needs in education and training, I was asked to create a center of learning. So I created the Center for Public Investment Management back in 1996. Part of the creative solutions was to make sure we knew our target audience. In addition to our city auditors in the local governmental subdivisions, our audience expanded to state Treasury employees. In Ohio, we manage over \$120 billion. We actually are the largest bank in Ohio. There were no requirements for our treasurers or public fund managers to be educated in investment and public finance. So we put that in as part of the program.

We created a curriculum and I have about thirty copies outside if you want them. The curriculum is skill-based. It is unique because we focus on not just safety, equity and yield, but we focus on three levels of education—basic, intermediate and advanced, to make sure we cover all the experiences that are out there. This manual is reference material. It is not a copy of my presentation. It is actually a course. So when you go back to your office, you'll be able to pick up this manual and understand what investments are safe and what investments are risky.

This is the state of Ohio that I'm showing you. I split it up into eight regions. I focused on where the larger concentration of public fund managers were, and on the right, you may notice it has regions and the number of public fund managers in each region. If you have heard of Cleveland, Ohio, you have to get there because they've revamped the whole town. It is a beautiful place to be. I'm not from there, but I just wanted to make reference to that if you ever do travel in Ohio. Here is our state capital. Notice how many public fund managers are located in that area.

We conduct approximately 15 to 20 investment conferences a year to cover this large number of investment professionals. To our delight, 70 percent of all those professionals complete the training. We have had some people lose their jobs for not completing this training.

One of the interesting things about this is that I get to create anything I want. This is an ideal job. If I had been told that I could go to a state agency, create a department, hire my staff, determine what my salary was going to be, and then after I get it set up, create all the investment games and teaching tools that I want, I probably would have been here a long time ago.

One of the tools we use is called SCENARIOS. SCENARIOS is a bond market board game created by Stuart Crickmer. Most of you have probably heard of a flight simulator which pilots use to learn how to fly a plane. They don't get up in the air, they sit in a room and simulate flying the plane. What this game does is put you in a room like this. It has a board that has parts and dice. You actually get to play over and over what your investment outcomes would be before you invest in that security. So it makes you a little smarter really quick. The learning curve is cut in half. What would have taken you ten years to experience investing once or twice or three times a week, you can do in one day. So a lot of our investment professionals are a lot smarter and a lot quicker.

There is another game that I created. The previous game was created by someone else. I created this one for the basic and intermediate levels. I call it LUQUIDITY because one of the biggest problems that our public fund managers have is having cash on hand to pay the bills. Most of you know that if you don't have the money in the bank, you don't write the check. Some of you do it anyway.

One of the things we do here is teach you about liquidity. It is a real world experience. There are penalties for taking money out early. If there is a certificate of deposit at the bank and you take it out early, there is a penalty for early withdrawal. We simulate that in this game by giving you plus or minus points.

And we give you characters as well. Each group has a character. For instance, we have Conservative Connie. So, as a group, you take on an investor who is very conservative and you have certain guidelines that you play by. I give you opportunity situations that force you to move your money back and forth, but still you have money left over to pay your bills. You never know what I'm going to do. I'm always making them up. There are strange questions that I put you through, but you have to come together as a group and think of all your opportunity cards. I use these little yellow chips as negative publicity chips. Every time you make a mistake with your portfolio, we put it in the paper. If you get in the paper ten times, you get fired. You lose your job. You can get into an environment where the players argue back and forth with one another. All of this is within 45 minutes. It is an interesting way of teaching. We try to make sure that learning is plain, easy to understand, interesting and hands-on. We also make sure it is fun. You always get to throw dice, and if you notice, I have poker chips. Everyone knows how to play poker, and everyone gambles, so it was an easy game to create.

We make sure there is an information exchange. It is generally classroom discussion. Our coats come off, we walk among the audience, we ask questions and they give feedback immediately. We do not wait for the end of the session to ask a question. You may not remember it by then. So we let you stop us right in the middle and we interact with you. It's been highly effective.

The environment must be nonthreatening to get the discussion going. I could be sitting right next to someone who wants to manage my money. If I say, "Hey, I have \$30 million that I don't know where to invest," that salesperson would follow me to the men's room just to say, "I can help you with that \$30 million." So we make sure there are no vendors or investors in the room. We also make sure it is friendly because you're in that room with sometimes 100 to 200 other people and they are from different backgrounds. There are people who manage money for libraries, towns and cities, but we put you all together.

The Center for Public Investment Management, CPIM, has been a useful resource. In fact, the University of North Texas called me probably three or four times this week asking me about investment curriculums, about these types of tools. In fact, they asked me to do a session for 250 of their treasurers. They want me to use the game LUQUIDITY. They're not accustomed to that type of interaction. We do a lot of research, we create a lot of new training tools and we use a lot of technology.

Of course, everyone knows about the Internet. We make sure that every treasurer who has access to a computer, either at the library or in their office, can get on the Internet. We also have a way to invest over the Internet. Some people think it is safe; some people don't. We also make sure that you can get in touch with the Center for Public Investment Management because it's a requirement in our state. As I said, if you're not meeting your requirements legally, you can lose your job. The Internet site for the Center for Public Investment Management provides you with a list of eligible investments, states your requirements, and provides any updates on training. We also have periodic information about how to invest or manage your portfolio.

We also opened it up to high school students to help them find out more about the financial process in investing tax dollars. Once they hit 18, they're going to be a part of that process. I generally ask them, "How many of you pay taxes?" Most of them say, "We don't pay taxes. We're under 18." But every time they go to the store they are paying taxes. So that generally makes them realize they need to know where their tax dollars are going and how they are being invested.

This is a picture of one of the best days I had at a conference. In this picture we have a lady named Maria from the Slovak Republic. She was a part of a supreme auditing institution from that country. On the far left we have Al Hrabak who used to work for NASACT and who helped plan this conference. We also have two gentlemen from Warsaw, Poland from the mayor's office. They came to our conference in Cincinnati, Ohio. These three distinguished gentlemen are from the country of Ghana. This gentleman is the Finance Minister of Ghana, and he's also a member of Parliament. He came to find out what we were doing and he also spoke with politicians in Washington, D.C. and around the country. This is the U.S. Treasurer and our State Treasurer. If you pull out any American money, her name is on it—Mary Ellen Withrow. She also has come to our conferences a number of times.

There are a number of states interested in the Ohio model. What we call the Ohio model is the type of training that we do. We have an educational approach called "Public Fund Manager Center Educational Approach," and that's all the things we've talked about. Other states are interested because they have either attended the conferences or called and wanted to know how to create a center of that sort. What is interesting is that, again, people from around the world have come. We had a woman who represented the former Soviet states. She attended our conference four times because she puts on investment education training for the people from those states.

Here are some of the outcomes. Remember that we are very conservative in our figures. Of course, whenever you invest, you make sure you stay on the low side. We've had about \$18.4 billion in operating budget for those local governmental subdivisions, but their investment portfolio is only \$7.3 billion. I say only, but that is still large. It is generally larger than some countries. Ohio is a very large state. If I'm a treasurer, on average, my investment portfolio is \$4.6 million. What we have done through our training is help them earn an extra \$31,605 a year. If you are interested in some of the other things that we do and how we can help you learn to manage your portfolio better, I'll be available.

The interesting part is this: When you add that all up and, again, this is a low side, this year alone we helped increase interest income to Ohio taxpayers by over \$50 million. The program only cost us \$110,000 to run. That's the best investment you can get into in the State of Ohio. It costs you \$65 the first year to come to a daylong conference. During the first year alone, we helped bring back to Ohio taxpayers \$15 million. In 1998, again, as you heard, it shot up to \$50.2 million. We don't know yet how much money we'll make this year. But that was an increase in income of \$35 million from the first year to the second year. As you can see, the benefit to a country, large or small, when you can bring in an extra \$1 million, \$2 million, \$35 million a year through educational training, is incredible.

Outcomes continue. One of the things that is really interesting is that Ohio has a money market mutual fund that the Ohio State Treasurer manages. In 1996 when we started this, their portfolio was only \$2.5 billion. We increased it in two years by 280 percent, which brought it to \$7 billion. Now I don't know how many of you are in the investment business, but in two years, because of the education

and the information that we shared with the treasurers, this money market mutual fund increased by \$4.5 billion. Much of this increase is the result of research and training.

In the United States we have a lot of pension funds for retirement, and it is well over \$1 trillion. If we could have taken the pension fund trustees and the managers to training like this, they could have earned over \$6.8 billion for the retirement fund. That is something most people are starting to realize, and I'm getting a lot of calls about training trustees who manage pension funds for retirement.

What's going on around the world? If we spread the word and everyone had the program, just think how much money would be brought in to help with roads, creation of jobs, acquiring books and computers, hiring teachers, and bringing in manufacturing business. A million dollars can do that for some countries. I think that's what the gentleman from Ghana realized. He came in here realizing that education is a part of investment in and of itself—investing in education and not having to depend wholly on taxes to get all of the funds that you need.

The bottom line result is that the benefit to the taxpayer is that our investors are more knowledgeable. In the last three years, we haven't had anyone commit any violations with any amount of money that made the paper. So we haven't had any violations from those we have trained. They are managing their cash better with games like LUQUIDITY, and they are more aware of their ethical and fiduciary responsibility.

Another tangible result is return on investment. With \$110,000 to run my department, we brought back over \$50 million. Again, new roads and computers are some of the benefits and, hopefully, lower taxes.

If you need any information, please contact me. My manual is outside. I also have a quick little fact sheet that tells you about the program and some of the accomplishments. Thank you very much.

**Patricia O'Connor, Program Manager, National Association of State Auditors,  
Comptrollers and Treasurers (NASACT)**

Before I start, I brought along a handout that would be very useful for you to have as I talk, because some of the items in the handout are not on my slide presentation. They are examples of publications from state government to professional associations. I'm going to talk about them a little bit, and it would be handy for you to have them before I talk.

I'd like to tell you a bit about the National Association of State Auditors, Comptrollers and Treasurers. NASACT's members are the auditors, comptrollers and treasurers of the fifty states, the District of Columbia, the Commonwealth of Puerto Rico, and U.S. territories. State auditors generally do audits of their state's financial statements and often do performance audits of state programs as well. They are independent of the entities that they audit mainly by the method of their selection: either they are independently elected by the citizens of the state, or they are appointed by the legislative branch of the state government. In either case, they are deemed independent of the state's executive branch, whose activities they audit. Many state auditors also audit some of the local government entities in their state. State comptrollers pay the state's bills and maintain the accounting records. Often they operate the state's financial management system. They also do financial reporting for the state. State treasurers manage the state's cash accounts and investments. They also supervise the issuance of state debt and often manage the state's unclaimed property. NASACT provides technical assistance and training to

its members, organizes a variety of conferences, and represents state fiscal interests before the United States Congress, federal agencies, and independent standards-setting bodies.

Now to my subject. One of my favorite periodicals at the office is *Governing – the Magazine of States and Localities*. In April 1998, *Governing* changed the title of its column on the U.S. federal government to “Potomac Chronicles: Tales of Devolution and the Flow of Power.” The new title is indeed apt, as the federal government’s share of the work in delivering services to citizens and performing the functions of government has declined dramatically over the past two decades. That work is still being done, of course, but now at the state and local levels. Figures published in June of this year by the Center for the Study of the States show that the federal government’s share of the nation’s government workforce is a mere 13.5 percent. The states’ share is 23.4 percent and local governments employ 63.1 percent of the American workers in government. This shifting of government work to the states and localities has been accompanied by another interesting trend—the continued shrinking of the governmental sector in the nation’s job market. From the first quarter of 1989 to the first quarter of 1999, the private sector in the U.S. produced 18 million new jobs (an increase of 20 percent). But the total *government* workforce—federal, state and local—increased by only 2.5 million jobs, or 14 percent. It is clear that workers at all levels of American government are relatively fewer. But the work they are doing now is generally more technical and more complex.

I can remember working on audits in the mid-1980s. We used wide sheets of analysis paper and carried our 10-key calculators. Now auditors travel with their laptop computers and need to understand the client’s financial management systems and how systems work together. Audit sampling and data retrieval software allows auditors to manipulate huge data fields to tailor their audit samples to focus on high-risk areas and to spot errors more easily. Key reference materials, such as official pronouncements and office policy manuals, are now available on-line through an audit agency’s Intranet. The use of electronic workpapers allows for the easy exchange of information among members of the audit team and for supervisors or managers to review workpapers on-line.

In state comptrollers’ offices, the work has also changed. Records and reports are all in electronic form. Employees throughout state government use the state’s client-server financial management system to input data, generate reports and perform analysis. Financial reporting in government has moved away from cash basis toward more widespread application of accrual accounting. Financial reporting is going to become more complicated yet as the Governmental Accounting Standards Board has introduced a new financial reporting model for state and local governments.

Clearly we need better workers to do the jobs which need to be done. Training is the key. Many colleges and universities do quite a good job of preparing students for work in state government finance. Still, all new employees need training to learn the procedures of their offices, the legal and regulatory environment in which they are working, and probably the computer applications that they will be using. Long-time employees also regularly need to be brought up-to-date regarding the effects on their work and procedures of changes in state and federal law; of changes in governmental accounting, financial reporting and auditing standards; and of the implementation of new computer systems. Finally, with rapid technological advances in the tools that we use—even equipment as basic as the telephone system—all employees need regular training on how best to use the equipment available to them to perform their jobs most effectively.

State auditors’ offices in all fifty states have comprehensive training programs for their personnel. The requirement that independent government auditors have regular continuing professional education, or CPE, comes from several sources. First, many people on the professional staff are

certified public accountants. CPAs are licensed by the states, and state laws require them to obtain a certain amount of CPE each year, usually 40 hours. Second, the U.S. General Accounting Office promulgates generally accepted *government* auditing standards, published in a book aptly titled *Government Auditing Standards*, but better known as the Yellow Book. The Yellow Book requires the following: "... each auditor responsible for planning, directing, conducting, or reporting on audits under these standards should complete, every two years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the two-year period. Individuals responsible for planning or directing an audit, conducting substantial portions of the field work, or reporting on the audit under these standards should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the government environment and to government auditing."

Because training is so essential to the work of state auditors, it plays a key role in the functioning of their office. Forty-three audit agencies in 40 states have a training director or similar position, and 32 audit agencies have a training curriculum for all levels of audit staff. General practice is for an audit agency to provide training internally for entry-level staff. The level of external training increases gradually as staff becomes more experienced. At the level of supervisors and managers, training is generally provided about half in-house and half externally. Agency directors and top-level staff receive most of their training from external sources, like seminars and conferences. Over half the state audit agencies have training as a line item in their budgets. Developing training courses in-house is general practice among state audit agencies, and about half of them share some of their courses with other states. I'll discuss external sources of training a little later.

The story in state comptrollers' offices is a little different. There are fewer CPAs in comptrollers' offices, although an increasing number of professional staff are pursuing other certifications such as the certified government financial manager (or CGFM), a certification program sponsored by the Association of Government Accountants. While the requirements of the Yellow Book do not apply, comptrollers' staff who are CPAs or CGFMs or who hold other professional certifications usually need 40 hours of CPE per year. Those in charge of financial reporting need the same training as state auditors in areas of accounting and financial reporting standards, federal and state laws and regulations, and the objectives and components of internal control. In addition, though, staff in comptrollers' offices need training in a variety of other areas: payroll processing and management, human resources management, training on the various applications of the state's financial management system, and supervisory and management skills and techniques.

Since most state governments are relatively decentralized and individual state agencies perform many fiscal functions, financial personnel in the agencies need much the same training as staff in the comptroller's office. Because the comptroller relies upon agency fiscal personnel for proper practice and procedures and for correct information, he has to make sure that agency personnel are as knowledgeable as his own staff. In addition to the areas of accounting, financial reporting, internal control, and compliance with new laws and regulations, agency personnel receive training in such topics as payroll, fixed assets, pre-audit, issues related to closing the fiscal year, proper contracting practices, professional development, and the start up of new programs or processes. The Comptroller's office in the State of Virginia has an effective approach to training agency personnel. The Comptroller described his program as follows: "The office offers a three-day course for financial managers which covers the scope of state fiscal operations. This course includes fund accounting, budgeting, financial management and a high-level segment on auditing. This course is by registration only and is limited to 35 per session. All instruction is by our staff, including a one-hour financial overview segment that I teach. We offer

the course twice a year. To date over 400 people are 'graduates' of the program and we never have empty seats."

Another very important responsibility that usually, but not always, rests with the state comptroller is the operation of the state's financial management system. Training in the use of the system is extensive and ongoing, as new people are hired, as new regulations and procedures come into play, and as changes are made to the system. Most states' systems provide for non-centralized input of data to the system, that is, state agencies enter their own data. As a result, training in the use of the system needs to be extended to financial personnel in all the state agencies. We'll explore how states carry out this crucial task in a moment.

So, we've established the need for training. Now, how do state auditors' and comptrollers' offices meet this need? We've already noted that almost all state audit agencies develop courses in-house and that in-house training accounts for virtually all of the training for beginning-level staff. In addition to the general topics of accounting, financial reporting and auditing standards, these in-house courses describe the legal and regulatory environment of the particular state.

Training state fiscal personnel in-house is much less expensive than sending staff to conferences. There are various approaches to training staff in-house. The agency need not develop the training material itself. So-called "videocourses" include a videotape presenting one or more lecturers along with a related training manual. An agency may bring in an outside consultant to present one or two days of training to its own staff; often an invitation is extended to other state agencies to send certain members of their staffs to these training sessions as well. These consultants may be hired through a professional association such as the American Institute of Certified Public Accountants or NASACT. The AICPA offers over 130 seminars and workshops in accounting, auditing, tax and financial management. NASACT offers about 70 training seminars in ten fields. Brochures about AICPA and NASACT seminars are on the table at the side. I've included one page of NASACT's brochure in the handout. Also, many training seminar leaders have their own consulting businesses and may be hired directly by state government offices.

Another approach to in-house training has been developed by the National State Auditors Association. The State Auditor Training Program provides to offices which subscribe to the service a series of training packages which the state agency may use with its own trainers. At present, 32 training aids and packages are available covering accounting, basic auditing tools, financial auditing, fraud auditing and performance auditing. I've included in the handout a copy of the description of one of the training packages, "Consideration of Internal Control." As you can see, the package contains a trainer's guide, transparency masters, trainee handouts, tests, answers, and self-study guides. I should note here that we are moving away from using transparencies and are starting to provide PowerPoint presentations with the training packages. These packages can be used over and over again and can be paced to meet the needs of particular groups of trainees.

When it's time to send staff to conferences for training, there are again many alternatives. Professional organizations play a large role in organizing conferences and providing training to their members on timely topics. In addition to the AICPA, a national organization, state societies or associations of certified public accountants have been organized in almost all of the states. All of these organizations sponsor conferences every year, and typically one conference would be directed toward the governmental and not-for-profit sector. On the table on the side I've put a copy of the AICPA's journal open to the page describing its Fall 1999 conferences. Also there are brochures for

governmental training by the AICPA and for the 1999 governmental accounting and auditing conference of the Kentucky Society of CPAs.

Professional organizations of finance people who work in government are an excellent source of training in topics specifically related to the governmental environment. There are two very large such organizations in the United States—the Government Finance Officers Association (GFOA) and the Association of Government Accountants (AGA). Founded in 1906, the GFOA is the professional association of state, provincial and local finance officers in the U.S. and Canada. The next two pages in the handout show its conference schedule for the rest of 1999. The AGA was founded in 1950 to provide a professional association for finance officials at the federal level, and federal matters continue to be a significant part of its agenda. However, the AGA has organized regional chapters throughout the U.S. and members from state and local government now outnumber members employed by the federal government. The AGA sponsors three national conferences annually and some local chapters organize conferences as well. Last week I received a notice from my local AGA chapter in central Kentucky about a two-day governmental accounting and auditing seminar which is going to take place next month. That notice is also on the display table.

Conferences are an important part of NASACT's mission of education and communication. In addition to annual conferences of NASACT and its two affiliated organizations, the National Association of State Comptrollers and the National State Auditors Association, NASACT sponsors annual conferences on cash management and public pension funds. In addition, every year the National State Auditors Association organizes a Middle Management Conference, an IT Conference, and a Training Directors Forum. At these conferences we present speakers from standards-setting bodies like the Governmental Accounting Standards Board, the U.S. General Accounting Office, and the AICPA, as well as experts from the private sector, and leaders and innovators from within state government. Our conferences provide both technical materials on accounting and auditing matters as well as information about recent developments in administration and management.

Before I move on to training related to financial management systems, I want to mention briefly another source of training for finance professionals—self study. Self-study courses are available from the AICPA and from several private-sector vendors in a wide variety of topics. These courses usually include a binder with text, homework questions and problems, and a test to demonstrate completion of the course and mastery of the material. Such courses are especially useful in highly specialized areas in which training is needed by only a few or single individuals in an office. Also, the AICPA and the AGA both offer continuing professional education credits to individuals who read the associations' journals and answer questions about selected articles. The next page in your handout is a page from the Fall 1999 issue of *The Government Accountants Journal* which explains the AGA's CPE online program. A brochure on the side table describes the AICPA's program, called CPE Direct.

There is another very big area in which training is absolutely essential and ongoing: the operation of large computerized financial management systems. I've already mentioned how important the provision of training is in the management of a big system. Let's examine how state offices go about the task. Computer-based on-line training is basic for new employees, for employees who have moved from one agency or division to another, and for introducing a new modification, procedure or feature which has been added to the system. Training is also available on-line at all times to all users of the system in the form of an online "help" function. System operators also maintain a telephone help desk which is especially useful when a user's computer is not working, or when he has a procedural question. The help desk can keep track of questions that are asked often enough that they should be added to the

“Frequently Asked Questions” section of the on-line help function. In addition, the help desk becomes a database of knowledge about how the system works and better ways to use it.

Most statewide financial management systems sponsor users groups that draw users from all state agencies. Many state systems also produce a monthly newsletter for users of their systems. I’ve included some pages of a couple of these state newsletters in the handout. “Customer Connections” is the newsletter of MAIN, the Michigan Administrative Information Network. The September 1999 issue of “Customer Connections” illustrates a couple of the points I’ve been discussing. The first page has an article on an in-house conference for those who use the purchasing features of MAIN. On the next page you’ll see MAIN’s training schedule for October. FACS refers to the Financial Administration and Control System, and MIDB refers to the Management Information Database.

The next page is from *Statewise*, a publication of the Fiscal Management Division in the office of the Comptroller of Public Accounts in Texas. It is distributed to fiscal, payroll and personnel officers of state government agencies and institutions of higher education. The first page of the September 1999 issue of *Statewise* has an article about a meeting of the business administrators of the state agencies in Texas—their 30<sup>th</sup> annual meeting, in fact. Note also the table of contents of the newsletter; reports from users groups are on pages 18, 22 and 23. SPA refers to State Property Accounting, USPS refers to the Uniform Statewide Payroll/ Personnel System, and USAS refers to the Uniform Statewide Accounting System. The next page in your handout discusses the introduction of web-based training to system users. Finally, page 27 has the training schedule for September, October and November.

The training necessary when a government implements a new financial management system is of another order entirely. The rule of thumb is that training costs should be about 30 percent of the entire budget for the new system. Training goes on before, during and after implementation. And informal training is as critical to a successful implementation as formal training. Well before the new system is expected to become operational, it is important to keep people who are going to be using it apprised of developments and involved in the project. Semiformal training of both technical and functional people should commence at this point. The State of Missouri brought up a new financial management system, called Statewide Advantage for Missouri, or SAM II, on July 1, 1999, the start of its fiscal year. However, the first project newsletter for SAM II was produced in March of 1998. I’ve included in the handout several pages of information I downloaded from Missouri’s web site. We see from the table of contents on page one of the first SAM II newsletter that focus groups were formed and met regularly more than a year before conversion to the new system; their mission was to resolve issues as they arose before implementation. The next page is the introduction to the web site’s section on training. You also have the first pages of the “Train the Trainer Course Schedule” and the “Training Course Descriptions.” Finally, I’ve included a copy of SAM II’s calendar for late September; you can see listed there a variety of meetings all related to the implementation of SAM II.

Given the demand for ongoing training in the offices of state finance officials and those who operate financial management systems, I think we can all agree that training is big business. I would guess that at least one third of the mail I receive at the office is brochures and advertisements about continuing professional education and professional development. However, measures can be taken to deliver necessary training at a reasonable cost. We have seen how state agencies can provide training efficiently by doing it in-house and by sharing costs with other agencies. A cooperative training effort was initiated recently in the state of Rhode Island, geographically the smallest state in the U.S. and with a population of just over one million people. The State Controller, the State Budget Director, the Legislative Auditor, the Internal Auditor and the State Tax Administrator collaborated to develop a training program for their staff members. Coordinating with the state university, they put together a one-day

“Accounting and Auditing Institute” to which local government finance officials are also invited. This project and the other programs I’ve discussed demonstrate how finance officials can deliver at low cost the technical training which their staffs and constituents need to foster improved financial management at all levels of government.

I encourage you to take a look at the display I’ve put together on the back table, and I’ll be glad to respond to questions at the end of this session.

### **Philip Calder, Chief Accountant, U.S. General Accounting Office**

I’m delighted to be back with you. I enjoyed meeting many of you in Miami in the spring, when I talked about the audit of the federal government’s financial statements. I’ve given you a copy of that audit report. I don’t want to talk about that today in any great depth, but nonetheless it is quite interesting and I hope you’ll have an opportunity to look at it.

David Walker this morning mentioned that GAO stands for General Accounting Office, and he mentioned that he preferred to call it the Government Accountability Office because we stand for much more than accounting. We’re really into better government. We’re into economy and efficiency and effectiveness of programs. We have been interested in those areas for some time.

In the 1990s we had a heavy emphasis on financial management. In 1990 we had the passage of the Chief Financial Officer’s Act which established a federal Chief Financial Officer and established chief financial officers for each of the agencies. It required the audits of six of the federal agencies. These were test agencies.

The Government Management Reform Act of 1994 came four years later and it extended those audits to all federal agencies, not just six. It also called for the audit of the consolidated financial statements of the federal government, which is what I have given you today.

One year prior to that, in 1993, we had the Government Performance and Results Act. It moved the federal government into service efforts and accomplishments. It said we ought to have a future focus on performance by objectives, and it calls for costing by those objectives.

So we have mandates for audits, but what we’re really after is better management. We require financial statement audits, but we’re not after those audits per se, we’re after reliable, timely, complete information—and audits are tools to validate some of that information. We need information to better make resource allocations; to better make management decisions; to match performance data with the actual results that we’re seeing.

We need timely information, reliable information, and complete information. As we get that information, we have to teach our managers and their oversight bodies how to use that information. Traditionally they’ve focused almost exclusively on budget execution—essentially cash basis information. They ask, “How much can we spend?” And they ask, “How much did we spend?” Well, I don’t want to give the impression that we want to stop thinking this way. We think that is very important and we want to keep thinking that way, but we want more complete consideration of financial implications of activities. We ask the question, “Should managers manage on a cash basis or

an accrual basis?" We think largely they ought to manage on an accrual basis. We think they ought to control on a cash basis, but manage on an accrual basis. We have to develop accrual information on this deeper level and cause our managers to use this information.

In the past we've also focused largely on inputs and outputs, but we want broader thinking than just inputs and outputs. Often our education people operate on the goal that we would be better off if we put another 100,000 teachers in our classrooms. Maybe that's short-range thinking, narrow thinking, if the goal is to provide graduates who are qualified for the high-tech jobs of the day, graduates who can use computers, graduates who understand science and physics and math. We want to change the thinking to the broad objective rather than the narrow objective. We want to look at the outcome rather than the inputs. We want safer streets. That is an objective. Putting more policemen on the street may be a means to get to that objective, but we hope that people will focus on the broader objective.

We also want people to develop systems to measure how we're doing against the broader objective rather than the narrow objectives. When we think about our senior citizens, we could have a goal to increase the life expectancy of the average citizen. But we think a better goal would be to improve the quality of life for senior citizens. Quality of life goes well beyond life expectancy. Life expectancy is one aspect, but so is health. Do we make our senior citizens healthy enough that they can enjoy their longer life expectancy? Will they have the income to maintain themselves above the poverty level? Will they have safe and affordable housing? These are the fundamental objectives. And, again, I say we want to focus on those fundamental objectives and develop means for measuring how we're doing against those objectives.

I'm an accountant, and cost is a big part of my makeup. I acknowledge that all the decisions that we make have financial implications. They don't all hinge on finances but, nonetheless, costs do enter into it. We think our managers, as they go through this quest to meet their fundamental objectives, have to be mindful of cost and mindful of alternative costs or the cost of alternative courses of action. We can't manage effectively without cost considerations.

So we want agencies to structure their programs to meet their overall objectives in terms of outcomes. We want them to develop means for measuring progress toward those outcomes. We want them to measure and periodically report progress. In fact, we have accounting reports, but we're moving toward accountability reports that will go well beyond simply a financial report. We'll get into how effective we are in meeting our goals. We also want those managers to periodically reevaluate their program structures, their activities.

Again, cost gets in there, and I hasten to say that cheap isn't necessarily better, but expensive isn't necessarily better either. We want a good matching of effective programs at reasonable prices.

I might say too that we recognize the need for a certain amount of behavior modification as we go through this. The U.S. Treasury is responsible for virtually all borrowing done by the federal government. It is also responsible for all interest costs. The agencies have no interest costs. The Treasury bears the whole burden. If an agency needs an asset, say, a building, how does it consider the economics of getting that building? Should it buy the building or should it lease the building? Should it construct and own the building? In no event does it have an interest cost if it decides to buy. Treasury has to borrow to support the purchase of the building. Should we impute some interest cost to the

agency for the building? I don't know the answer. FASAB, the Federal Accounting Standards Advisory Board, has this on its agenda now and will ultimately get to it. But I think interest cost is a valid consideration here as we consider our courses of action. We ought to reasonably estimate the cost of those activities. That gets us back to the CFO Act, back to the audited financials, back to better financial information.

As I mentioned, I've given you copies of the 1998 audit report. If you read it, the accountant's report, the audit report, is not good. The GAO disclaims an opinion on the financial statements for a number of reasons, e.g., major defects in the financial data in the statements. Progress is being made. The 1998 statements are better than the 1997 statements. The 1999 statements will be better yet. But we're not there. Our country has operated for over 200 years, and no one ever asked for a balance sheet until 1997. It was very difficult to come up with one. We don't have fixed asset records. It's tough to cure this in a short time, but we'll get to it.

I note the actions of IFAC and INTOSAI and the desire of many to move from the cash and modified cash basis of accounting to the accrual basis of accounting. I suspect that many of you are caught up in these considerations now. I suspect that many of you have the same problems that we have as we attempt to do this. I simply say to fight the good fight, run the good race, and it will work out in the long run with a great deal of hard work. Remember several things: Clean opinions aren't everything. Focus on the outcomes of the activities that we have. Measure performance and measure the cost of that performance and manage based on the data that we have.

Thank you for your attention this afternoon.

## **Roundtable Discussion - Thursday, September 30**

### **Moderator:**

**James B. Durnil, ICGFM President**

**President, National Rural Electric Cooperatives Association International Ltd.**

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We asked people to recommend some subjects to discuss in a roundtable atmosphere this afternoon. We want to get participation from the audience on issues that they would like to hear about from some of the other distinguished guests that we have here. So to get more of a feedback and exchange between the audience rather than having speakers, we decided to have an hour-long roundtable discussion today and tomorrow.

Some people suggested the topic of governance. Some suggested the common concern of fraud and anti-corruption. Another suggested an interesting topic: accountability of financial management officials.

What I'd like to do is start off with the one that I think is kind of interesting or maybe relates more to me. I'd like to give you a little bit of my background so you can see how I might be more interested in it.

I spent 32 years working in the accounting and auditing profession in the federal government. I'm a Certified Public Accountant by background. For 14 of those 32 years, I managed the audit oversight of the U.S. Government's Foreign Economic Aid Program at the U.S. Agency for International Development. I saw numerous instances of corruption and fraud. I was personally involved in reviewing the Marcos problem in the Philippines. I assisted in the oversight over the cross border programs in Afghanistan, Cambodia and in Central America. So I saw a little bit of corruption in those areas.

For the past couple of years, I've been running a company that puts electricity in small villages and cities overseas. We actually go out and do what is called grid extensions. We do business in Asia—Nepal, India and Bangladesh. We have projects in Central America—Guatemala, Nicaragua, El Salvador and Panama. In the Caribbean, we just started a big project in the Dominican Republic. We do work in basically all areas of the world when it comes to rural electrification.

I have to admit that I probably learned more about corruption in the world in the last two years than I learned in 14 years at USAID, because I'm on the receiving end. About a third of my business is contracts with U.S. aid agencies, and about a third of my business is with projects funded by the development banks, and the other third of my projects are funded by local governments or private industry.

In my new position at NRECA, I'm getting some insight on what I think could help us better control abuse in aid expenditures. To give you an example, I was asked to bid on a large project in a

country in Asia. They wanted to modernize their electrical distribution systems—electrical systems are divided into generation, transmission and distribution. A utility wanted me to bid on a job to modernize their distribution center. In fact, the utility hired my office in Bangladesh to help them write the request for proposals. The utility tried to sole source the work with us, but that wouldn't work. You know as well as I do that most of the lending institutions require competitive bidding, which I had no problems with because I knew that we were as qualified as anybody to do the work.

Therefore, we prepared our proposals to do the work and the utility called us to a proposal opening ceremony. They wanted us, like all the bidders, to come over and observe the opening of the proposals. They opened the technical proposals and did not open the financial proposals until later. After the reviews of the technical proposals were complete, they opened the financial proposals. The two are then reviewed/compared as they relate to the best buy. The winner is the best melting pot or combination of the technical scores and the total costs.

Well, when I got to the particular country and went to visit the utility, they asked if I could come an hour early. I said, "No problem." I arrived early to meet with the CEO of the utility. He expressed greetings and handed me his resume. He said, "I'm retiring in three months, and I'd be interested in working on this job." Of course, me, knowing that I've got to be very fair and credible, I said, "Well, I can't take your resume, but I will probably be looking for somebody. I'm glad you told me." I gave his resume back and I left. Of course, I don't know what he did with the other three bidders. I assume there was something going on there. I waited for about three months and I called my representative in country and asked if he could find out the status of this particular job. He said, "Yes, they've selected two firms, and they've submitted them for approval, and you're not one of them."

You've got to understand, my company, domestically, has 35 million connections. We're the largest utility in the United States. We have the best distribution system in the world. We have no losses, and it's a fantastic system.

So, when they evaluated the technical proposal, we were not among the best qualified. I could not understand why. I found out that the two firms ranked as the best qualified were a consulting company out of London and a private company out of Belgium that did not really do electricity distribution. They considered them to be more qualified than us to do this project. They were going to award the contract to them. My cost proposal, I also found out later, was less than the top two firms.

It just happened the fourth-ranked firm protested the award by saying, "Wait a minute. We're more qualified than anybody." They filed a protest. I didn't want to bother. I walked away. Anyway, the utility hired an independent company to review the proposals again. The project hasn't been awarded yet. But, it makes me wonder—"How can a company that was probably the least qualified, and probably the highest from the financial side, be selected?"

That's a true story. Now, how would you proceed, as an auditor or an investigator, to gather the facts? If somebody came to me and said, "Hey, were you asked to bribe anybody?" Well, I wasn't asked to bribe anybody. So, that would be very difficult. But I'll tell you right now, I bet that there was under-the-table money passed in this instance. In fact, I face this problem on numerous occasions.

Let me give you one more example, and then I'm going to ask the audience to give their thoughts. I have a job in Asia and it is kind of a standard operating practice in that country that you pay a finder's

fee. A representative of that country helped me win this job legitimately, I think legitimately, but anyway I won a job for \$500,000—it wasn't a big one. He said, "Well, it is normal for me to get a four percent finder's fee." Whatever the finder's fee was, I felt that the gentleman did a lot of legwork—telephone calls, work on the proposal—so I told him I would pay the finder's fee. But I told him I would pay him half the fee now and half when the job is done. I told my accounting staff to charge it to my marketing account. It had nothing to do with the performance of the job, so I didn't charge the money to the job.

So we begin the job and the gentleman then becomes my representative in country. He did a fine job and they were very pleased with the work. I'd like to give you two examples of things that happened. The government official that processed the invoices for this particular job decided he wanted to take a trip to the United States, which he did. So he came to the United States and my representative from that country calls up and says, "Hey, when you leave this particular country, they limit you to exchanging \$2,000 of U.S. currency." That's all they can convert. It is a soft currency, so you can't bring their money here and convert it to dollars. You can't do that. The guy is already here, and I didn't pay for his trip; some commercial company did that was doing business with him. My in-country representative says, "Could you give the guy \$3,000? He is going to leave there and return home and he doesn't have enough money." I said, "Well, no, I can't really give him \$3,000." And he says, "Well, can you lend him \$3,000 and I'll pay you back?" I said, "I don't think so, but I'll ask my attorneys." So I asked my attorneys and red flags went up all over the place. I shipped the guy back an e-mail and said, "No, we can't do it. The attorney said that the close association of payments will get you in trouble." So he says, "Can you just give him \$1,000?" So I asked the attorneys, "Can I give him \$1,000?" "No, you can't give him anything. Any type of payment would be a problem." And I said, "Well, fine, heck with it. I'm going to give him \$1,000 out of my personal checking account. That guy is out of money and has to go home." And then they said, "No, you can't do that either." I had to tell him, "On attorney's advice, I can't do that." So the guy left and I don't know what happened. He apparently got back home.

I think in that case, if I had made the \$1,000 payment it wouldn't have been a problem. On the other hand I think the attorneys overreacted. On the personal side, I think I could have done it. I could have sat in court and looked somebody straight in the eye and said, "I'm just helping the guy out."

Anyway, I went ahead and met with the guy who reviews my vouchers in the government. I thought that would be nice because their payments are really slow. He goes on his way back home and I finish the job. My final deliverable is submitted, a nice report was accepted, but they still owe me \$80,000. And I said, "Well, I've got my friend over there that came over to the U.S., I didn't pay him \$1,000, didn't give him anything, and he left. I think I'm in deep trouble. I'd better increase my bad debt reserves by \$80,000." Well, I called my representative and told him I've still not been paid. And I said, "You know your finder's fee, I'm not going to pay you that other \$5,000." He says, "Would you settle for 90 percent of your accounts receivable?" "No. I want my \$80,000." What the voucher examiner has done is told my representative that yes, we were happy with your report, it is done, but I want 10 percent of the accounts receivable. He said, "I'll pay you the \$80,000, but you give me \$8,000." So there I'm sitting right now, trying to figure out what to do. This happens quite often today.

In my recent article in *ICGFM Government Financial Management World*, I talk about an event that happened about three weeks ago. Eight major companies, one who I partner with in projects

around the world, are involved in corruption—\$2 million in payoffs, with amounts identified by company down to the exact dollar. These projects were funded by the World Bank and a Bank spokesman said in a *Washington Post* article that several countries have signed an agreement through OPEC on anti-corruption and when the corruption is identified or disclosed, they will refuse to do business with that company. The World Bank further stated “We have to get the exact date of the payments to determine whether or not the payments were made after the agreement was effective. If it was in effect, then we can make the companies repay the money and we will stop doing business with them. If it was before that date, we really can’t do anything.” Now isn’t that a great response from the largest multilateral lending institution in the world? Before the effective date of the agreement, corruption was okay. After the date of the agreement, the Bank agrees to administrative sanctions.

So anyway, I thought we had done a lot, but we really haven’t done enough because corruption exists around the world still.

JAGDISH NARANG (United States): What we are talking about here is the playing field. In the playing field, there are always two parties. You talked of one party. You do not know whether the other party will play with the same game rules or not. Now, I’ll give you the example of Gandhi, who was able to get the Indians freedom from the British rule. He was trained in the United Kingdom, and he learned quite early the same game. On a playing field, if both parties play the game with the same rules, it can work. If both the parties do not play from the same book of rules, the business cannot be conducted.

He knew that the English society is a very much civil and rule-loving society. So he played with the British at their own game. He started with the disobedience movement, not to hit back, but obey the law as it is, and put the book on the rulers so they must obey the law the same way. And it worked, although it took him almost 40 or 50 years, and it took many lives. But ultimately he achieved it.

So, back to your concept, it is correct. It takes time. For that you have to educate, and it is good that your company has one part in the private sector—commercial, one part in banking and one part in government. So the company will not go bottom up if they keep fighting the corruption in that one-third sector. The name of the game is stay with your own rules. Keep on telling, and the other party sooner or later is going to realize this will not go on for long. Everybody around the world is now on to that.

If you wanted quick reserves, you could have paid a certain percentage, but then you would have compromised your own principles. So if you are interested, or if anybody else is interested, in the game, the best is to stay with the rules and stay with the same game, because honesty will always prevail, but it takes time.

JIM HAMILTON (United States): I’d like to pick up on what Jagdish said and maybe answer a question with a question. Jim, you started out your talk with local authorities or police not being very adept at tackling some of these larger corruption issues. I think this kind of ties into our concept of globalization—thinking globally and acting locally. It seems that there is a realization that whatever we do these days has international implications because you’re working globally and many other companies in other sectors are doing the same thing. We have to somehow raise the paradigm along the nature of what Jagdish was saying, and then maybe work with local agencies to equip them to partner with larger organizations of authority who are linked up internationally.

A lot of other things have to happen at the government level in each country, and I think some of these things are going on, but maybe someone else has some practical thoughts. Are there any positive examples of how this kind of cooperation has brought some results?

ANGEL SANCHEZ (Dominican Republic): On loans from the IDB and the World Bank, it seems that 30 percent is used by the consultants. I don't know what it is that they do. They just give us a questionnaire that we fill out, and two years into the projects we don't know where they are. How is it possible that someone who has been working on a project for two years does not know the status? That happens now in terms of privatization, and particularly foreign companies in the energy area. We were discussing capital investment, and it seems unbelievable. There is a powerful hand that takes it along and creates contracts so that the money is obtained from underdeveloped countries that need the monies, in conditions that are obviously corrupt. So, to me, we have to be strict and face them with accountability from our own positions. Maybe this is not a good thing for me to say because I am a judge, but this is reality. And if our grandchildren cannot see an improvement in the quality of life, I think we have to make some kind of contribution.

JIM DURNIL (United States): I would agree with your comments. I agree that there are a lot of studies that are performed with no real results. But, just to give you another example, the government utility in Senegal is called Sinelec. Sinelec is trying to improve their rural electrification system in Senegal. So they asked me to come over and help them out. They asked how much it would cost to have my people come over for two weeks and do a quick assessment. I said, "\$25,000, two weeks, two people." Off they went to Senegal. When they got there, my team leader was met by the representative of Sinelec and he said, "Here are all of the studies that have been done in rural electrification in Senegal over the last five or six years." There must have been 25 of them. My representative said, "Before we look at the studies, let's take a ride and drive along the distribution system." My people, being electrical engineers, quickly saw what was really needed. They had a good distribution system, but the problem was that they had only built a system capable of connecting about a third of the houses along the system. My engineers quickly assessed how much load the line would carry, how much each house was using, and came up with the proposal to connect the rest of the houses.

Here all these studies had been made, costing thousands of dollars, that did not address this issue and didn't do them any good. We showed them their weaknesses and told them, "This is what you've got to do. We don't need to stay any longer." I don't know how much money all those studies cost. All they needed was a simple proposal to get meters, a certain type of wire, a certain type of transformers and do it. But not one of the studies even addressed that area. So I think your comment is very true. All these consultants come over and do studies sitting in an office in the capital city and nothing ever gets accomplished.

VIRGINIA ROBINSON (United States): I wish I could say I have the answer, but I certainly don't. I would like to commend you, Jim, for raising this issue, and I'm very pleased to be a volunteer participating with Jim Hamilton and Jagdish Narang, considering the positions that they've taken on this subject.

I would like to say that I applaud you and encourage you to continue the actions that you're taking. Don't think that you are crying alone in the world. I encourage all of you to look at two articles in this issue of the *Public Fund Digest*. We try to make sure that every issue we publish addresses the subject of crime and corruption. It is going to take a lot of people working very hard to make a dent in this

terrible, terrible practice that goes on in so many countries around the world. Sometimes I hesitate even to mention the names of countries in the articles, but sometimes you have to give some concrete examples to impress upon people that this stuff is real.

One of the articles, “New Frontiers in Diagnosing and Combating Corruption,” is written by two authors from the World Bank—and there are some who would say if the World Bank were policing as it should it wouldn’t happen, but there are people in the World Bank who are working very hard on this. If you read this article you’ll see they’ve provided some documentation. They’ve compared activities of crime and corruption in three countries. I’m sure they could have picked many others; they happened to pick Albania, Georgia and Latvia. And there is just so much to be done here. But if you take the time to document what is happening, bring it to the attention of leaders who can do something about it, changes will take place. That’s just one article.

In the second article, “Increased International Action Against Corruption,” there is a new U.N. committee being formed. I know there are lots of things that could be cleaned up in the U.N. too, and our Congress is dead set on that. That’s one of the reasons they haven’t paid the U.N. bill. But there are some people in the U.N. who are setting up an anti-corruption committee to help combat situations such as Jim just described.

The point I want to make to you is that we take every opportunity to document these instances for you, and help bring it to the attention of other people who can do something about it. I’m really pleased to be working on this, Jim.

MICHAEL PARRY (United Kingdom): I’m one of the consultants who produces some of the reports you’ve just talked about. It is a very gray area, I think, and that’s one of the problems. Some of the examples of corruption are very clear-cut—the major contracts and the under-the-table ten percent to award the contract to a company that is very clearly wrong. But there is a lot of much grayer corruption that goes on, and there is no question that some of the multilateral agencies are guilty of corruption. It is very common when you are designing a project that the client will say, “Well, we really need some study tools as part of this project.” And you know that those study tools are not really necessary to what you’re doing. But when it is presented to the donor agency, even if you haven’t recommended it, they say, “We want to make this loan and we’d like some study tools.” And the study tools appear as part of the project. Now, is that corruption? Or is it a reasonable request? It is a gray area.

It is easy for us to be holier-than-thou. We do a lot of work in South Asia. In South Asia it is well known that there is one particular situation when a government officer raises money, and that is when his daughter gets married. If you are a senior government officer and your daughter gets married, you have to have a large wedding which might cost you, in dollar terms, \$10,000 or \$15,000. This is impossible on a government salary, but your social status requires it. There are two ways to get that money. You can be sent to a customs post, or you can be sent to the accountant of the contract, and that way you can make the money. Now, we say it is wrong.

My daughter got married quite recently. It is an expensive exercise in England as well. I funded that. I get paid by development organizations. Someone who made some money illegitimately for his daughter to get married would say, “Why am I more corrupt than you? We are actually both taking from the same fund of money.” If you look at the standard of living in government offices in many

developing countries, there will be standards of living that are clearly not sustainable at the ludicrously low salaries that they generally get paid. It's quite clear. They have to take some extra money to maintain a reasonable standard of living—not necessarily wildly extravagant, but a reasonable standard of living. I've seen the envelopes passed for doing this or that. Again, it is a reflection that the government is not paying enough money because it recognizes this corruption is going on.

I don't necessarily approve of that. I think it is very easy for us, living in the United States or other developed countries, living a comfortable lifestyle, being paid a legitimate and reasonable salary, saying, "You're corrupt because you're taking these sums of money." These people are taking no more than we're taking from the system, but just legitimately.

We must address corruption when it starts to distort the decision process, when the wrong company is selected, or resources that should be directed at doing something to benefit the people are directed elsewhere, when they go out of the country into Swiss bank accounts. This is where corruption really starts to hurt people. But I think it is a very complex issue which raises a whole raft of issues. I do think a lot of the studies of this are rather simplistic. They are done by people who sit in their comfortable offices. They don't recognize the realities of life of a lot of the people who receive the corruption in a lot of these countries. We've got to look at it in that broad a context and not be too quick to condemn.

JACK PERSON (Canada): That was extremely well said. I work for the North American Free Trade Agreement in Montreal, Canada. I haven't worked with the Foreign Corrupt Practices Act in a number of years, but I recall that even in that, if it were a regular bureaucratic function, you could actually exchange money for something that you are really entitled to. I don't know if that is still true or not. Maybe the case of a person that approves an invoice is a different situation than an entire contract to be awarded.

As my colleague said, maybe the first step would be more transparency, and maybe that invoice person should be privatized, and he should get a fair salary for what he does. The key thing is what the gentleman says, the distortion of decision making, more than the money that passes, more than anything else, it the distortion of the decision-making process.

It is a simple thing like paying taxes. Even in America, people try to hide their income from the tax people. As a result, they keep two sets of books. Now the great danger in that is that you don't know where you are either. You don't know if you're making money because you're keeping so many sets of books you don't know whether you are up, down or sideways. But I think that one of the reasons we've had some success in the United States with our accounting system, and we are developing a stronger economy, is actually the tax system. The honesty of the tax system requires you to keep a good set of books. The information that is produced from that good set of books, in many cases, will pay for the taxes. In many cases when we hide our decisions under the table, it is not so much that that money's wasted, the money for the wedding is wasted, no, it is the fact that poor decisions are made. Maybe if we come at it from a better decision-making process as opposed to an accusation process or a dishonesty process, we might get further along.

JIM DURNIL (United States): I agree with the statement about the gray areas. I can support that 100 percent. I'll give you two examples. The International Olympic Committee—you've probably heard about the cities around the world trying to get the Olympics in their country. They list the many things that these cities in the United States and other countries did to get the Olympics. Paying \$25,000

cash to a member of the committee that is going to vote on the cities is a lot different than wining and dining them when they are in the city or maybe making arrangements for them to visit a college for their daughter.

It is the same way with my work. My people ask, “What do you want us to do?” I am the one calling the shots for my people in the field. They come to me for answers. I say, “Well, the best way I can put it is, ‘I will bend but I won’t break.’” We will not make cash payments to anybody, especially somebody that is directly involved in a project, approving the invoices, working with the contract.” But, if we have government workers that work in the government utility that have to go out and install 1,000 meters to monitor loss, and I pay them what we call a salary supplement, I don’t consider that to be a bribe. I need to get that work done, and I pay them a small amount. But I’m not going to pay the guy that is reviewing my invoice \$8,000 to get it paid. That is not very gray.

When I look at my work in the United States, work that is funded by the United States Government, I can look at that contract and that grant agreement says, “This is governed by a certain government regulation.” I go to the regulations and they are very specific. With the Foreign Corrupt Practices Act, I know what I can and can’t do. But if I go to a World Bank funded job, or a job funded by the development banks—ADB, IDB, all I have is a contract. And that is the only paper I’ll be judged by. It doesn’t cite the regulations like the United States Government contracts.

So, I think when you come down to the bottom line, in addressing and correcting the area of corruption, the start has to come from the country itself with the support of political powers-that-be, and then maybe outside support. But if you don’t have the will and the power in the country, it is a very difficult job and most likely cannot be corrected.

One country that I have seen, and this is my personal judgement, that has come a long way in combating corruption is El Salvador. I remember when I was auditing economic aid programs, I used to go to El Salvador. They had a road contract. You’d do an audit, and find 500 truckloads of gravel charged to the contract, reimbursed by AID. The gravel was delivered and the costs reimbursed six months after the project was completed. How does that happen? Well, you’d find out that the reimbursement was made to the son of a high-level government official. That was a common thing back in those days. But if you go down there now, you’ll see auditors closely auditing the expenditures.

I remember when we had our first ICGFM conference in Miami; our first one was thirteen or fourteen years ago. We have a March conference in Miami every year that is similar to this one. It is heavily attended by the Central American countries. The first one was held in a small room in the hotel with maybe 15 people. Now we have 350 people at the anti-corruption conference who are primarily financed by the governments themselves—from El Salvador, Guatemala, Haiti and all over the region. Fifteen years ago you wouldn’t have seen that. But now the momentum is swelling, and I can feel in the countries where I do business, corruption is being addressed. But there are still many others where I haven’t seen that.

JAGDISH NARANG (United States): Just to conclude the thought process, you said it correctly. We are ready to bend, but not break. Keep on doing what you need to do.

JAMIE GONZALES (Philippines): For example, our new government in the present strata has vowed to ensure transparency in taxation. And the system also calls for the prequalified bidders with

the PBAC, otherwise known as the prequalification bidding and awards committee, to submit transparencies of their financial status to this committee. At the time and date set for the bidding, these transparencies are placed on the billboard all at the same time. This helps to avoid hanky-panky in procurement actions.

JIM DURNIL (United States): Any little step is a good step, as Jagdish was saying. In my business my company says that you cannot guarantee economic growth with electricity, but we can guarantee you will not get economic growth without electricity. So when you hurt people in the line of business that I'm in, you are actually hurting the people who are just trying to live better lives.

The other subject that we were talking about is accountability of financial management professionals. What do you do with financial management officials that are not accountable? Here in the United States, the American Institute of Certified Public Accountants revokes your license if you don't meet their standards. In the government, if a person doesn't work up to standards or has done something wrong, then they have discipline procedures and rules that they have to follow. What are some of the processes or rules in other countries as they relate to the financial management professional? Does anyone here want to offer something about their private or public sector financial management officials and what their rules are as far as discipline if they are not clean? Where is the representative from Zimbabwe? If you do something wrong, who is going to discipline you?

ERIC HARID (Zimbabwe): Jim, first I want to draw you back to the program on corruption. I'll just say a few words, then I'll come back to possibilities or solutions to the deficiencies in government.

What was going through my mind on corruption, what I thought the solution would be if you are doing business with someone, you strictly say no to any under-the-table payments. I also went a little further and said why not set a trap for these guys? If they ask for something, yes, offer them something, talk to the security guys in that country and let them be arrested. I thought maybe that could be a deterrent so that people know that they won't get away with this thing.

Coming back to deficiencies in government, if I could use an example in Zimbabwe, the Auditor-General is given powers of surcharge. That is, if he thinks that someone has caused any deficiency, in monetary terms, he can raise a surcharge to recover the amount that has been lost. The provision goes a little further than that. It also says if someone causes that deficiency while working for the state, and they leave the state for the private sector, the Auditor-General can follow them and raise that surcharge. So if people know that whatever they do they are not going to get away with it, maybe it could be used as a deterrent. In my country we have argued that it is strictly an Auditor-General's role to do that, but it is in our lawbook.

FELIPE CASTRO (Dominican Republic): It seems to us that the entities that finance projects in the smaller countries or in any country such as the World Bank, AID, the Inter-American Development Bank, should have some type of office that would let them know when the officials in those countries become involved in corrupt activities. Then these entities could be in a position to exert pressure to do clean-up. They should be careful when government officials insist on being party to and working with the consultants or the contractors. Let's not forget that there is a lot of this going on too.

JIM DURNIL (United States): Yes, I definitely agree with that. I think that if the public sector is corrupt, you may as well forget about the private sector. In the public sector, I think if you don't have an enforcement body that is just super clean, then you're off to a bad start.

We're going to close this interesting session. Thank you for your participation.

## **ICGFM Principal Organization Members Meeting on Sharing Functions and Increasing Benefits**

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JIM HAMILTON (United States): This meeting is for you, the ICGFM Principal Organization Members. You represent the organizations associated with the Consortium or plan to be shortly. We want to talk about some of the benefits we receive and how we can partner to achieve our objective better. We sent through the Internet some time ago a thought piece on the benefits and some of the functions and roles we play in the ICGFM. As you know, if you look around the world today, and you look at private business, you see more and more consolidations, more and more partnerships. Organizations, whether in the private sector or the government, find there are certain things they can't do well or can't afford to do unitarily, or unilaterally. In the Consortium, sometimes we feel we're not sharing ideas on what we're doing with others in our membership, and maybe they're not sharing with us. For example, we have a quarterly newsletter. We have upcoming events. We know we're not getting some of the major events that are transpiring in our organizational numbers around the world in the upcoming events section of our newsletter. When it comes to conferences like this, sometimes we're a little bit late getting the literature out. We now call mail "snail mail" because the electronic process is a kind of leap frog. We communicate a lot faster through e-mail and through website postings.

I called the IIA, which is one of our members, about a month ago and said, "I would like you to advertise our plans for the upcoming conference." Bill Bishop, their president, said, "Well, if you had gotten to us earlier, we could have done more advertising for you, but I'll put it on our webpage." So at least it will be on the webpage for next month. He told me who to contact in the future on our upcoming events.

For this conference we advertised a lot locally through the local chapter of the IIA, which partners and sends a lot of other e-mail messages around to those on their list. These are some of the examples of working more effectively together I wanted to pass on to you.

I have the agenda and this thought piece to pass out to you. We'll spend about a half-hour talking about it. Maybe we can come up with one or two tangible things we think we might be able to partner on. Maybe we can make a proposal or take some action at a subsequent meeting.

JIM DURNIL (United States): I just want to add one comment to what Jim was saying. I've been associated with this Consortium now for ten years, and we've had meetings in Cambridge, in Pakistan, in Delhi. We had another one, I believe, in Australia. We feel that we're doing the best that we can in reaching our membership. We'd like to get ideas about forming regional associations in large countries, maybe having an organization just for that country. Whether we like it or not, we're becoming more and more international every day. With my people all over the world, I communicate routinely by e-mail. I know we can do it with the other governments and other folks in those countries. What we're looking at is: how can the Consortium better serve people? We don't want it to be a United States organization, we don't want it to be a British organization, we don't want it to be a Canadian

organization, we don't want it to be an Australian organization. We want it to be an organization of all the countries that are interested in good public financial management. Maybe we could have a volunteer office, maybe with some subsidy in that country, that could actively tell people in those organizations what the ICGFM is about.

I know that if I'm in Bangladesh, I can sign onto the local net and go right to the ICGFM homepage with no problems. I know that you all can do that in the countries that you visit. So I'd like to get some ideas on how we can better be a vehicle to make it a more international organization and better serve the membership. So that's what we're throwing out to you.

JOHN RADFORD (United States): I have a question. Are we a consortium of members or a consortium of organizations?

JIM DURNIL (United States): A little bit of both. In our bylaws we have set up different tiers of membership. We have what we call organizational memberships, then we have individual memberships and our dues structure varies. In the organizational memberships, the major organizational members are on the board of directors. Individual members or not. The dues structure is different. I think individual members pay something like \$50 annually, where an organizational membership might pay \$800, and they have more weight. With each major organizational member, they have two people on the Board of Directors. We also have institutional members, like an Auditor General or a Minister of Finance. Then we have the Chartered Accountants from England, Australia and New Zealand, and the AICPA which is an organizational member. We also have some universities as members.

As we keep going, in electronic commerce today, in the way we can move information, I think there is a service that we can provide to the membership. It is just how we look to the future and do our strategic planning to improve our organization to better serve our membership.

VIRGINIA ROBINSON (United States): There are other organizations, members who belong to the Consortium like the ABPA, Association of Budget and Program Analysts, who have indicated that they'd be pleased to announce our meetings in their publication, just as IIA will and AGA and others will too. They'll do it in their publications, and they'll do it in their regular meetings. But there is another way that we can get to some other people.

I asked a friend if she was coming to this conference. She is a partner in PriceWaterhouseCoopers. She's right here in Washington, D.C. She said, "I didn't know about it." She said, "Sure we're interested. We need CPE, especially near the end of the year." We could have a subcommittee responsible for contacting the firms to make sure they know about the meetings because we do get good support from some of them. I think they would participate if they knew about our events. It is a double benefit—helping the cause and getting the continuing professional education credits as well.

JAGDISH NARANG (United States): Let me expand a bit on individual membership. We talked about organizational membership. We talked of institutional memberships. We also encourage individuals who are not part of an institution, who want to be independent and want to contribute. They get all the information and they can participate in all the conferences. So it is not necessary to get into an institution to be a member of ICGFM. People are encouraged to become individual members too, and the fee is not much, only \$50.

JIM HAMILTON (United States): Mr. Narang, who just spoke, is actually asking people to sign up for membership, so he is in a position to enroll you if you'd like.

We have several organizational members from the Philippines. Do you have e-mail lists of your members which you could share with us? Yes? One practical step we could take with e-mail is to have contact with people in each organization to keep them apprised of events or workshops coming up in your organization, with a little memo on how to register, and the cost, and where it is going to be and that sort of thing. In return, you could be in a position to advertise our conferences through e-mail or on our website. That is one of the items in the agenda that will take some work, but I think it's doable. We've already gone part of the way on that.

Jim Durnil said we might put this agenda on the webpage and get feedback on it. So let's do that. We just want to bring it to your attention because sometimes we put these things before you from a distance, but it is nice when you're here to address it on a more personal level. Any other thoughts?

JOHN RADFORD (United States): I'm new to the organization, but what I would say is that the strength and the vitality of any organization is dependent upon its commitments and the depth and breadth of its membership. That's directly related to the program and program offerings of an organization, and the purpose for which the organization has gathered together. My own feeling is that you'd probably be better off using those member organizations in an outreach capacity of some form to reach that depth and breadth of members across the globe. Individual members can only do so much, but an organization of many members can be multiplied and can reach a tremendous volume of people internationally. If we get the right message out, if we do some outreach, I suspect that we could probably increase the vitality and the purposefulness of this organization tremendously.

JIM HAMILTON (United States): Perhaps what we can do is build up our mailing list on our homepage. We have an international list which includes all of the members and a lot of other organizations, but we need to supplement that. We'll put this agenda on our webpage. You all know our webpage. It's [www.financenet.gov/icgfm.htm](http://www.financenet.gov/icgfm.htm). We have a couple of forums on there where you can click on and send a message out to the rest of our people. We'll put this up and then create a new category for sharing resources and ideas, maybe put up another forum page. We'll talk to Preston Rich who is our technical guy and find a way to make it easier for you to send the e-mail addresses of your membership and maybe a contact point so we can share information on upcoming events.

ALFRED PENOLA, JR. (Philippines): I work at a state university, and am interested in being a member of this organization. By paying the \$50, does it mean that one individual or university is a lifetime member of this organization? I will suggest to our agency, the state university, that they subscribe to become a member of this, a participant. I think membership might also be good for our library.

JIM HAMILTON (United States): We encourage organizational membership, and one of the ways we do it is by keeping our membership dues structure reasonable. But you have to pay annually in order to continue your membership because we have annual costs. But, to answer your question, you are allowed, when you join, up to four names and addresses and e-mails on your membership application. We will distribute our quarterly newsletters and publications to four people in the organization.

JAIME GONZALES (Philippines): I am from the Bureau of Internal Revenue, the Government of the Republic of the Philippines. This office is the principal arm of our government in raising the government revenues. Would our office qualify as a government institution member?

JIM HAMILTON (United States): Yes.

RAYMOND EINHORN (United States): Mea culpa. I am from a university, American University. And when the gentleman asked whether this is an organization of institutions or individuals, a light flashed. There is a great opportunity to get universities in as ICGFM members. I told President Durnil a few minutes ago that there are universities in the Consortium, but not as many as there should be.

Consider the advantage of the university. Like other organizations, you will have many individual members. In this case, faculty is very important, but the students are many more in number. They should be aware of what this Consortium is doing. As Mort Dittenhofer and Jim Wesberry can tell you, even though I have been associated with the Consortium from the beginning, I am constantly amazed to see how much is done at these conferences. Everywhere else people are talking about the young people, the coming generation, and I'll come back to where I started, mea culpa. I should have been beating the heads of the Jim Wesberrys and the Jim Hamiltons and the Jim Durnils (notice you have to be Jim to be a president). I am remiss in not emphasizing it.

JIM DURNIL (United States): Well, the reason that we're trying to discuss the subject is that we started a strategic planning process to take a look at what ICGFM should be doing over the next few years. When we looked around at other organizations, it seems that everybody has an interest in international financial management. There is an organization called The Institute of Internal Auditors, IIA, where Mr. Taylor was the president. They have a very strong international membership, but they are basically an association of internal auditors for private companies and organizations in the public sector. I don't know its size, but it is a very active international organization. Then we have various regional organizations, like the Inter-American Accounting Association, that are very active here. We talked here about the National Association of State Auditors, Controllers and Treasurers, and I was amazed to see the amount of international activity that even some of our state organizations have in other countries. Everybody is doing a little bit, but there is no coordinated approach.

When Dave Walker, who is the new Comptroller General, took office, Virginia and I met with him. We discussed this area. Virginia, maybe you can give some feedback on his thoughts. He is very interested internationally, and we looked to the General Accounting Office to be the lead government organization when it comes to the international community and financial management. They do have an international division.

VIRGINIA ROBINSON (United States): There were a number of us in the meeting who had been working in overseas countries from different organizations. He said in the short time that he had been in that job, he had heard of numerous groups working in different countries, sometimes 20 or 30 working in a single country, on financial management. He asked, "Do you know which groups are working in the countries when you go in there to work? Do you know the nature of their task?" And, of course, we had to answer no. We have people from USAID, World Bank, International Monetary Fund, United Nations, working in different countries. Some are supported by foundations. Some are nonprofit. NASACT is working in Poland, along with lots of others. He said, "Is there any way that this can be coordinated?" He said, "Is there any way that this can be coordinated so that when a group

is going into a country to do some work, they can have some knowledge of what has already been done, not reinvent the wheel? Is there some way that you can disseminate information so that there will be better sharing?" Someone said, "Could GAO serve as this coordinator or clearing house?" We kind of looked at him and thought, "Gee, it wouldn't be a good idea for GAO to try to undertake such a function." Because in the first place, there are some organizations that are involved in this kind of work over which he would have no jurisdiction. GAO can certainly review any organization that is involved in the expenditure of federal funds, but there are a lot of nonprofit groups, foundations and others involved that would just be excluded.

And we thought, "Oh, the ideal organization is the International Consortium on Governmental Financial Management (ICGFM)." You are a non-government organization, you have members of nonprofit organizations, you have members of accounting firms, members of the World Bank, International Monetary Fund, UNDP, all of the groups represented in the Consortium. Why couldn't that be one of the Consortium's major agenda items? That could be a major contribution to the improvement of financial management if the Consortium could figure out a way to have a functioning clearinghouse or some mechanism for letting people know what is going on in these countries where they're working. Do we dare undertake such a mission? What do you think, Patricia? I know NASACT has been doing international work too. Any thoughts on it?

PATRICIA O'CONNOR (United States): My job at NASACT basically is to provide technical services for state controllers. My job has been totally revolutionized within the last three or four years through the use of e-mail, basically. What I see for this group (the ICGFM) are tremendous possibilities providing a list-serve, providing a locus where technical issues and questions can be directed and circulated among interested members, where responses and comments can be exchanged. It would be an extraordinarily useful tool. I think also that for the collection of the kind of information that we're talking about, the use of a good e-mail network would get the organization a good distance along the way.

JIM HAMILTON (United States): I think one of the difficulties in doing this is that e-mail addresses change. The first step would be to get a good list of organizations and e-mail addresses and websites in each country. For practical reasons, you also should have a knowledge of whom you should be dealing with within each of these organizations. If you just go into the president's office, the message will probably just sit there. But this sounds like a good research project. As Jim suggested earlier, we could put it out on our website for suggestions on our forum pages. When you go back home, think about it. Maybe if your organization, or you, can't get involved in it, maybe there is somebody that you're working with who could. Maybe there are some young people working on a project in their course work related to this. We have to get the academics involved.

We've always had these good turnouts, as Jim mentioned, in Miami, and in spite of all our e-mails to the Washington area, we've had very few participants from the Washington area. So we have to think in terms of marketing. How are we going to get out to universities? We're talking with Michelle, our conference manager, about how we might package segments of the conference so students could come in for the morning session or the afternoon session, without lunch, for a lower price. University professors could advertise it to their students in the subject areas which are a natural for this kind of an audience.

But I think we probably need some partners. If you think this is worthwhile in your organization, please communicate it to us. You can communicate it through the e-mail or by telephone. If we had the e-mail addresses of all the key players in financial management, including the budget people and accountants and auditors in different levels of government in each country, then we could communicate that we're having a conference in Washington with enough lead time. We could probably double or triple the people who would find it convenient to come.

It is something we will start on. We will start by advertising on our webpage. It is something you can take back with you to think about in terms of partnership. If you or one of your sister organizations or educational institutions would like to work on this, it could give them some exposure because we'd be willing to put their name out there as being a partner in this joint project. You could get credit, and they could get credit for it as well.

JIM DURNIL (United States): What we're looking for, and Jim, you can add this, is feedback from the attendees here and from our members, both organizational and individual members, on how they think ICGFM should be organized to better serve its membership, and are they being served by other organizations better? Should we work with those organizations? How can we look to the future in the new millennium as far as expanding or restructuring? What should we do to better serve our membership?

JIM HAMILTON (United States): The idea for this meeting really came from two sources. It came out of the Strategic Planning Committee, where Virginia Robinson, Lin Weeks and Jim Durnil started a process of rethinking what we're doing and how we're doing it, and it was initiated with some questionnaires to our members on the roles and benefits. The other impetus really came from Charlie Caulkin and Bill Taylor, and I regret that they're not here.

Every year in the U.S., there are about five organizations, and I think Ron Points who is here today knows about this, that have a summit meeting. They get the IIA together with the AGA, the AICPA, all the big professional organizations in the U.S. They are trying to figure out ways in which they can economize and still have the same impact or better impact. For example, AGA, which has a lot of good courses in government accounting, have an agreement to provide training in this area for the AICPA. The AICPA isn't going to try to put on government accounting courses anymore. They have this agreement with the AGA, who are the experts. They are the ones who have the best government seminars and training programs. So that is a formal agreement between two of these organizations, and there is probably a lot going on of which I'm not aware. The major professional organizations, in their summit meeting every year, in a day or two, can decide how they can improve this process, why can't we? Shouldn't we be doing the same thing internationally?

MR. DURNIL (United States): To be very specific, we'd like answers to the items on the agenda, and we encourage you to have other people go to our website and also provide input answers to that agenda.

JIM HAMILTON (United States): We already have on our website a series of forums. If you go to our website, on the left-hand side, you see the index of the subpages or subtitles, publications, upcoming events, our officers and directors, etc. But there is one prominent item on the index or the table of contents, as you might call it, which is "forums." There is an international forum there where you can send an e-mail message to all of our members and all other interested people worldwide. So

if you have a thought, you can actually go in there and raise a question or put a paper there up for discussion among our international mailing list.

JACK PERSON (Canada): How big is it? How many are on the international mailing list?

JIM HAMILTON (United States): Thirteen hundred, Jagdish tells me. We've been lucky, because Preston Rich, one of our directors, is the executive director of FinanceNet, which has gotten a lot of money to develop that site from the initiative of Al Gore, the Vice President, channeled through the National Science Foundation. He was looking for an international partner, and our organization became a partner. So he has become an active member of our board. And we're on their network. So our international mailing list is not only ours, it is FinanceNet's. You have quite an audience there if you put something up. We're getting there, but we have a long way to go.

Do you all have an agenda paper? The reason we're talking today is to talk among our members about how we can share resources to work more effectively in communicating with each other and advertising in a whole range of ways. We want to come up with one or two tangible areas that we think are practical. I think we've already come up with two—one is the e-mail list and the other, which Virginia suggested, is getting a good list of financial management organizations in each country, which is like a mission impossible. You can never discover all of them, because you're dealing with state, local and national levels. In some countries it might be easy, but in the large countries it is a big task.

We discussed putting an additional page in our forum pages on our website so you can go in there and put in your ideas. We also have an international mailing list on which you can go in and send out a question. We have a number of people who are working on projects and they put a project description and what they are trying to explore on our webpage and ask for responses. That really goes out to the world. It's a great research tool you can use as well. It is available right now if you are doing any kind of research work where you want to find out if someone is operating or working in a similar area.

This is a dynamic way that we can work together. It is somewhat unchartered, but we have agreement that we're going to start by, number one, putting something up on our webpage, and, number two, letting you know that you can use our international mailing list. Feel free to communicate with us. I think most of you have one of our e-mail addresses—mine or Virginia's or Audrey Dysland's. Let us know if you have an e-mail list that you would like to share. We can at least get started at that level. And then, number three, we can think in terms of partners to do this research on an inventory. I hate to use the word inventory.

VIRGINIA ROBINSON (United States): Clearinghouse.

JIM HAMILTON (United States): Clearinghouse, yes.

JAIME GONZALES (Philippines): I would like to volunteer some information that might be of help to the Consortium. In the Philippines, we have several organizations. I am, for example, a member of an organization which is now a member of the Consortium. Aside from that organization, we have, the Association of Government Internal Auditors, the Association of the Government Accountants of the Philippines, the Government Association of Certified Public Accountants and the Philippine Institute of Certified Public Accountants. These organizations combined have a total membership of about 20,000. I think the Consortium should tap these organizations for membership.

JIM HAMILTON (United States): I appreciate that. I should say at this point that we're planning to work with the Philippine organizing committee for the next CAPA conference which is going to be in Manila November 8-11 of the year 2000. CAPA, as you know, is the largest association of accountants in the private sector in Asia and the Pacific, and they plan to have between 4,000 and 5,000 people at the largest convention center in Manila. So we're in the process of partnering with them and the local government organizations in the Philippines to plan the public sector component of that conference.

Mr. Gangan is going to meet with us this evening for dinner, and we're going to start planning that conference. It is a good opportunity for us to work together, and maybe that will bring involvement and more membership from the Philippines.

The other thing we're doing in the conference area is in Madrid. We're partnering with one of the largest professional bodies in Spain, AECA, an association of private accounting and business administration. They have organizational members throughout Europe, North America and South America. They are really larger than the Consortium, and they're getting a lot of European Commission money. They're doing a lot of work in Latin America on projects. They are well-connected to the educational institutions in Spain. We're going to partner with them next June. Mark it on your calendar—June 14, 15 and 16 in Madrid. And we're going to discuss the same subject—fiscal decentralization—plus some other issues of control and audit at that conference.

So we're taking some specific steps to partner with our colleagues in the private sector because there is a need for crossover. They learn what we're doing in the government sector. They're making contracts in the government sector all the time—ask Mr. Points from PriceWaterhouseCoopers—and so they see value in having people that they're trying to train and retool in their projects come to our conferences. There is a lot of crossover. Dr. Enthoven is here. He's been very active in CAPA and we might be able to get him to be a speaker at that conference coming up in November next year.

We have a lot of resources and we haven't been sitting idle. We have two partners now that we're working with on two major conferences. We hope we will do well in the Philippines. That can build up our base. We're going to discuss it in our board meeting tomorrow afternoon, but I just wanted to tell you folks in advance.

Any other thoughts? Lin?

LIN WEEKS (United States): The beauty of the Consortium is we serve as an umbrella bringing in and welcoming and working on getting cross-fertilization of ideas from members of many different organizations. What we're really trying to find out from all of you is, is the organization that you're affiliated with meeting all of your needs? What are the needs not being met that the Consortium can meet? We're getting some good ideas today, and that's what we're interested in continuing to hear. What can we do to fill the gaps between some of the other organizations' activities? That's where the results of our strategic planning process came in. It was that we can bring professionals from many different organizations together, so that in that context we can better meet your needs. I'm glad to hear some of the ideas you have expressed today.

JIM HAMILTON (United States): I think we have made considerable progress at these conferences to get people from all regions of the world involved. We're lucky to have two good speakers from Africa today. This conference, I think, is the first conference where we've had a speaker from Russia. They became members this January. So we're bringing more people into our fold. We started the process about a year ago with Lin and with Virginia on the strategic planning process where we really scratched our heads, sent out some questionnaires and got feedback on what your opinions were. But now I think we have to reach out and find some practical ways that we can work together and do some things on the ground, so to speak.

One way is through conferences, these partnerships through conferences. Another way is cross-advertising in our publications. In our publications we can each share upcoming events at the end of our newsletters. We can do a better job in our upcoming events section, on what you're doing out there. *The International Journal on Government Auditing* does a good job because they have a pretty good upcoming events network through their organization. But the Consortium hasn't done so well in our publications. So we have to find a better way of maintaining contact with people on real time.

Any other thoughts? If not, I think that wraps it up.

## **Session: Russia/CIS/Eastern Europe**

### **Decentralizing Public Finances in Poland—Observations of the Supreme Chamber of Control**

**Jacek Jezierski, Vice President, The Supreme Chamber of Control, Poland**

### **Preparation for and Conducting Audits of the Execution of the Federal Budget on the Basis of Information Technology in Russia**

**K.M. Karmokov, Chairman**

**Accounts Chamber of the Russian Federation, Russia**

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#### **Jacek Jezierski, Vice President, The Supreme Chamber of Control, Poland**

Good morning to everybody. I'd like to share with you some information about the transition that went on in Poland in the last ten years—how many tasks we sent out from the governmental level to the lower municipal level, and how public finance in Poland works. First I will tell you a bit about how it was before the transition started ten years ago, then I will say how it was during the ten years. The last phase just started in January of this year, so we don't have too much experience yet.

The present organization of the public sector in Poland is a result of numerous changes and transformation begun in 1989. The process of decentralization of public finance was an important element of this transformation. It helped to adjust the budget system operating in the 1980s, which was centralized and closely linked to the economy at the time and to the requirements of Poland's new political and economic structures.

From its very onset, decentralization of public finance has been constantly monitored by the Supreme Chamber of Control. We carry out numerous audits concerning the fulfillment of tasks by the central and local government administrations. The underlying assumptions of the public finance reform are derived from the political guidance contained in the Polish Constitution, the primary and auxiliary function of the state in performance of public tasks. This function is implemented in the process of decentralization and relies upon the principle of the uniform, homogenous nature of Poland as a state. The solutions adopted for the process of decentralization of public finance are consistent with the requirements of the European Local Government Charter from 1982 which was ratified by Poland in 1993. This charter sets out the financial basis for the autonomy of the local government.

In the early 1990s, before the process of decentralization was implemented, Poland's public sector had two main features: the first one, a uniform centralized budget system applicable to state administration agencies, operating at the central governmental level and at in the local authority level with financing from the state budget; and the second one, extensive funds economy, which was para-budget or outside budget, however without the precise determination of the principles of financial economy.

The transformation of the Polish economy was started in 1989, virtually without any changes in the organization of the public sector. These ten years of experience proved that the creation of self-governing in these budgets was one of the crucial political changes in Poland. However, the degree of the decentralization of public tasks in finance, achieved thanks to the local government reform implemented in the early 1990s, was relatively small.

In 1991, the income of municipalities constituted about six percent of GDP, and their expenditure was about five percent of the GDP. By the mid-1990s the municipal expenditure was below 14 percent when compared to the spending of the whole private sector.

The Supreme Chamber of Control performed hundreds of audits of the operation and fulfillment of tasks by the public administration. We have not found even a single case where the performance of such tasks by the local government would be inferior to that of the central government. Based on the results of our audits, we can arrive at a general conclusion—namely, that the decentralization of tasks and finance improved the satisfaction of needs of local communities.

Therefore, we felt the degree of decentralization of public tasks and finance should have been wider and quicker at the initial stage of the state reforms. The relatively small degree of decentralization was determined by three factors. Since the reforms were limited to the municipalities, the responsibilities of the local government failed to include such tasks as basic health care, primary and secondary schools, counter unemployment activities and local roads. They'd have to be implemented by units covering several municipalities. Secondly, the uniform scope of tasks and responsibilities was made to fit the capacities of smaller municipalities, and hence numerous tasks that could have been fulfilled by the bigger cities were left in the hands of the central administration. The third factor was insufficient determination in overcoming the unwillingness on the part of certain ministers to limit their authority by delegating it to the local government.

An attempt was made to accelerate the decentralization process in 1993. It was the probation program implemented from early 1994 onward. Under this program, the extensive range of tasks and authority was delegated to 46 selected cities having sufficient economy potential. The cost of new tasks were to be covered from budget subsidies. However, the participating cities enjoyed a considerable degree of freedom in application of such subsidies. In 1994, subsidies for probation tasks made up almost three percent of the state budget, at the same time representing more than 20 percent of the total expenditure of the cities participating in this program.

Another stage was the linking of educational reform to decentralization of public finance. The takeover of secondary schools by cities participating in this probation program called for an increased share of taxes from the state budget. This significantly increased in 1996 as a result of the takeover of primary schools by local governments.

I will show the structure of the public sector expenditure in selected years. The program started in 1994 and will end at the end of 1999. You can see how it has changed. The changes were not very big, but you can see some trends in this, especially the state budget, which started from 40 percent in 1994, goes to 39 percent by the end of last year, and starts this year with 28 percent. It is increasing mostly in local budgets. You can see, in earmarked funds, it went from 20 percent up to 70 percent, and the state budget goes down, budget economic goes down, and only the local budget rises.

The period of one level model of local government started in 1990. This year we created two additional levels, the county governments and the provincial governments. The county government is the line between the municipality and the central government administration, however, it has neither a management nor supervisory function over municipalities. The next level is the provincial government. This three-level model of local government is composed of 16 regional counties, 308 district counties, 65 borough counties, and 2,489 municipal communities.

Now, I will speak of the finance of these structures. The income of local authorities consists of their own income, general subvention and earmarked subsidies from the state budget. This year, the local governments were supposed to receive 22 percent of overall expenditure from the state budget. The big chunk of subvention and subsidies were given to municipalities, then to counties and provinces. Their own income comes from local taxes. These taxes are delegated to local governments, for example, real property tax or tax on inheritance and gift tax. This income is also subject to state taxes, fees and income taxes. The nature of expenditure is specified in regulations contained in special law.

From a legal point of view, the expenditures of local authorities can be classified as expenditures on four levels. The first is their own tasks. On the second level, they've got tasks which pertain only to certain local authorities. At the third level are tasks delegated under laws, and the fourth task level is in accordance with agreements with central government agencies and other local authorities. Their own tasks are financed from their own income, like taxes, sharing taxes and subsidies. Delegated tasks are financed from earmarked subsidies and from funds agreed under agreement.

The decentralization of public finance has not essentially changed the source of municipal income. What was changed was the share of municipalities in the personal income tax received—from 18 percent in 1998 to 27 percent this year and the year 2000.

The characteristic feature of the financial system of all levels of local government, excluding municipalities, is a high share of subsidies and subvention in their income. Too little attention is given to their own income and sharing taxes or presenting state budget income. In the structure of the income of local authorities in 1999, what is important is the very low own income in district counties, which is only 3.3 percent, and self government provinces, which is only 1.2 percent.

When analyzing individual local government income, we must emphasize that the general subvention plays a different role from that of an earmarked subsidy. Subventions are intended to finance their own tasks, and those of a general nature, while subsidies are used for financing a specific goal or sets of goals. In addition, in the case of subsidies, there is also the element of approval by central government agencies, whether a given subsidy should be allocated to a given cost or several costs.

Municipalities receive a general subvention from the state budget. This subvention consists of three parts—basic, educational and compensatory. At least one percent of the state budget income projections under the budget law are allocated to the basic part of a general subvention. The compensatory part of the general subvention consists of the compensation for income lost by reason of partial abolition of transportation tax and other statutory concession from certain taxes.

A general subvention for a county consists of three parts—educational, roads and compensatory. The compensatory part of the subvention is determined by comparing the tax potential of a county with the county with the greatest tax potential in the country. Therefore, this part of a subvention is received by all countries and boroughs excluding the richest one.

A general subvention for a province consists of the three same parts—educational, roads and compensatory. The compensatory part of the subvention is determined as in the case of counties, by comparing the tax potential of a province with the tax potential of the strongest province.

The educational part of the general subvention for all municipalities, counties and provinces is determined as a total amount not less than 12.8 percent of the income of the state budget.

Subsidy regulations are of crucial importance for the links between the state budget and the budgets of municipalities, countries and provinces, even considering the considerable scale of subsidies granted to local authorities. The subsidizing of multi-year provincial development plans is a new thing that just started this year. Earmarked subsidies for municipalities, counties and provinces are governed by regulations which hope to find in its scope principles and methods of subsidizing the tasks of each type of local authority. An important thing is adoption of a rule to transfer earmarked subsidies to province managers, which means the increased authority of province managers in subsidizing and accounting for the application of subsidies by local authorities.

Municipalities receive earmarked subsidies as a cushion for the tasks delegated by the central administration; and for financing or partial financing of their own tasks that are set out under separate regulation in the field of social systems and housing allowance, which is the greatest chunk of funds allocated for proposed and other tasks.

Counties receive subsidies from the state budget for implementation of tasks by county services, inspections and guards; for administration-related taxes executed by counties pursuant to other provisions; and for budget financing of their own tasks in the field of social assistance and other tasks.

Self-government provinces receive earmarked subsidies for administration-related tasks executed by provinces under other provision; and for budget financing of their own tasks in the field of social systems and higher educational training.

As a result of decentralization, the personal income tax payer pays his tax in such a way that 69.2 percent of his tax goes to the state budget, 27.6 percent goes to the municipality budget, one percent to the county government budget, and 1.5 percent to the provincial government budget.

Another important aspect of the decentralization of public finance is the provision of funds from the state budget for the newly established health care institutions, thus creating the legal framework for the operation of such institutions independent of the state budget. At the end of 1998, expenditures of health care were covered from the state budget. The health insurance process was launched at the beginning of this year, and the basic units of this system are so-called passion banks. They have established sixteen regional banks and one additional provisional bank.

Another important element of change in the healthcare system was the transformation of public healthcare institutions into independent ones. They received a corporate status, and funds became

available to refund operating costs from the insurance money. All people who were subject to the general health insurance obligation became members of the passion bank which covers expenses related to restoration of health, and disease prevention.

The insurance premium, which is 7.5 percent of individual income, is transferred by employers to the passion banks. The process of decentralization of public finance also entails social insurance reform. The intention of the solution adopted in this area is to change the function of the state. The state ceases to be the operator of the social insurance system with its associated financial liability and becomes the organizer or legal framework for social insurance, with responsibilities such as imposing the obligation to insure.

Pension funds and the office that supervises the pension funds were established also at the beginning of this year. The purpose of this fund is to collect money and invest it and then pay it out to plan members as they become eligible for pension. These changes were only started. The management of money is still largely subsidized from the state budget.

In the adopted model of decentralization, tasks are categorized. For those marked for absence of subordination, neither the subject matter nor the person is supervised. The lower level authorities enjoy complete independence provided for by the law. However, primary tasks, according to the legality, are supervised. An example is the area of phone tax. According to the constitutional provision, the prime minister and the province manager are the bodies exercising basic supervision over the activity of local authorities, and the regional clearing chamber is the body exercising special supervision in the area of finance.

In regard to the political system of local government, the legislature decided that supervision will extend over the activity of local authorities. This supervision may be primarily affected vis-a-vis resolution making bodies of such authorities. Other instances of supervision may only be necessary in special cases, and the prime minister or province manager is always the authority in tough situations.

The audit of local authorities, local preparation and other organizational units of local government is an optional task of our institution, the Supreme Chamber of Control. Such audits may be exclusively effective by reference to the criteria of legality, economic prudence and diligence. As I said, we don't have too much experience because this last step of our reform just started this year. But our institution will continue to be strongly involved in what's going on, particularly in financing these reforms.

Thank you very much.

**K.M. Karmokov, Chairman**  
**Accounts Chamber of the Russian Federation, Russia**

Participants of the conference, colleagues, I would like to take this opportunity to sincerely thank the organizers of this conference who gave us the chance to deliver this presentation to you. The presentation will be a short report on our experience of the last four or five years. I would also like to express my appreciation to those presenters who have already spoken before me. We have listened to them carefully. And I must say that we were able to learn from the new and interesting ideas and experiences of these presentations. I would also like to sincerely thank everybody present here today

for your professional interest, and the friendliness you show in the course of discussing the presentations.

The Accounts Chamber of the Russian Federation, which I represent here today, is a new body, a new agency of financial monitoring for my country. It does not mean that prior to the establishment of the Accounts Chamber in Russia there were no bodies of financial monitoring under the Tsar during the last century or in the Soviet Union. There have always been agencies for financial monitoring. Yesterday the moderator, Dr. Enthoven, gave me his book as a present, and I was pleasantly surprised to see in his book a whole chapter dealing with the financial management system in the Tsarist Russia. I would like to take this opportunity to thank my colleague for this pleasant surprise.

The Accounts Chamber of the Russian Federation was established in 1995. In January of 1995, the President of Russia signed a law on the establishment of the Accounts Chamber which determined the structure and responsibilities of this standing body of financial management in my country. I must say that we were actually involved in preparation of this law while I was a member of the Duma. When we were preparing this law, we tried to make use of the positive international experience. I must say that we were able to borrow quite a few features from Germany, France, Spain and the United States.

We were trying to reflect, in the Russian law, everything important and necessary that we would need to effectively manage finances of the country. Not everything that we tried to put into law was adopted by the Parliament. During the bill's discussion in the lower and then higher chamber of the Russian Parliament, and later when the bill was considered by the President, we were forced to concede several items in the law. But even though it was adopted in this present form, it is still a good basis for effective work.

This is not the only act that is the foundation of our work. For the first time, in the Russian Constitution, which was adopted by the referendum in 1993, there were three articles, 101, 102 and 103, dealing with the responsibilities of the Chamber of Accounts. I must point out right away that the Russian Constitution does not give the Russian Parliament any per se auditing functions. The Chamber of Accounts is a representative body and its functions are different from the Parliament's. In order to monitor execution of the budget, the Russian Parliament set up the Chamber of Accounts.

The Chamber of Accounts is mainly responsible for supervising or monitoring the budget execution. The Constitution also put forward the basic principles for the Accounts Chamber activity. The Chairman of the Chamber is appointed by the Duma, and the Vice Chairman is appointed by the higher chamber. We have 12 auditors, and half of them are appointed by the lower chamber, and the other half are appointed by the higher chamber. This procedure takes care of the interests of both chambers of the Parliament. The term for the Chairman, Vice Chairman and the 12 auditors is six years. So every six years the Parliament can reconsider the members.

The Chamber of Accounts also has a staff of auditors and other experts. The Chamber of Accounts also has a collegium or board. It consists of a Chairman, Vice Chairman and 12 auditors. It develops and approves plans of work and the results of audits. It develops procedures and makes other decisions that are paramount for Chamber of Account activities.

Therefore, when we were developing regulations and establishing the Chamber of Accounts we were trying to follow the principle of team building and individual aspects of management. The

Chairman, the Vice Chairman and the 12 auditors have their personal responsibilities. They base their activities on several acts and regulations, and the procedures of the Chamber of Accounts. We spent about three years developing all of that regulatory basis. All of those documents have already been approved and we feel that those documents are very useful for our activity.

The Chamber of Accounts works on the basis of yearly and current plans. The yearly plan is developed based on suggestions by the Chamber of Accounts which takes into account suggestions by the President of the country and the Parliament. When we develop a yearly plan, we also take into account suggestions of the regional governments. We have a provision in our legislation which is unique to our Chamber of Accounts. The legislation mandates that we need to take into account all of the requests of the Parliament that were approved by one-fifth of the Parliament. Let's say we have 450 members of the Parliament. If more than 90 members of the Parliament request a certain procedure or an audit, we must include that in our plan.

We have developed different norms, different methods and different procedures manuals which serve as a basis for our planning activity. For example, our procedures provide for all of the inspectors to participate in at least six audits. We conduct our audits both in regions and in different sections of the economy. Russia has 89 regions that are the equivalent of American states. We have to audit each of those regions at least once in three years. So in the six-year term, an auditor will have to go to every region at least twice. Another requirement is that every year we have to audit each of the 150 central government entities.

The budget in the country is developed both in terms of sector of economy and government entity. The budget always cites which of the agencies gets certain money. All of those entities are audited every year. They are audited in terms of how they follow the budget that was given to them. After we have done an audit, we make decisions. Those decisions can be formulated as an official opinion that will be forwarded to the President or to the Parliament, depending on the situation, and those opinions suggest how they can mend existing problems. A stronger opinion or report can be mandatory for execution. They can be either an opinion or mandatory, more like an order. We have an opportunity to send about two dozen of such documents every year to different entities. If either an opinion or an order does not bring any results, we have an opportunity to impose a moratorium on all of the activities of a certain entity. To impose that, we need to have an approval by the Duma. We have done that only once in the last two years, and even now the accounts of that entity are frozen.

Law prescribes that we have to cooperate very closely with the law enforcement agencies, so that when we uncover certain breaches of law, we need to forward that paperwork to law enforcement. The Attorney General's Office usually receives our paperwork and we have a procedure that stipulates in which time frame actions need to be taken. Every year we forward to the Attorney General's office about 70 to 80, sometimes 100 cases pertaining to different violations. In the last several years the Attorney General's Office became more aggressive, and they follow up on our reports more aggressively.

This is a very general overview of the Chamber of Accounts that I present here. Each of the 12 auditors is responsible for a certain field of activity of the Chamber of Accounts. One is responsible for the defense expenditure, and another is responsible for the relationship between the federal budget and the regional budgets. Yet another auditor is responsible for expenditure pertaining to international activity. There is the responsibility for non-budgetary funds in Russia—pension funds, social security

and medical insurance. The volume is approximately 65 percent of the federal budget. There is also an auditor who is responsible for expenditures for the governmental debt, and also money in the central and federal bank. The number of employees that work for each auditor is 50 people. As of today, we have 650 people working for the Russian Chamber of Accounts, two-thirds of which are inspectors and auditors.

As of today, we can state that over the time since the signing of the law pertaining to the Chamber of Accounts of the Russian Federation, we have established a unified system of monitoring federal budget spending. This is the unified system which includes three subsystems or three types of monitoring which we qualify or classify as preliminary monitoring, real-time monitoring and control or audit, e.g., consequence monitoring. These are the three types of monitoring—preliminary, current and subsequent. Together, these are the core of the federal budget monitoring system which is being implemented by the Russian Chamber of Accounts.

I will briefly speak about those three types of monitoring, and then I will tell you about our information and technical system in the Chamber of Accounts. Preliminary monitoring is the type of monitoring which is performed in the stage of preparation and approval of the federal budget. This monitoring takes place during the entire calendar year. In this type of monitoring the Chamber of Accounts performs various analytical and research work, and conducts various feasibility studies of all features of the assets and liabilities including internal and external financial markets. Each of the 12 auditors, based on the area for which he or she is responsible, prepares the report for the operations and planned projects for the next year's budget. Then we summarize all 12 reports into one general report and present our conclusion or our principal position to the Parliament prior to the approval of the budget. While the budget is being discussed and approved in the Parliament, the Chamber of Accounts takes active participation in the work of the Parliamentary commissions, and also the discussion and approval of the federal budget. In this case, we also make a presentation and share the opinion of the Chamber of Accounts and discuss all areas of the budget.

On the 28<sup>th</sup> of September, I made such a presentation in the State Duma discussing the budget for the year 2000. This budget was discussed by the State Duma and it was delayed subject to discussion in the three-sided commission. This three-sided commission discusses the budget for the Russian Federation for the three last years. In that commission we and the Central Bank of Russia perform the role of consultants. We participate in the work of all small working groups which are created by this three-sided commission and discuss all-important problems of the budget. The commission is called the three-sided commission because there are participants from the government, the State Duma and the State Federation.

After the budget has been adopted, after it has become a law, and the Ministry of Finance and the Treasury start implementing the budget, the second phase of monitoring starts, which we perform and which is called operational or real-time monitoring. To perform operational monitoring, we use our information database. The Ministry of Finance and Treasury submit data to us which we include in our database. According to regulations, the Ministry of Finance should give us copies of all payment documents which were the basis for the operations in the federal budget. These five-day packages or portfolios are combined into a monthly unified document, and then this monthly report is given to the Ministry of Finance and to the Treasury based on the regulations. The regulations state that only this and no other documents were used to perform operations for the federal budget. Based on these

documents, we have created the technological base and based on this information we compared the information in our database with the information received from the Ministry of Finance.

Based on this information, Treasury, every quarter, submits to the Parliament an operational report about the execution of the federal budget. This year we have already submitted such a report for the first quarter and for the first six months. On the 20<sup>th</sup> of October, we will need to present an analogous report for the nine months of the current year and on the 20<sup>th</sup> of January we will also submit operational data for the whole year 1999. While preparing the operational report and performing monitoring operations, we also use results of the operational monitoring results. We also use feasibility studies and results of the analysis of various parameters of the federal budget. We also use generalized data of the governmental accountability about budget execution by our government.

I must admit that there is official governmental accountability which is mandatory, but our legislation gives us a right, based on the agreement with the State Duma, to develop and approve financial or accounting systems which are necessary for us to perform our monitoring functions. This is one of the components of the operational control, and we use it when we compile the final data for the report for a certain quarter or a certain year.

The third type of monitoring is the subsequent monitoring. We perform it when the federal budget has already been executed and all documents are on the shelf—as we Russians say—and all final transactions have been made. Then we perform an audit of the documentation. For that purpose, we form a special working group. Sometimes it consists of 150 people or even more, and this working group works according to the specially prepared plan. The plan is approved by the collegium of the Chamber of Accounts, and this audit lasts for six to seven months every year. We have conducted such end-to-end comprehensive audits for the years 1995, 1996, and we have completed such an audit for the year 1997. We have started to form a working group and are working on the plan for the audit for 1998.

If we are able to complete this audit of 1998 this year in 1999, or at least in the beginning of the year 2000, we plan at that time to work according to the normal schedule. This means that we will, for example, in the year 2000, implement monitoring of the budget of three years in a row. That means that we will work on the budget for the year 2001. We will be assessing the accuracy of this plan. We will perform operational or current monitoring of the budget of the year 2000, and finally in the year 2000 we will perform an end-to-end audit of the executed budget of the year 1999. We think this three-layer mode is the main carrier of the structure of our unified system of monitoring over the execution of the federal budget.

The picture wouldn't be complete if I didn't speak about the fact that in addition to the basic three stages of monitoring, we also conduct monitoring based on the request of our Parliament. Every year we receive 70 to 80 such requests from the Parliament, and sometimes these requests pertain to some of the operations conducted five years ago, three years ago, etc. They could include even the very highest levels of the budgetary system. Those audits performed at the request of the Parliament are added to the audits which we conduct within the current year—of course, not those requests which pertain to some of the operations performed years ago, but those which pertain to the current year.

Lastly, we also conduct so-called subject checks which are conducted per the initiative of the collegium of the Chamber of Accounts. We perform monitoring within the framework of unified

subject audits. I would like to explain what this means. We can conduct, for one year or two years or even longer, certain audits which are, for example, oil and budget. These are audits which allow us to understand the relationships between federal budgets and the oil industry, for example. We can audit those means which we direct to the oil industry and also payments, excise tax and others which are received through the budget. A clarification of the real picture is the main goal of these audits—the real picture of the relationship between one of the industries of our system and the federal budget. For example, we can call them “sugar and budget,” “fish and budget,” “railroads and budget,” and so on. Today, we have developed this subject program even further, and it allows us to receive additional information which sheds light on the budget execution.

We have taken certain steps toward the development of our computer and technological system. A few years ago, about 1995, after the Chamber of Accounts was established, the President of Russia signed a decree on the development and implementation of the information system for the Chamber of Accounts. As we developed the concept for the implementation of this decree, we formed a working group or a permanent committee, and there is a representative of that committee in London. We have created a few subsystems of the unified information and telecommunications system, and there is a subsystem which addresses current financial information. There is a subsystem, the main purpose of which is to form the database of the information of the payment documents. There is a subsystem for the accounting system, for the Chamber of Accounts itself, and so on.

In the Chamber of Accounts today, we have created a number of automated workstations. Almost every auditor of the Chamber of Accounts has his or her own workstation. We combine them in 16 local networks within the Russian Chamber of Accounts. In the Russian Federation, currently, these networks are connected to various legal, technical and financial databases. We continue work in this area, and our concept is the fact that we will computerize our system in parts. Today we think that we have covered the highest level of the budgetary system which includes the Ministry of Finance, the Treasury and another 50 of the budgetary agencies of the central government. There are also 88 entities of the Russian Federation included in this same system, and also various specific programs which are attachments to the federal budget.

We hope that within the next five years we will be able to build a system to cover all 3.5 million legal entities which are active in our nation (both government agencies and private-business entities), and we will do that by forming an informational database. The center of the system will be the balance or the accounting report. Such a balance currently is being performed by our legal persons quarterly, which doesn't work for us. This information does not allow us to receive the details of the relationships between the subjects and the budgetary system.

Currently we are working on improving the structure of the accounting system itself, and we are also trying to introduce amendments to certain of the legislative elements of the Russian Federation so that such balance sheets would be presented by the legal persons monthly. Then we will be able to monitor the budgetary process in real-time. We could use real-time information because the balance sheet is signed, usually, by the head of a company and the chief accountant of the company, and then we could make it transparent. That means that at any point in time we could pull information from our computer system and understand who received money from the budget and when and where—and on the other hand, who sent means to the budget and when and where. This is our global goal and we are trying to achieve it. We count on conferences such as this one where we are able to exchange opinions that will help us to make some progress in this area.

In conclusion, I would like to tell you that on the 7<sup>th</sup> and the 8<sup>th</sup> of October in Zimbabwe, my respectful colleague will conduct the meeting of the INTOSAI committee on implementation of the financial control. We plan to participate in that conference, and we plan to make a presentation which will lean more toward information technology used in the Russian Chamber of Accounts.

Thank you for your attention.

ADOLF ENTHOVEN (United States): I think we got an excellent insight into the Accounts Chamber of the Russian Federation. I personally have been impressed by what they have accomplished in four years with a body of only 12 auditors and 650 personnel. I assume this was not done in conjunction with the private auditors, but just by themselves. Of course, I have a question as an educator about how he trains all those people, but let me first give the questions to the floor on either the Poland or Russia presentations.

JIM HAMILTON (United States): Mr. Karmokov, first of all, we'd like to thank you for your presentation, the way you highlighted it, and also for the details you've provided us in your prepared document which gives us a lot of understanding on how you structured this information system. Your organization is rather unique among many similar organizations in that you have this simultaneous review of the coming year, the current year and its execution, and the audit that we are often involved with within many of our agencies, the ex-post evaluation. Would you recommend this scope, this breadth, to other Auditors General? It seems advisable to get involved early in the process for two reasons. It allows you to perhaps make better suggestions to Parliament earlier on in the budget process, and as you are building this database, it gives you more data earlier on to use later on in your post-evaluations.

K.M. KARMOKOV (Russia): Thank you very much for your excellent question. We can absolutely recommend this approach to monitoring the execution of the federal budget. Yes, we can recommend it to our colleagues from other countries, but it depends on their government structure. Let's say you have a Parliamentary republic or Presidential republic, constitutional monarchy—depending on the government structure, you set up your monitoring system to fit it. Our colleague from France says there are two different systems of monitoring—one is the Anglo Saxon, used by Great Britain, Canada, the United States. He also says there is the Roman approach, used by Chamber of Accounts of France, Spain and Brazil, for example. And of course there are entities that do not fall into either category. They would be of a mixed approach. Ours is of the mixed variety. When we developed our legislation, we tried to borrow everything that is applicable from both systems. For example, I'm still sorry that we were unable to include in the legislation our area in every detail, the way they did in Spain or in France. In Spain and France, a similar entity can issue opinions which are the basis for the action.

Our system has its own logic. Our reports say what we were planning to do, what the budget was based on, and how the budget was executed. Then we get a full picture of how the budget is working at every stage. And this gives you a comprehensive answer about what was meant to happen and what actually happened in a specific budget year.

As for the first question that I heard about training of our personnel, here I really cannot avoid mentioning the huge assistance rendered to us by the United States. We have a whole program of cooperation with the U.S. Treasury. This program enabled us to send a great number of our experts

to the United States for training. I would like to express my appreciation for this assistance which was provided to us by American colleagues during a crucial period in establishing our Chamber. A program of conferences, seminars and training was also provided to us by Germany. Our German colleagues and we were able to analyze all of the aspects of our work in every detail. We also were able to analyze our relationship, quite a complicated one, with the Minister of Finance of Russia based on the experience of our colleagues in other countries.

In terms of training personnel, the system of training is in the first stage of development. We are hoping to be able to select our personnel and train our personnel continuously and provide annual training. I must say that we also got some assistance from India. We sent a group of our experts to India for training. So the training process is continuous. Even our participation in your conference is part of that overall training.

VIRGINIA ROBINSON (United States): Mr. Jezierski, thank you very much for coming all the way from Poland. We enjoyed your presentation, and we understand that the Russian Federation is getting a lot of cooperation from other countries and are benefitting from the participation. Can you tell us what countries you are working with and where the principal cooperation is coming from? You seem to have made a lot of progress in just a short time.

JACEK JEZIERSKI (Poland): We cooperate mostly on the basis of EUROSAI and INTOSAI, with different countries, also with Russia. Russia is organizing the next EUROSAI congress and we cooperate within this project. But first of all we have a close, everyday cooperation with the National Audit Office of England and the United States GAO. We have sent a lot of our auditors for training to both countries. We have just started cooperation with Germany, which is a little bit different organization, but we have just signed an agreement about an exchange of our auditors. I can say that we have cooperation concerning the Baltic Sea. We just started multilateral cooperation with Russia, Sweden and Denmark concerning the convention of environmental protection of the Baltic Sea.

MICHAEL PARRY (United Kingdom): I would like to ask both of the speakers if they could clarify the parameters of the entities that they audit. What entities do you audit? Dr. Karmokov talked about 3.5 million legal persons. Is the audit in fact restricted to state institutions and state-funded institutions? And for Mr. Jezierski, the same question for Poland as well.

JACEK JEZIERSKI (Poland): Mostly we audit the state entities, but we also have the power to audit municipal entities and even private entities, but only in a very narrow scope—whether they pay taxes. If there is an activity which is mandated by the government and some private institution or enterprise gets the task to do, then we can follow the money. If the money comes from the central government, we can audit this money. If the private entities take this money, we can go there and see how this money was spent. Generally, we do full audit on the state entities, a little bit narrower on the municipal entities and very narrow in the private enterprises.

K.M. KARMOKOV (Russia): When I quoted 3.5 million business entities, what I was talking about was the total number of entities working in Russia. That includes both government-owned, privately owned or jointly owned entities, all of the business entities or agencies. Our jurisdiction is over all of the business entities, regardless of the form of property, if they use federal property or money from the budget, or they have tax or custom privileges. For example, we audited the National Association of Sports in Russia. It had an over \$1 billion turnover. The reason we audited it was

because they did not use any budget appropriations, but they have considerable customs benefits. We also audited the Central Bank. We do not have jurisdiction over the Central Bank, but due to last year's August crisis, we audited their operations with gold and precious metals, real estate, then target provisions and such. But in general I must say that 80 percent of our work is with entities using budget appropriations.

ADOLF ENTHOVEN (United States): Do you use, both in Russia and in Poland, any outsourcing of the activities of auditors? Do you employ, for example, for certain public enterprises, parastatals or some of the accounting firms on a special contract? Or is it all done internally by your own group of auditors?

K.M. KARMOKOV (Russia): We have just a few of our own auditors, as you heard from our presentation. We have 650 people working for the Chamber of Accounts, and two-thirds of them are professional auditors. Of course, we cannot audit 3.5 million legal entities of the Russian Federation. We conduct random auditing. But of course we do involve, and it is allowed by the law, auditors from other organizations, from the tax services, from the Treasury, from the export control, from various research and other organizations on a contractual basis. So, by law, it is allowed to use external sources, and we do use them widely.

JACEK JEZIERSKI (Poland): Also in Poland we have contracts with private experts, and we use them. We have 1,700 auditors in our institution, so it is a little bit more than in Russia. But we still use some experts in very different fields, also accountants. They are just private people who signed a contract with us for a special job. We can also ask the state inspectorate to do a special audit. For example, if some enterprise or some factory has environmental issues, we do not know enough to do such an audit. So we ask the State Environmental Protection Agency to go there and look into the issues.

ABU BANGORA (United States): I need to know if your institutions have any influence, directly or indirectly, on funds disbursed by foundations such as mine through the United Nations to implement programs in your different countries, that is, in terms of the audits or compliance to make sure these programs have been carried out properly.

JACEK JEZIERSKI (Poland): In our country, all foreign money which goes toward helping us goes to the government, like money from the World Bank or from the European Commission. All the money goes first to the government. We can follow this money because initially this money is governmental, like state money. So we audit these funds, especially lately, as more and more European funds are coming to Poland. There are different rules, but for us they are more or less like the public money.

K.M. KARMOKOV (Russia): Our practice is analogous to the Polish. There are a lot of similar features, but I would like to emphasize one difference. As monies of certain foundations are used, this is audited by the host organization. This means, if the owner or the host organization asks us to participate in the audit, we never refuse.

ANGEL SANCHEZ (Dominican Republic): Dr. Karmokov, our term in the Dominican Republic is for four years. I would like to find out how you report to members to the Duma. I have a second question. What does the law say in terms of auditing requirements? Does the Parliament have priority

or does the President? In your presentation, you mentioned both. Lastly, on the 89 states that are being monitored every three years, I understand as a CPA that there is some time lost in terms of the application of the regulations because the period is so long, and I mean the three years.

K.M. KARMOKOV (Russia): I would like to start from the second question. We are ready to check every subject of the Russian Federation yearly, but it requires a lot of means. We have certain money appropriated by the Parliament for the Chamber of Accounts, and the current budget is enough for us to conduct such audits every three years. If we are appropriated more money next year, we could check the subjects of the Russian Federation every year.

The first question—does the Parliament have priority or does the President? Of course the Parliament has priority. We are the organization, the agency, created by the Parliament. The Parliament created the Chamber of Accounts in order to conduct external monitoring over the execution of the budget in the country. Our President has his own monitoring organization and that is called the President's Monitoring Organization. It is a very small agency where only 200 people work directly for the President.

ADOLF ENTHOVEN (United States): What these two organizations are trying to do, of course, is an immense task, and I can see that the training of the auditors there will be in itself, as you indicated, an immense task. You indicated the cooperation you have with the various countries, but are you using internal training programs and developing internal manuals to develop your personnel?

K.M. KARMOKOV (Russia): Within our organization today, we do not conduct any training. We conduct training in special colleges. In Russia, there are many financial and economic colleges and universities where we could perform such training. There is the Governmental Academy of Russia, and as a priority, our employees are accepted by that school. We also have the Financial Academy of the Cabinet of Ministers, and we have quite a few more colleges and universities which have their own curriculum which allows them to perform such training efficiently. We sign contracts with those universities and colleges and pay them for the training of our workers.

JACEK JEZIERSKI (Poland): When young people come to our institution to be an auditor, they sign a contract for three years. During the three years we have special courses. There are seven two-week courses which he or she has to take. The courses are prepared and conducted in our institution, and the teachers come from our staff. These seven two-week courses are very important. If the candidates pass the exam after each of them, then after the three-year period they may be employed. During this three-year period the candidate takes part in audits together with teams. After that we decide whether we want the candidate in our institution or not.

VIRGINIA ROBINSON (United States): As a quick follow-on to his comment, he mentioned the training which sounds very good for entry level auditors. Does it eventually lead to any kind of certification program for auditors in your country?

JACEK JEZIERSKI (Poland): Do you mean for our employees or for external people? We can provide the same training for other state institutions. We issue a certificate for our employees as well as for external trainees. This certificate is accepted by all state agencies.

PIOTR DOBROWOLSKI (Poland): Mr. Karmokov, regarding the auditors from the President's office in Russia, do you have joint standards that are to be followed by auditors from your organization and from the President's office auditors when they conduct audits?

K.M. KARMOKOV (Russia): We do not have joint agreed-upon standards, but when we conduct joint audits or joint checks, the audit or the check is performed based on the agreed-upon program for this particular audit.

## **Session: Europe**

### **The Decentralization of Public Expenditures in Spain and its Control**

**Miguel Angel Cabezas de Herrera, President, Public Sector Audit Institutions, Spain**

### **Broad Mission of the Office of General Inspectorate for Social Affairs**

**Christian Rollet, Head of the General Inspectorate of Social Affairs, Republic of France**

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#### **Miguel Angel Cabezas de Herrera, President, Public Sector Audit Institutions, Spain**

Thank you very much and good morning. Thank you for the opportunity to be here at this important international forum, and to be able to present a speech that will be as brief as possible and, I hope, as concrete as possible. As someone said at a conference in Madrid, those who are not interested in this, please leave the room now, but be careful not to awaken those that remain in the room.

In the last several years, economic development has caused changes in the structure and in the limits of government. The debate is ongoing and lengthy on the size of government as well as on whether it is best to centralize or decentralize. In this context, the interest in problems of decentralization in the public sector and what has been called fiscal federalism has increased and with good reason. This is the theme of this international conference.

In the developed countries, decentralization is a must for the public sector from which is expected continuously better services in what an author has termed “the agenda for post welfare.” Indeed, as a result of the consolidation of the modern welfare state, public resources grew to such a degree that a high level of fiscal pressure was reached which has awakened the interest to better know the destiny of taxes paid by citizens. But the interest over decentralization is not only for the developed countries. In the Third World, it has also become an objective to improve public sectors that are not efficient and not very controlled. Finally, in the Eastern countries, decentralization is also being contemplated as a way to bring administration closer to the citizens from whom it has always been very far removed.

I don't want to be too long explaining concepts that are undoubtedly very well known. However, I'd like to focus on the European experience and, most specifically, the Spanish case which I know best. But you will allow me, please, some comments that I consider necessary regarding some basic concepts.

With regard to governance, there is a plurality of players who deliver public services. The makeup of public institutions is changing rapidly. The roles of the supranationals and subnational regional entities in delivering services are becoming extremely important in both the public and semi-private sectors. At the same time, the interaction of all of these sectors and actors is becoming less hierarchical

and more geared toward cooperation. Lastly, in meeting the latest challenges in policies concerning environment or regional development, we have left behind old habits of compartmentalizing administration.

As a result of all of this, the relationships of different levels of government and the different actors that are part of these different levels of government become more complex on a daily basis and should be considered globally, or we could say comprehensively. We have to understand this in a comprehensive way as a system made up of interrelated components. In this sense, it is obvious that strategic reforms for public management have necessarily, as has been said recently by OECD, gone in two different directions.

Centralization and decentralization are a wise mix that, in my judgement, has as a permanent reference point which centers on: the concepts of value for money; the strengthening of responsibility, called here accountability; being mindful of the citizen as the user of the services; the introduction of competitiveness and other market elements in public management; relationships at the different levels of government based on cooperation and not on hierarchies; and finally, at least for me very important, is what I call inter-territorial solidarity. And I say very important because, as you will see toward the end when I speak about Spain, any system of decentralization that doesn't exist jointly with a financial system that is highly perfected and highly tested so as to ensure solidarity among the different territories that make up a nation would really be worthless. Later you will see why I say this.

As it happens, in periods with financial difficulties, there occurs a tension between the desire for the central government to control certain expenditures and financial policies, and the demand of lower governmental levels to exert control over allotments and decision making on income and resources. Fiscal subjects become the heart of many of these tensions in such a manner that in the majority of the countries, fiscal pressure and financial resources are the thrust for more and growing processes of decentralization. That's the case with Spain within the European context, a country where decentralization started as a managed process to achieve greater levels of democracy. However, they didn't give much thought at that time to the efficiency of management which has now become an objective of high priority in that process of decentralization.

I will speak briefly about the Spanish case, in the European context. As I said at the beginning, the interest on the subject of fiscal federalism and development of new strategies in public management is shared by all countries of the world. But you will agree with me that it is undeniable that the point of view from developed countries is different from the point of view of lesser developed countries. It is likely that countries that are developed with a high level of democracy and economy also have more transparency. They make up a great part of the agendas of European governments and are at the center of debate in all of the inter-government conferences of the countries that make up the European Union as well as those that are not in the European Union.

In all of this, some points are common, and I will refer to them briefly. First is structural development. This has to do fundamentally with the territorial changes that have taken place in recent decades which have caused changes in the distribution of authority and of government responsibility. Central administration has felt the presence of lower levels of government. Territorial reorganization has been diverse according to the countries in all of Europe, particularly those that were unitary states which were highly centralized, such as Belgium which became a federal government, or Italy or Spain with a new type of institutional, regionalized organization. Some new sectorial divisions resulted from

a cultural, historical or linguistic context. These entities frequently have legislative capabilities that change from one region to another. Other countries in this process of transformation to regional or quasi-federal states have created an intermediary level with their own political strength, such as the case of France with a regional level, or Greece with the elected prefect, or Finland which has created a regional level.

Access to the European community on the whole has produced greater emphasis on the regional level because in many cases the regional level is in charge of the management of structural funds. This has resulted, albeit less frequently, in the elimination of certain levels of government such as in the case of Germany or Scotland or Wales where there has been a reduction in the levels of government.

At this point, we should talk about regionalization at the local level as has occurred in some of the countries in Europe. In many countries this process is a joint effort. Certain economic units are more capable of providing certain public services. When I speak about the Spanish case, you will see this clearly. If you know the small population of many of the Spanish municipalities, you will see that it is impossible with the available resources to provide the required services. This regionalization process finds difficulties in countries that have a strong tradition of independence of local power, such as Iceland, Finland and Sweden. Nonetheless, in spite of these exceptions, in countries with strong traditions of municipal power, you see all over Europe these joint efforts to provide public services.

We will speak about the intermediary administrative levels, particularly the cases of Switzerland and Italy where there is an elected council. And also very briefly we will refer to the governmental agencies that act throughout the government and go beyond borders. All of this, these links to a local or central government, constitutes a very complex situation that plays a decisive role in decision making. This stratification that has been developed in the majority of the European countries is therefore permanent and is a source of conflict when it comes time to assign responsibilities, particularly as we look at the other side of the coin—financing. Therefore, for countries such as Denmark, Belgium or Spain, I have suggested the redefinition of the different levels of administration, that is, to include all of them in the decision making.

The task of the distribution of responsibility undoubtedly is not easy because it is a very complex system. Along these lines, permit me to make a differentiation. There are three types of government in the European continent—federal, unitarian and regional countries. In the case of Spain, they call it the state of the autonomies.

In the first group of federal countries you would find Germany, Austria, and perhaps Belgium and Switzerland. In Germany and Austria, the Constitution guarantees the existence of Länder and a municipality autonomous with the distribution of responsibilities that are different. In Germany it is detailed, and in Austria we could say it is by default. In Germany, we've had the concept of cooperative federalism, which indeed favors the execution of tasks and the management of resources. But it presents grievous difficulties in setting priorities and it interferes with other levels. In Austria, the independence of the Länder is limited in the Constitution. Also, to add to the complexity, there are difficulties among the different levels, particularly when it comes to revenues, which are a continuous source of friction.

Within this group of the federal countries, as I said, we will find Switzerland, but with differences from Austria. It is an atypical system because the power of the cantons is broader than it is in Germany

or in Austria. One always sets this out as an example of federalism. But Germany is much more federal. Why? Because all of the responsibilities are not done by delegation from the federal government. At the same time, there is a clear definition of where the authority of the municipalities ends. Furthermore, their autonomy is not guaranteed by the Constitution.

Currently, there is a trend throughout Europe of extending federal power to all areas with an extremely complex distribution of responsibilities and a good number of shared tasks. We refer to this not as federalism but rather executive federalism for shared responsibilities. Belgium also has a unique federal system as a result of a long process based on components which are linguistic, cultural and historical. The Constitution establishes detailed responsibilities among the subnational levels and designates the federal/state responsibility as residual. Another thing that has to be pointed out is that the regions have the responsibility for supervision of the local government. As you might imagine, this creates continuous friction.

Another group of countries is the unitarian countries. Here we should differentiate from those countries which have followed the Anglo-Saxon tradition, such as the United Kingdom and Ireland, and those that have the Napoleonic influence, which would be Greece, France, Luxembourg, Holland, Portugal and Turkey. In this group you would find Spain up until 1978. The degree of decentralization of these unitary countries varies tremendously from one country to another, but the common point would be that sovereignty is always at the central level. The legislative authority is never shared. There is the capability for decision making in certain areas at the lower levels, but in the area of the power to regulate—this is not shared in the case of France, or is limited, such as in the United Kingdom. Only Holland is an exception, which, of course, has the continuous growth of what is being called co-administration. In all of these countries, the Constitution does not address responsibilities at the lower levels or subnational levels. Furthermore, they are geared to the central level. In Greece, as an example, autonomy depends on a presidential decree. Countries such as Sweden, Norway, Denmark, Finland and Iceland, although they belong to this group, have some differences. Their local government is set up by the Constitution with a greater latitude in responsibilities for their own actions.

The third group, countries that are referred to as regional or regionalist countries, consists of a group of countries that have arisen in recent years, principally Italy and Spain, which show a high degree of autonomy at a regional level and to a lesser degree at the local level.

Both Italy and Spain have something in common, and that is a fast transition from a unitary state to regionalism. As a result, we find ourselves, such as with Spain, in a situation of continuous evolution, continuous flux. It is something that is never-ending and is always accompanied by problems with financial relations that have to do with arrangements among the different levels of government.

To design programs of government in such a way that the activities will be carried out always at the appropriate level of government—is one of the greatest challenges we face in governing efficiently. How this efficiency is to be reached changes if one focuses on the central government or from the perspective of the regional government or from the viewpoint of municipalities. It is thus, because of the complexity of relationships, both fiscal and financial, among all of the levels of government, that we find it challenging.

Therefore, the control of public revenues is central to intergovernmental management. All of the subjects of fiscal federalism are extremely important, and I'm referring to the amount and nature of the

transfers that have to take place among the different levels of government, and to the policies of redistribution of income. All of these subjects are in the vanguard of discussion and debates in all of the countries.

The overwhelming increases that have occurred in public expenditures in Europe during the last years reflect the vastness of the role of government, and as I said at the beginning, the development of the welfare state and in the agenda of the post welfare state. To this is added the demand for better and more public services. The citizen continues to demand to know exactly where the funds are being spent. Because the levels of economic growth are greater, the levels of expense are also greater. Therefore, countries are taking steps, such as the criteria negotiated in Maastrich, to correct the public deficit which affects directly the relationships among the levels of government, particularly regional levels. Why? Because the regional levels continuously and evermore are becoming the actual treasuries of the welfare state.

Let's give some examples. In Belgium, in 1994, after federalization, the expenditures by communities went up to 66 percent of the total public expenditures. In Spain, in 1997, the consolidated expenses of the communities reached 46.8 percent overall. In a country such as France, the level of financing went from 4 percent to 9 percent. This is the correlation between expenditures and decentralization.

On the other side of the coin, we find the sources of financing for this spectacular increase of public expenditures in areas that follow. I will remind you, if I may, because I think this is for all countries, that there are five sources of basic financing. First, there are transfers from other levels (generic or specific); second, shared taxes; third, local taxes; fourth, public prices; and finally, loans.

The relative weight of this varies in Europe from one country to another. For example, in Norway, the largest income proportion comes from local taxes. Look at the latitude—from 15 percent to 85 percent according to the municipality. And similarly, this relative weight evolves with time within the same country. But what we should point out, in general, is that the increase of responsibility in the subnational levels has not been accompanied by an increase in the financial capability and in the capability to collect. Also, the financial problems that come from the greater demand for public services on the part of the citizens have not been resolved in all cases. With taxes, for example, territorial contributions are taxes that are not elastic at all.

Therefore, the financial deficits have had to be covered, in the majority of cases, from the central level. This has caused great deficits, and I'm referring to Spain in particular. But I know that the same thing has happened in other European countries. This occurs in spite of different laws, and with different budgetary allotments in the central budget to cover these deficits. The criteria of conversions of the European community all address this situation because the responsibility is shared by all levels when it comes to healthy financial policies. The deterioration of the international situation has made it necessary to share the expenses so that the autonomous communities, such as in Spain, need to reduce their expenses. This is a shared responsibility. And also the opposite. The deficits have conditioned, in a very important fashion, the financial policy at a national level and this has resulted in inter-government difficulties.

With the new trend of the Tribunal of Accounts throughout all of Europe, we are into a task that goes beyond the accountability or the formal revision or legality of the accounts. It is important to do

follow-up on whether the countries are meeting the criteria of Maastrich's resolutions—whether the community is autonomous; whether they are applying the necessary steps to correct the deficits; whether the government or the community is taking the necessary steps to avoid getting into debt and to follow-up on the criteria set forth in Maastrich. This is a very important external control that goes way beyond what is simple accounting or formal revision of the accounting system.

Following up with this interrelationship between the levels of government, it is not pleasant for the local representatives to have to make decisions on increasing taxes and reducing services. We have elections every four years and let's not forget that this is a very important factor of political life. Finally, we find ourselves with certain limitations in the decision-making capability of the lower levels of government as resources for qualified personnel become fewer and fewer.

In this very important context, fiscal federalism refers to the interrelationships of responsibilities and authority between the governmental levels, to the capability of managing expenses and collecting taxes at each level, to the interdependence between the budgets. As I said before, fiscal federalism is not exclusive to the developed countries, nor is it exclusive to the federal countries. The circumstances are that there are some federal countries that have a fiscal system that is highly centralized, whereas in others that are unitary countries, the local administration has the capability to finance themselves with their own resources. By way of example, in Denmark, in 1994, the counties and the municipalities received from 54 to 62 percent of their financing from local taxes since there was no limit to the taxes. In Sweden, less than 20 percent came from local taxes.

Finally, I will refer to the Spanish case, the study of the new model. The new constitutional model requires placing oneself within the framework of the 1978 Constitution. Within that framework do you find some of the problems that are centered in the public debate. At this moment, the debate in Spain has to do with the aspect of incomes of the various levels of government.

Allow me to make some reference to the Constitution. All of those who study law in Spain and Europe speak about Spain as an exceptional case, as a singular case. It's different from the model that was followed by Belgium, and it is different from the model that was followed by Italy. When the Spanish Constitution was written, it was based on Germany, Portugal and Italy. However, they did not choose one specific model. They chose all three. This created great tension. As I said, the Spanish legislators did not choose this joint model, they used all three together. The result is that we have a state that is in continual flux.

The 1978 Spanish Constitution cannot be called federal government and it cannot be called unitary government. So then what is it? We coined a term, and it is the government of autonomies. It is made up of territorial entities that are called autonomous communities. There are similarities to a federal state since the regions have authority in many cases. There are 17 autonomous communities in Spain today.

But this is not quite a federal state. Why? Because sovereignty is not in the territories into which Spain has been divided. Sovereignty continues to reside in the central Spanish government. Furthermore, it is highly complex. Why? Allow me to say three things here—the first is the complexity of the requirement as set forth by the Constitution in order to establish the autonomy. There are three different channels within the Constitution to become an autonomous community, and they are interrelated, one with the other. In the second place there is lack of definition in the distribution of authority. It is very, very difficult, particularly for someone who studies our Constitution, to make this

differentiation. This had led to tremendous loss since we have no coordination within this model of decentralization. Its development is continuously undergoing what I call a push and pull situation. Thirdly, it lacks equality in constitutional law and it reacts according to the majority in Parliament. Let's say, those who are in power are dependent on support from Parliament. Then it gets support from minority territories such as Cataluña, because the Parliament forces the government to grant more resources to finance the economy. Other regions that are not in power, that do not have the political strength, see that their autonomy is lessened—their autonomy which, theoretically, is granted them in the Constitution. I wish I could say to you that there are 17 autonomous communities in Spain, all of them enjoying the same degree of autonomy, but in practice this has not happened. All the transfers haven't occurred because, initially, as I said, in spite of the Constitution, the legislature did not want the autonomies to have the same responsibilities or authority.

In spite of this state of permanent flux, there has been an evolution toward equalization of all of the autonomies. They have a similar institutional level with their own Parliament, and their own executive. They have a judicial power that lies within the central judicial power of the Spanish government, although there is a superior tribunal within each of the communities.

At the local level, you have provinces and municipalities. These were created in 1833, patterned by the French departments, and in practice today they are mechanisms of administrative support. The local authority exists in municipalities with a varying population, some less than 1,000 inhabitants, others more than 10,000. The local central government delegate is appointed by the President. In the provinces, there is a deputy of government. This has replaced the governor, the civil governors of the ancient times. This is similar to the French system.

In Spain, the Constitution recognizes, as I said before, financial autonomy for the autonomous communities to guarantee them an appropriate degree of autonomy in the exercise of their functions. The laws on the financing of autonomous communities define the framework of the system, based on the constitutional principles. It created the Council of Fiscal and Financial Policy, where you find both the representatives of the central government and the autonomous communities as well. They have the role of coordination and decision making in carrying out government administration.

Within the public administration of Spain, the information that clearly points out the degree of decentralization that has been achieved is the weight of the territorial administration and the following figures. In 1980, the Spanish state controlled 90 percent of the nonfinanced expenditures, whereas the territorial administration kept it at 10 percent. Since then, there is a slow growth. In 1985, territorial administration controlled 27 percent of the expenditures, and in 1997, 46.8 percent. Although I don't have the most recent figures, I would dare to say that in 1998 the autonomous communities, the territorial sector, controlled more than 50 percent of the consolidated public expenditures. These percentages show well and clearly that the most outstanding factor of the Spanish fiscal federalism is the quick process of decentralization of the public expenditures.

International comparisons are difficult because we would have to consider subtleties such as the different accounting systems that exist. Information that comes to us from OECD or from the IMF indicates that Spain leads other countries with regard to decentralization of the public expenditures. But everything is not rosy. It is good to look at the process of decentralization from the perspective that the ratio that allows us this comparison would be the incomes and expenditures. It is a good yardstick to see the level of fiscal co-responsibility that has been achieved in certain cases. I'm sorry

to say that the way that this has evolved has been different from the way expenditures have evolved. There is a very big difference between the decentralization of the expenses and that of the revenues. There is a small level of fiscal co-responsibility.

To point out a little bit about the financial system, when a problem presents itself it is the quantification of expenses that are to be transferred to the assigned administrative units. In Spain, this problem was approached following a cost-effective method. It is very simple. You calculate the resources that are needed for the financing of these administrative entities to carry out the public service functions that are transferred within the federal state. And we have three components here: direct cost (that is for the functioning of personnel to provide goods and services); indirect costs (the same thing but for support, coordination and direction); and investment costs which are not for new investment but rather to keep the capital stock transferred within the same conditions as before.

Of course, this method of costing was seen as not enough, because it denoted difficulties that all of you know well. It doesn't guarantee that the services received could be financed at the new level, and it affects the financial future of those autonomies that received it because it requires of them an additional effort to rise to the national norm. A very clear example would be health because the cost-effective method assumes the number of beds and the health infrastructure in all of the regions is at the same level. Of course this doesn't occur because in some areas there is less development than others. This then requires an additional financial effort. And it produces a tremendous lack of solidarity. The Spanish public sector lacks an objective yardstick. There is no tool to be able to actually evaluate these costs.

So, rather than determining the effective cost, the answer is to come to an agreement on the cost. We come back to what I was trying to tell you. There are tremendous inequalities in the regions, and we come back to the system of push and pull when it comes to support from the central government.

An agreement was reached between the current government and its Parliamentary partner to institute a new system of financing. It supposedly provides 30 percent of the income tax to the local communities, but this system was not accepted by all of the 17 autonomous communities. Only those autonomous communities in the same political party, or who had the same political color as the central government, accept it.

Now the communities such as the one I belong to, Castilla-La Mancha of which Toledo is the capital, which you all probably know because it is a city which has centuries of history, did not accept the system of financing. They put five claims before the constitutional tribunal. These claims have been processed or are being processed, and base themselves on reasons that I share completely. First of all because the system does not guarantee the constitutional principles of solidarity and of territorial equality among the different regions, and because it does not set standards for the financial authorities of these autonomous communities, and because finally it creates a tremendous imbalance.

The tax collection in 1998 dropped in Castilla-La Mancha by 3.4 percent, and in all of Spain, the drop was 9.9. Recently, the government has put in place some reforms of the income tax, and the same central government is aware that as a result of these measures there will be a drop of 11 percent in the tax collections overall. So if these figures are applied strictly, those autonomous communities that accepted, or were forced to accept, this system of financing have a forecast loss of very high

proportions. The President of Cataluña, who was the main proponent of this system, is right now looking for other systems, saying that the system is simply not working.

I have tried to briefly present to you the panorama of the centralization of public expenditures and tax management. I have referred to some problems that affect us. They are not different from problems that face other countries in the world in decentralization. In order to have a degree of autonomy in the lower levels, it is necessary to have the capability to operate in a coordinated manner. It takes a wise combination of centralization and decentralization because neither of the two is an end unto itself, nor is it the sole cornerstone of all of public management. It is a wise combination that will permit inter-territorial coordination and solidarity. Without this, not much will be accomplished in the future.

### **Christian Rollet**

#### **Head of the General Inspectorate of Social Affairs, Republic of France**

I am very sorry because I have no slides in English, so I'll just speak. I have brought a booklet in English, and copies of this booklet will be available if you wish. You will find more details in this brochure than what I am able to say.

I have been asked to represent the General Inspectorate of Social Affairs of France. I think it is useful to give you very briefly a general overview of our French organization in the field of public expenditures to make things more clear to you.

So, I think we may distinguish very broadly two important systems of public expenditures monitoring. The first system, translated into English, builds monitoring procedures, that is to say, internal control procedures which are incorporated through the expenditure process. The second system can be translated as external audit or external inspection. As far as building monitoring procedures are concerned, the simplest way is for me to give you the procedure of any public expenditure in France.

First of all, Parliament votes each department budget. That is very simple. I think it is the same scene everywhere. Then, in each ministerial department, the high-ranking official, we call him/her the Controller Financier, is a civil servant appointed by the Minister of Finance. He gives authorization to any spending by the commitment offices. This guy is of course a very important person inside the department, any department. Then, after that, the decision maker, e.g., the minister or any civil servant entitled to authorize payments of public money, may commit expenses for a contract or give a grant to a private association or commit any other kind of expense. Then, each payment is ordered by the commitment officer to a public treasurer. The public treasurer, who also belongs to the Minister of Finance, has to check the credits availability and compliance with regulations. So, according to his job, the public treasurer may refuse any unlawful order of payment. If he doesn't, he would have to pay back the corresponding expense to the treasury. So, a conflict could occur between the one giving the order to pay and the treasurer. In that case, the commitment officer may compel the treasurer to pay. But, in this case, it means the responsibility for an unlawful order is transferred, of course, from the treasurer to the commitment officer.

So you see, all these procedures devoted to prevention of fraud or misuse of public money are tightly controlled by the Minister of Finance. I was running a public agency, The National School of

Public Health, and I can tell you I experienced how important the role of the Minister of Finance is inside the process of public expenditures. Similar procedures exist also for hospitals and social security funds, which are not ministerial departments or agencies. In these institutions, there are a considerable number of internal control mechanisms.

I must speak briefly about what happens after the execution of the budget. From outside institutions, there are many different kinds of inspections, audits or evaluations of public expenses. I shall speak only on the national level for simplification. At the national level, there are two kinds of institutions. First, we have in France the Court of Accounts, and we also have General Inspectorates. Members of the Court of Accounts are magistrates. They are not removable. They have a special status. They are working according to very formal procedures including, for instance, two principles: the principle of collegiality and the principle of right of reprise. The Court judges the accounts kept by the public treasurers, and they give notice to those who pay in respect to losses sustained. The Court also refers any irregular act of the commitment officer to another court, the Budgetary and Financial Disciplinary Court. But, of course, the Court of Accounts is not only judging, it is also a body involved in auditing. It is widely involved in auditing the proper use of the public funds in all sectors in France. The Court assists Parliament and government. It may carry out audits on request of the Parliament. The Court issues an annual public report and several special reports on specific topics. They are all published and widely reported in the press.

Now, I come to the General Inspectorates. In most of the ministerial departments there is a General Inspectorate. Three of them are more important according to their statutes: the General Inspectorates of Finance, Interior and Social Affairs (which is the service I am running). So, I am going to say a few words about the Social Affairs General Inspectorate, but what I am saying could also be said about the other two General Inspectorates. More or less, these Inspectorates are run similarly to the U.S. Inspectors General that I am visiting this week.

What are the statutes of the General Inspectorate of Social Affairs? We are not a court. We act under the authority of the government, and of course we act mainly under the authority of specific ministers. Those are the ones in charge of employment, labor, welfare, health and social security. In France, social security includes health insurance. So, this is a huge sector in France. It is about a \$400 billion sector. That means the social expenditures in France are higher than state expenditures. Of course, a small part of state budget is devoted to social policy, but not a very important part. That means social policy in France is mainly funded through non-state institutions. This is mainly the kind of institutions we are inspecting.

Our program reflects governmental activities. Many assignments derive from issues that are on the agenda. But we have the initiative to propose many subjects of inquiry. Our assignments are of different kinds. Of course we are involved in checking compliance with regulations, regular audits or inspection. But we also carry out audits on efficiency and management of the institutions which are implementing social policies. We may also make inquiries just to provide information to the government. We very often are working as consultants just to advise governments or agencies. That is how we differ from the United States. We are not directly devoted to criminal investigations. During the course of an audit, inspectors find out criminal facts and, in that case, they must inform the Attorney General. So, as a matter of fact, the Attorney General uses our reports sometimes. But this is not a direct assignment of our service.

I have to mention something which is new in our mission, a new assignment. Since 1996, we may check the proper use of the money collected by fund-raising private institutions. This is due to a scandal that we revealed a few years ago about a private cancer research association. The Parliament gives the Court of Accounts and my service the right to control these kinds of associations. Our inspectors are selected based on the visibility and importance of the assignment. They are independent. They depend on the government, but they have to think by themselves and as a symbol of this independence, they sign their reports. When an inspector or a team of inspectors plan to write something with which I disagree, I am not in the position to say, "You are wrong, please write this." They write what they think to be right and they sign it. It is very important to understand the way we work.

Let's speak about our staff. We have about 100 acting inspectors, plus 25 administrative staff. That means we are a very little service. I heard this morning in Poland there are 700 people in the Polish equivalent of the Court of Accounts. We have only 100 inspectors to control \$400 billion expenditures. Inspectors are civil servants. They are appointed by a governmental decree. About one-half of the inspectors are graduates of our National School of Administration, which is the French civil service college. Among the second half of the staff there are former heads of local social welfare departments—medical doctors, hospital managers, workplace inspectors and so on. So, inspections or audits are usually carried out by little teams, mixing different skills. It is my personal job to make up these teams.

During their careers, inspectors are alternatively inside the inspection and outside. For instance, they may have run important positions in a department or in an agency, but a few of them also served in the private sector. What is important is that you do not inspect all your life. You may be an inspector for three to five years, then you move toward administration or run an agency, then you come back to inspecting for five years, and so on. To be a good inspector, in my opinion, you should know the difficulties in running an institution. I think it is very important. It is a kind of combination training. It is a way of knowing exactly what happens in the field.

To end, something about our reserves, our activity. We issue about 160 reports each year. These reports are sent to the minister or several ministers, depending on the topic. The minister of the government is responsible for their disclosure. According to our regulations, of course the citizen has to have information, but there is also privacy protection, the security of the institution and other measures that make the disclosure of a report a very difficult matter. Anyway, it is the responsibility of the government. In the case of an audit or an inspection, the report is given to the institution audited, and this institution has to write a reply. When we publish the report, we publish what the inspectors have written as well as the institution's reply.

We also have an annual public report. This one is sent to the President of the republic, to the Parliament and to the government. There is a press conference, and this document is reported through the press. It is a summary of the main reports we have done during the past year.

We also have a follow-up commission. I am chairing this commission, and this commission is to monitor the way a recommendation is or is not followed. Of course, the decision to follow or not to follow a recommendation belongs to the government. We make recommendations. We give an independent point of view. Then the government decides whether to go on with our recommendations or not. So, the follow-up commission just monitors what has been done or what has not been done.

Sometimes our reports are used only as a basic reference. Very often the minister gives the civil servants an order to implement the recommendations of the report. I said very often, but that is not all the time. That is the consequence of the independence of the inspection. It may happen that the minister disagrees with a report. This is the consequence of the statutes. We have to say what we think is right, and not only what the minister would like to read or to hear.

Thank you for your attention.

FEDOR SHELYUTO (Russia): I would like to ask a question of our colleague from France. You spoke about the inspectorate responsible for the social issues. Could you also tell us about the number of employees in the inspectorates which work for the Ministry of Interior or for the Ministry of Finance?

CHRISTIAN ROLLET (France): In the General Inspectorate of Finance, there were about 300. But a great many of them moved to administration, public enterprise, and even to private enterprise. I believe there are about 100 acting inspectors in the Inspectorate of Finance. In the General Inspectorate of Interior, there are about 40 or 50 acting inspectors.

AGUSTIN URENA (Costa Rica): More than a question, it's a comment. I think that what you've done in Spain is beyond cost efficiency, economics and finding the midpoint between centralizing and not centralizing. I think that what you are building is a democracy, and you've said it quite well. You have 20 years at it, and probably you have 20 more years to go before you find the point where you will find the balance between cost and benefit and the efficient way to do things. But in the process I think that you are achieving something that is even more important, and that is to achieve an integration of interests of nationalities within the similar global context. This possibly is the objective that you are trying to reach and, as I say, this is perhaps more important right now than any economic steps that you might want to achieve. For the time being, you are meeting the basic objective in accordance with the Constitution of 1978, and I think you've achieved it quite well. So, really, these are words of congratulation to you.

MIGUEL ANGEL CABEZAS DE HERRERA (Spain): Well, thank you very much. I accept the congratulations. As a Spaniard, I happen to belong to that generation. I am now 41 years old, and I am aware of the past. I did not know the civil war, but my parents knew the civil war. I do know some of the past, and the transition in this case is much more important than a transition from a unitary state to a quasi-federal state such as has been the case in Belgium. It is much more important because it is a transition from a dictatorship to a democracy. Democracies never become fully consolidated. There are other pressure groups, and there are other circumstances that do not permit a full democracy. In the case of Spain, our process is unique. I really didn't come here to sell all the outstanding factors of our system. We also have difficulties. But, anyway, thank you for the kind words.

## **Session: South America**

### **Fiscal Federalism as it Applies to Argentina—A Case Study**

**Eduardo Benjamin Grinberg, President of the Tribunal de Cuentas  
Province of Buenos Aires, Argentina**

### **Brazil in the Third Millennium: All the Truth Behind the Scenes**

**Alex Oliveira Rodrigues de Lima  
Counselor, Conselho Reg. Contabilidade do Estado Sao Paulo, Brazil**

### **Fiscal Issues of Decentralization—The Venezuelan Experience**

**Filippo Vagnoni, Special Delegate of the Comptroller General, Venezuela**

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**Eduardo Benjamin Grinberg, President of the Tribunal de Cuentas  
Province of Buenos Aires, Argentina**

First of all, I would like to thank the ICGFM for allowing me the opportunity to present some of my ideas. David Walker said something that stuck with me. He talked yesterday morning about how we should turn ideas and culture around. This is a task that we should accept in order to launch new ideas so those who legislate may take appropriate action.

For those of us who manage public entities in Latin America, the process of public contracting has generally not been too good. We have seen that many countries have started the reform of government to a greater or a lesser degree. The first stage, which is the stage of privatization in our country of Argentina, is going along nicely. It is almost concluded. There is really very little more to do. Certain sectors of the country haven't started, some parts are halfway along, but there are other subjects which they are just beginning to realize should be included in the reforms.

One of these areas has to do with public contracts. The main actor today, the protagonist, is the contract itself. The contract may seem removed from our line of sight, but this is something that is really an everyday thing. We really don't have an awareness. We don't realize, but we actually engage in contracts from the moment we wake up to the moment that we go to bed. When we buy the paper in the morning, we have a contract because we made a purchase. When we take the subway, we also engage ourselves in a contract because we are contracting for transportation. If we buy a pair of pants or a jacket, we are also engaged in a contract because we've made a purchase. If we go to eat somewhere, the same. The government is similarly engaged. The government needs to engage in contracts to be able to function.

I wish to make a differentiation between a contract in the private sector and a contract in the public sector. We are going to talk about Argentina, but this could be translated into all of Latin America.

In the private sector, the contract adapted more rapidly to changes. Changes occurred more rapidly there than in the public sector. In the private sector in Argentina, the first stage started in the 1870s, at the end of the last century, and lasted until 1930. At that time, private contracts and government contracts were two separate things. The government did not become involved in private sector activities because it was supposed that the details of the contract occurred in the initial stages of conversations, and that the government always had equality between the parts—equality in what was being talked about, and the objective to be achieved. The government really played a marginal role. It wasn't really involved in private activity. So the French doctrine of *laissez faire* determined the natural balance or equilibrium in the contract.

Then came a second stage, and we can focus on this from 1930 to 1980, let's say, wherein the government becomes involved in private activities. From there, you have the start of lots of regulations coming in and becoming part of the private contract. In this particular instance, we weren't thinking about a balance or a natural equilibrium to the contract, but rather the need of participation or intervention on the part of the government. In many countries, due to the economic crises and policies, you saw government intervention in private activity. Besides that, there were different laws in jurisprudence—the law of abuse of rights, the theory of damages and others. These had to be revised. They had to be checked. But they were later incorporated so that with the action of the government via the legislation, via the judges, the whole thing moved toward finding a balance or an equilibrium in the contract.

So now you find an inequality between the parts and from there comes the contract of adhesion. If we buy insurance, we buy from a very powerful insurance company. The company says sign on the dotted line or don't sign. There is no possibility for dialogue. When we sign a contract for something like air transportation, we have no input to this. So at that time, we saw the beginning of regulatory action on the part of the government. They became more involved. And this resulted in a change or modification of terms and prices in contracts and financial items, such as mortgage credits specifically when it comes to housing. Then the government began to act as the lender or provider of services like the public utilities. It had light, gas, fuel, etc.

This brings us to the present time where the government is neither outside the contract nor within the private contract. What it does simply is set limits on the private contractual activity with two main tools which are the laws for consumer protection and the laws that protect competition. That is to say, in private activity and private contracting there is the freedom to do whatever without the intervention of the government as long as you do not go against the consumer interests. That is the reason we have the law for consumer protection. And to avoid the chance for huge monopolies is the reason we have this law to protect competition.

What's happened in the private realm, to our way of thinking, is not too bad. They have evolved according to different stages in history, politics and economic conditions. Things have evolved, shall we say, in an agile manner. They have evolved quite well.

But what happens in the government sector? In our opinion, the public contract has not followed or adapted in the same way. We still are very limited by the classic procedures. Every time a contract is awarded, if it is by public bids, private bidding or by price contests, what we are seeing is that the market is very static. It seems that the market today is very similar to the market of 40 years ago. What they are thinking is that the government will always come out of the contract negotiation very

successfully, hence things haven't been modified. Procedures remain the same. This is the reform that in our opinion should be carried out.

At one time, the government was tied to national companies, that is to say, purchasing goods and services made in the country, which led to a closed economy. But lately with regional integration, Mercosur, in our particular situation, and the opening of the economy toward the rest of the world, this has been eliminated. Along these lines, there are certain aspects of it which could be considered as moving forward when you think in terms of competition in the market. If we think that a government is strong, we are going to think that that strong government will always be successful and in a contract situation will always come out ahead. Whereas if we think that the government is weak, we're going to think that they're not going to come out well in the negotiations. So then we say, who is better to do contracts—a government that is weak or a government that is strong?

I will show you a case of a government that is strong and a government that is weak. It is the same government. The government can be either weak or strong, and it can be both simultaneously. Why? The government can be strong—and we're basing this on the classic formulation—if at the time they set forth to contract, the market is plentiful in the goods and services it wishes to acquire, the goods are standard, they are simple in the technology area, costs are low and the government can learn about the prices by reading statistics or by experience. And if there is an abundance of suppliers that come in with offers, then there is going to be no problem. The government can remain passive, and it will come out of it probably with something to gain from the contract. At the present time, you see this process frequently. There are bureaucratic costs for the simple reason that it involves a whole lot of different administrative procedures. But the bulk of the budget in money, be it pesos or whatever, in itself is low. Now, considering all of this, the government feels strong when it engages in this contracting practice.

The government senses it is weak—and this is a new perception that we're seeing in the market and we must be mindful of this—when it doesn't have too many goods on the market, when the goods are of high cost per unit, when the goods or services are of a high level of technology, or when it is difficult to determine a price, for example, a very specialized tool.

The government, in order to overcome the weakness, must play an active and not a passive role. It must do something to come out of this weakness and to come out ahead, to have the advantage in the contracting process—in other words, to struggle or fight to get something under adverse conditions.

In the first case we see few transactions, lower administrative costs, precisely because the number of transactions are fewer, and a high percentage of expenses. Here, the suppliers in a public bidding compete with different prices and the government opts for the lowest price. In this case there will be lots of merchandise, lots of suppliers.

In the second instance, the government must play an active role. The government does not get overly committed in the bidding and it does it by invitation, that is, it invites a limited number of participants. Then we are talking about negotiation. Negotiation is the active part here. Government doesn't adopt a passive role. Here, it becomes actively engaged. It must negotiate. We shouldn't be frightened by the fact that the government becomes involved in negotiation when there is a highly concentrated market and when the goods are few. Here, the idea is to select the most convenient price.

It doesn't necessarily have to be the lowest price. Here you have to take into consideration quality, service after the sale, technical assistance and warranty of the product.

Reform is necessary to modify traditional procedures which are cumbersome and costly. Avoid a process that is too long. Use electronic or computerized procedures to lessen costs. Get rid of commissions, because these commissions can be a bit threatening or negative for the government. Do direct purchases. Use reference prices. Eliminate overlapping purchases to avoid unnecessary purchases. Eliminate purchase order costs which involve bureaucratic costs, administrative costs, when you have a lot of transactions to carry out. Eliminate holding costs because sometimes if the goods are available you have to pay costs to store and insure them. Finally, you have to think in terms of the actual life of the goods, to evaluate repairs and repair parts and the actual value of the goods. We've had instances when a \$5,000 automobile had repairs for \$20,000 to \$30,000. So, objectively you have to think in terms of the life of the article and the repair costs. If these are too high, then you have to get rid of it.

So the question is whether deregulation is going to lead us or bring us corruption. You may be afraid of deregulation because it will open the doors to corruption. We believe that that will not be the case as long as we have control. In order to have control, it will be necessary for us to operate in a system where the institutions are strong. Why? Because as we see, when our consortium meets, the formula for corruption is always there when the monopoly (M) is large, discretionality (D) is large, and there is no accountability (A). This leads to corruption (C).  $M + D - A = C$ . But, if there is control, and there are strong laws and the institutions are strong, then we can reverse the formula. We cannot get rid of it; power has to be within the framework of the law. We have to have discretionality. That is also necessary within the law. But when we add accountability so that everybody involved is accountable, we get rid of corruption.

We need publicity so that the chambers of commerce will be aware of what is going on, the public will be aware, the press will be aware. Furthermore, there is the factor of transparency. There will be rules and regulations that will establish procedures and will determine the responsibility of those involved. Information is a key factor. It is needed. We need information from statistics so that we may know the exact costs. Important also is centralization of rules and regulations but decentralization of the operational aspect. Avoid a central department in charge of purchases and acquisitions. No. Purchases have to be made by the different departments of the government.

Having said this, we understand that there are cases where the government is too weak to engage in the contracting process. We have to try to change and test new ways to resolve the problems of public contracting. We are aware that the old rules and regulations do not solve their problems because those that control don't believe very much in public bidding. Of course, there are cases where their markets have few goods and services and high costs. But if they are able to make this more flexible, if they are able to have direct contracting, then they must not be frightened of control, publicity, transparency, information and centralization of rules and regulations and decentralization of the operations. If this is the case then there will be no injustice and corruption.

**Alex Oliveira Rodrigues de Lima**

**Counselor, Conselho Reg. Contabilidade do Estado Sao Paulo, Brazil**

Dear colleagues, good afternoon. First of all, I received a speech from Cardoso, Brazilian President, and this speech is about our fiscal federalism in Brazil, and it is the same speech we have in our web site, in *Financial Times*, in *Time Magazine* and other periodicals. So I prefer not to use the speech I received from the Brazilian government this afternoon. I would like to explain about the practices in the Brazilian tax reform system and the Brazilian federal state and county systems as I see it as a professor of law.

Brazil in 1964 started a military system like all of the South American countries. With this military system, Brazil had a tax reform, and established more or less 50 taxes. So the public sector and the private sector had 50 taxes. The public, the people of Brazil, had to pay 50 direct taxes. That was a big amount of taxes for 170 million people in Brazil.

Those taxes were important because Brazil started to develop in the beginning of the 1970s. That development happened in two ways. First of all, with the 50 taxes, a lot of money came to government. And the second, state companies gave Brazil a lot of profit. In 25 years Brazil grew by our military system that closed Brazil to the international market. But at the same time, they had very big development inside Brazil.

In the beginning of the 1980s, Brazil, the people, didn't want any more military. So a big campaign for election took place and they changed the system of government from military to democratic until today.

This change was very difficult and it started with changing our Constitution in 1988. Since then, we had elections. We had freedom. We had impeachment of the 1991 President, Collor, although he opened Brazil for international marketing. So, nowadays, Brazil has full interest in receiving foreign money. Cardoso headed the government in 1994 and was reelected last year. Cardoso was my colleague as Professor at Sao Paulo University. He has a new liberalism and a desire for technological globalization. He opened Brazil and cut the two systems of receiving money. As I told you before, these systems were the 50 taxes per person and the second is the state companies that give Brazil a lot of profit yearly.

President Cardoso sold all the state companies in Brazil. With the selling, Brazil stopped having public employees. Many people lost their jobs, and Brazil started a new liberalism model. This liberalism cut Brazil off from one of the resources of the state, that is the profit of state companies. For example, one large company had a profit annually of more or less \$1 billion for the government. So this profit helped Brazil, until last year, when that company was sold. It was sold for three times the profit, or \$3 billion. Telephone companies, electric companies and many other companies were passed from the hands of the state to privatization.

Brazil now started a tax reform. I'm one of the professors who was trained in our tax reform. Why are we doing that? We still have these 50 taxes, but the government doesn't have the resources to collect the taxes. The state companies were sold, so the rest of the people, I and my friends, have the difficult job of creating a new tax system to increase the profit of the state without state companies. So the people have to pay more taxes.

There are different ways of looking at this. In Brazil, 80 percent of the people have income of less than \$1,000. Another 19 percent earn between \$1,000 and \$5,000. One percent make \$1 million yearly. So we have 80 percent in a situation of poverty. That situation does not allow the government to receive anything, because if you don't have a job you can't pay taxes.

We have 27 states in Brazil. In these 27 states we have many splendid cities. We have city taxes which are basically property taxes, automobile taxes and service taxes. The state government also taxes us for services and vehicles. And the federal system collects from us the import and export taxes, as well as corporate and individual income taxes.

Brazil needs investors. What is the solution? A couple of years ago, Brazil started a war among the 27 states to get investors. What is this war? It is not a war of guns, but an economic and incentive war. An example: To get investors from Europe, U.S. and Asia, there are some states which give to investors large tracts of land, public employees and an exemption to taxes for 30 years—federal, state and county tax. It is a big incentive to all who want to invest in Brazil. There are a lot of companies who come to Brazil to receive this. Here in the U.S., companies pay several taxes. Imagine a branch of one of those companies located in Brazil and receiving 20 tax-free years just to develop the place, just to employ the people. The companies receive zero import tax status, also. So if you want to bring your machines and products to Brazil, you have to pay nothing. That started a couple of years ago in Brazil.

That is one part of the solution that will increase during the next century. It is a challenge, because we must control the gap between the millionaires and the poor in Brazil, and this is a way to control the gap.

A second point is that we are reforming our legal tax system from the military system. So we are looking at alternatives. One alternative is to use, like the U.S., a consumer tax. We haven't made a decision, because there are many, many alternatives. But with all of them we must increase the amount of taxes from the people. One average workman in Brazil pays about 30 percent of his salary in taxes, and we must increase it to 40 percent because there is no other way to keep our balance.

The people complain about that because with more taxes it is difficult to realize their dreams, to realize the future, to have good savings. In Brazil the inflation rate is completely controlled by the "real currency plan," and that plan is in its sixth year. This year we had a little trouble in the beginning of the year with the increase of the dollar, but now it is controlled. We estimate an inflation rate for this year of 15 to 16 percent. So a lot of companies from South Korea, Japan, U.S. and many others come to Brazil looking for these kinds of incentives.

The last few weeks we had some complaints with the Mercosur, our market that joins us with our colleagues from Argentina and Paraguay. In the next century we look forward and see that our transactions are no longer from Brazil and France, for example. What has happened is that Mercosur with Europe, Mercosur with NAFTA, Mercosur with APEC. So the countries are joined together.

We didn't think 20 years ago that Europe would have one common monetary unit, the euro. This is another advance, because all the countries are trying to get better, not only for his own country, but for other countries in the European market, with 15 countries and one currency. That's amazing. In

Mercosur, we are studying to use a merco (same currency for all countries) or a dollar system, but it is difficult. It is hard because Union Europe has more than 30 years of development, and Mercosur started in 1991. So it is a flash market. We are getting there. The new market is an all American market in 2004, and it is the largest market in the world that we will join—Canada, United States, all Latin America. But because of our differences, we'll never get a perfect solution for our joint countries. It is easy to join power. But our poverty level and the cultural system are different.

In Europe we saw how hard it was. Remember, Portugal and Spain had a lot of difficulty joining Union Europe, even though Portugal is the top country in the world for doctorate certificates, an average of 1,000 doctorates yearly. They needed more Ph.D. professors in Portugal and Spain because the other countries—Germany, United Kingdom, France and Italy—had a lot of doctors, a lot of professors, top graduates. Yet Portugal and Spain failed. And that is just an academic point. Imagine the whole economy, imagine what Portugal and Spain had to do to get into Union Europe. That is the same for Brazil. That is the same thing we are facing in Japan and in the Asian markets.

So, to conclude, Brazil is open, has the biggest economy, the biggest gross product of South America. Giving incentives, such as land, property, public employees to investors abroad, to big companies, could develop our country even more than it is. If anybody goes to visit Brazil, they see it is the same as here, Washington, D.C. In the capital of Brazil, the monuments, the buildings are the same. They look a lot like Washington. The difference is that outside that beautiful capital, we have many poor citizens, and that is the problem that must be solved. The incentives, investment from abroad, will change Brazil, not only the postcard Rio De Janeiro and Sao Paolo, Brazil, the whole country will be developed by these developers and improved by our tax reform.

### **Filippo Vagnoni, Special Delegate of the Comptroller General, Venezuela**

Thank you very much to the International Consortium on Governmental Financial Management, and thank you very much to the organizers of this event for allowing us this opportunity to share with you some facts about the Venezuelan experience in the process of decentralization.

Venezuela, as you know, is at the northernmost tip of South America with 23 million inhabitants. The inhabitants are in an area of 912,000 square kilometers. Right now the country is made up of 23 states. They have a federal district and they have 425 municipalities.

Since Venezuela achieved its independence from Simon Bolivar at the start of the 19<sup>th</sup> century, the country has been in perpetual internal conflict. If indeed it always looked toward federalism, it became nonetheless more centralized at the beginning of this democratic period, that is, after 1968. In 1961 its Constitution was approved—a Constitution where decentralization has been a very controversial issue among lawyers, perhaps because there was no political will to carry out decentralization as set forth in the Constitution.

Indeed, Article 137 of the 1961 Constitution approves administrative decentralization with the idea that political autonomy goes to the local sector. As it was, the very fact that this Constitutional idea existed, whereby local entities would have the power, was enough to actually cause big problems in decentralization. So in 1988 when they had election of mayors, it was set forth in the law.

The process for administrative decentralization of the state started in 1988 after being in the Constitution since 1961 and after tremendous political debate. It began with the approval of legal instruments relating to the law for election and removal of officials at the local level. It is this law that has as its objective the development and establishment of constitutional principles that appear in our national Constitution to which I alluded previously. This law promotes administrative decentralization, sets forth what is to occur within the central government and the state, facilitates the national services, determines the function of the governors as agents of the national executive, determines the source of incomes and determines the annual investment plans for the federal entities as carried out by the national executive.

On the other hand, the law for the election and removal of the governors of the state sets forth how they are to be elected and how they should be removed if necessary. Therefore, the states once again regain their political autonomy. In 1989 we held the first direct elections for governors of the states in Venezuela. Now, from this perspective, these legal tools were essential to make viable a process of decentralization that today requires deep analysis of what has been achieved and what the obstacles have been. Decentralization should be thought of as a driver for change that provides for citizen participation in the restructuring of the state. This should not be seen as a process to weaken the country.

The main achievements of decentralization were three: It provided an opportunity for greater participation from the society in the control of activities carried out by states and municipalities. The participation of the citizen impacts on the conduct of public officials because they are a product of popular election. Number two, it contributed to the overall strengthening and the development of the national government, through the strength gained at the local level. And thirdly, it encouraged economic development and provided opportunities for new and increased revenues.

However, after having worked with this concept for nine years and in spite of the diversity, the way that things were coordinated, there is a serious problem in the area of corporations which has been a major barrier for the development of this program. As a result of this, there has been a lack of a legal framework that would emphasize the coordination of the different areas, and also a lack, on the part of the central government, of a policy permitting dialogue and permitting a connection between the different levels.

Another obstacle in the process has been the attitude of the workers that have to be transferred, as well as a sense of competition and a lack of services from the central government to the municipalities. Also, there is a lack of funds to take on the responsibilities required.

The sources of revenue for these municipal entities are the following: For the states, they have their own revenues, and we're talking about taxes, rates, fees, fines and other revenues that have to do with transference from other entities. These revenues cover 20 percent of the budget. Then there is the funds allotment for approved projects and the law for special allotment. Ninety-seven percent of the resources are distributed among the states where you have hydrocarbons and three percent for states where there are no hydrocarbons. As far as the municipalities, the sources of revenue are from real estate taxes, patents, taxes, fees and fines. Other revenues are derived from the transfers from the national government. They get ten percent from the total of the ordinary revenues that appear in the budgets for the states, and these are allotments that are approved according to the need set forth by specific projects.

And then there are the expenses of the different entities which are the use of the revenue. In addition to normal operating expenses, there is a coordinated plan for investment in each fiscal year. The government has to devote to the program of investment a minimum of 50 percent of their revenue. What do we mean by investment programs? These are programs for agricultural development on a regional level, a program for educational development, scientific development and technological development. There are programs for health and social welfare, programs for reorganization of urban areas and programs for promotion of construction. There is financing for specific industry, such as tourism and mid-size industry, as well as technical assistance and professional training for the staff necessary for these programs. There are programs for road building, transportation services, programs for the upkeep and maintenance of public buildings and a program for environment and non-renewable resources.

The regulations set forth in the legal framework for this process of decentralization are the Constitution of the republic, the laws for the municipalities, the law for state budget, the municipal ordinance for expenses and revenues, a law for centralization and transference for public competition, the law for selection and removal of the governors of the state, the law that creates the intergovernmental funds for decentralization, the law for special allotments for the monies that come from mines and hydrocarbons and other legal instruments that have to do with this subject.

Our system of control and audit is similar to GAO. We have state and municipal audit offices. If we were to give an opinion on the fiscal operation of these entities in Venezuela, we would have to say it has been a traumatic process, a process with tremendous conflict between the local and central entities. Before this law came into being—I'm speaking of the law of 1989—the revenues were used strictly in one area, whereas with this law, what happens is that the states compete for the monies. However, the monies that are derived from these new things are far below what is necessary. And the same situation occurs with the municipalities. I know that they have a fiscal faculty which is much broader than that of the states, however the possibility for getting revenues is really precarious because neither of these entities has the structure or the financial resources to actually comply with this type of situation.

What the central government has been doing is that they have been super-g geared toward centralization. All of this has to do with the creation of new revenue sources to carry out investments required with this new management. Along with the centralized policy, the national executive decided to put into place in 1993 the aggregate value tax which was replaced by the excise tax and, starting this year, it will be replaced by the added-value tax. To make sure that revenues from the municipalities would go to the centralized services, they established an intergovernmental fund working in decentralization. The fund is autonomous and its function is to deal with this. The creation of the fund was a first step to try to transfer monies to the states and the municipalities, but the allotment of these funds is specifically toward investment processes established previously by the central government. We are repeating the same sins as before. We have the same struggles between the mayors and the central government to get their hands on the money.

The new trend in this regime in recent years is the emergence of promotional agents for the process of decentralization. We see the need to explore new mechanisms for fiscal participation to search for new resources that will allow us to finance public services, to overcome the problems of coordination with the central government and to help the proliferation of entities that are looking for

mechanisms to manage budgets in a manner other than traditional administration. Co-participation on a fiscal level for financing the public services would generate a mobilization of resources in all areas. It would create an impact on the collective consciousness of those people that are elected by popular vote.

Along these lines, three steps have been suggested to function better fiscally. One of the steps would be to review the criteria to see how basic needs are being managed and to evaluate the effort on the part of the entities that are now decentralized. Another step would be transfers of taxable competitions and thirdly, co-participation from the states and municipalities in taxes on gasoline and real estate.

This procedure of decentralization in Venezuela could head in another direction as a result of new concepts that might be approved in meetings that have been held and will be held at the constitutional assembly. They started meeting two months ago and are presently involved in debating and reviewing the Constitution of the country. In this process to remake the government within the context of a democratic society, everything is possible. The rules of the game up until now have been kept in a precarious political equilibrium. We hope that the institutions will survive and we hope that they will come out of this process stronger.

In a document that was presented recently by the President of the Republic, decentralization is seen as a strategic policy at the national level. Its fundamental objective is to strengthen democracy and to bring power closer to the people, creating the best possible conditions for the survival of democracy. And it should strive always toward efficiency in state activities. The trend that predominates in the assembly seems to bend toward greater autonomy for the municipalities, to give more responsibility to the local officials. There has been a lot of diversity of thought along these lines. Some say that to give more power to the local level would mean to go backwards historically. The transference of responsibility in tax matters to the local level is generating a great deal of debate.

In this area, we wish to speak from something that has been written by the university. It appeared in the national newspaper in August of 1999. It shows the results of a poll that was taken of the Congress with regard to this issue. The results were as follows: 46 percent of the Congressmen that were queried said that they were not in agreement with granting autonomy to the local level, whereas 85 percent of those queried said that yes, they were in agreement with granting autonomy to the municipalities. Just remember that these Congressmen are working on a new Constitution, and in the new Constitution, these opinions will be apparent. Therefore it can be said that this new view will be the difference between the Constitution that existed in 1961, which still exists, and the new Constitution that is being discussed at the present time.

From the analysis that was carried out, and without going into depth about the new Constitution that will be adopted, it is understood that decentralization is fundamentally a political process that is needed for the restructuring and for the strengthening of the democratic system in Venezuela. Therefore, we have to set forth exactly what is going to be transferred. We have to specify exactly and it has to appear in general rules and regulations. In this way, we can determine exactly what should remain at the national level and what should go to the local level. Decentralization cannot be looked at as a simple transference of responsibility to the states. It should go jointly with sufficient financial strength so that these local governments can carry forth in an adequate manner when it comes to the

transfer of services. These transfers have to have, as a basis, the possibility of maintaining themselves, of being able to manage by themselves.

There should also be a territorial political division in the state that bears in mind the characteristics of the regions. The law for electing and removing the governors should be strengthened, including the use of a referendum to reflect the views of the people. There should be attention given to the ability at the local level to generate revenues. With regard to control, the GAO in Venezuela should strengthen the functions of accountability within the context of a national system of control.

Thank you for your attention.

JACK PERSON (Canada): Mr. Grinberg, you discussed situations where there are services that are high-tech, and sometimes the state is weak. Do you see any possibilities whereby our organization could help the municipalities and the states to improve the contracting conditions, particularly in the request for proposal? I can see the day when the city of Washington and the city of Buenos Aires can go together to the market and the suppliers do not view two cities but one country.

EDUARDO GRINBERG (Argentina): I appreciate your question. It is quite interesting and broad because it does not only apply to the issue at hand, but also to more transcendental issues, the meaning of globalization. Based on our knowledge of the situation, and new regulations in the marketplace, my answer to you would be yes, positively.

Our Consortium, which we appreciate so much, is a very important tool to disseminate these ideas. It would be useful to bring up problems and solutions to bids and public contracts. Then together we will work better in a better world.

FELIPE CASTRO (Dominican Republic): For the gentleman from Brazil, if I didn't misunderstand your presentation, you said that Brazil sold a company that generated \$1 billion in profit to the private sector. How is it possible that a state will let go of a company that is generating \$1 billion and turn it over to the private sector? Why not take the \$1 billion and give it to 80 percent of the population and improve their living conditions?

ALEX OLIVEIRA RODRIGUES DE LIMA (Brazil): That's a very interesting question. Unfortunately it happened. That's just one of more than 80 privatizations that have happened since 1994. What made that happen? First of all, this particular company is a company that gets jewelry, diamonds, from the lands. It had annual profits of \$1 billion. But Brazil needed a postcard to the world to show that the time of the state companies was ended. An Indian company, that was much like ours, had a profit of \$500 million but was sold for approximately \$15 billion, with a profit of \$500,000 yearly, in the privatization of India. In Brazil, we sold that company for only three times the value of the profit, but, as I told you, it was needed to show the world that Brazil was stopping the era of state companies.

State companies were very bad in the eyes of the world. And President Cardoso wanted to clean up all the state companies. This particular company was sold to a German consortium, and now the profits, after two years, are about \$1.5 million yearly. That is money that Brazil will never see again. As I tell my students, we gave away profits that could help Brazilian development. We gave it to the

Europeans. And, many other companies we gave away, because that was the strategy. Each President has a strategy; that's why there is democracy. That company the government sold for \$3 billion—there is an article in the contract that says after 35 years Brazil can rebuy that company. Just think, after 35 years with mass investment, could Brazil rebuy that company? I think it is like a gift that we gave.

And we are continuing. Next year, we will sell the San Paolo State Bank, the second largest bank in Brazil. You can say, "Alex, what can you do to stop that?" There is nothing we can do because these are the conditions from IMF for refinancing our debts. We can't get cash without the profits of the company. We can't take advantage of refinancing our debts abroad, so we have to make these sales. For the last year of President Cardoso's government, 2002, two big sales are coming. One is the Brazilian Federal Bank, the number one in Brazil, Banco de Brazil, and the next is Federal Cash Bank, the second largest bank responsible for mortgages. A third one is Petrobras, petrol oil company, one of the biggest companies in the world. These are the politics that are the wishes of President Cardoso. He is a friend of mine. He is a professor, a retired professor from my university. But he chose that for Brazil. On the other hand, I am against the privatization, how it was done, because it should be at a more valuable price. We have given all our companies, our state companies, to foreign entities.

ABU BANGORA (United States): This is a follow-up to my question yesterday, and I think, unless I misunderstood you, you attempted to answer it. Some of these changes, big decentralizations, is this a trend that everyone is following because it is a trend, or is it being done based on what is good for the country? If I hear you correctly, you say Brazil is selling off companies that have made profits and gave tax dollars to the government. Now, when they are sold, unless I misunderstood you, you appear to say the only way the government could generate tax dollars was from the people, and because 80 percent are poor, they don't have the dollars. My thinking is, if a company makes a high dollar amount in tax revenues being a state-owned entity, it should make more when it is transferred to a private institution. So I don't know where the tax dollars went, unless these people get tax relief. And the question is, are you in support of these transactions and these decisions that are being made, and are they good for Brazil as a country?

ALEX OLIVEIRA RODRIGUES DE LIMA (Brazil): It is a very good question. As I told you, I am against this system. President Cardoso, with this money, paid a small part of the interest on our financial international debt and to other institutions. It is not just Brazil, but all of the developing countries have this problem—a big problem with the international finance system. As I told you, and I tell many times, how the privatization was done was not good for Brazil. No way. But it was done. And we in the law, in my school, we have a phrase—a contract never can be broken. So now we have to get another opportunity. We have to get another source for the money. One source is to change our tax code. The people will continue to pay more taxes. But the second is the system I showed you about giving land, giving property, giving government places and financial exemption of taxes for companies who want to come and develop Brazil. For the next century, without state companies, Brazil has to find a way to finance growth.

RAYMOND EINHORN (United States): Did I understand that you thought that part of the solution might be the use of a currency like the euro currency for all parts of South America?

ALEX OLIVEIRA RODRIGUES DE LIMA (Brazil): In 2001 we will have ten years of a market joined with Argentina, Uruguay and Paraguay, the Mercosur. It isn't a good idea, because we are a flash in the system. The European system had a lot of problems, but now they have fixed them. We

see nowadays the growth of the 15 countries that are joined in Union Europe. But in South America, we must have an infrastructure and economic power to join together. Because only joined, without money, we would fail.

## **Roundtable Discussion - Friday, October 1**

### **Moderator:**

**Patricia O'Connor, Program Manager**

**National Association of State Auditors, Comptrollers and Treasurers (NASACT)**

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We have received topics to begin our discussion at today's roundtable, and I'd like to start out with one that has to do with international standards for auditing and accounting, and certification of accountants and auditors.

There has been some recent movement in the United States toward at least making our standards national. As some of you may know, CPAs are licensed by the states in the United States, and the requirements have varied in the past quite considerably. Everyone has had to take a similar examination, but the educational requirements are different, as are the requirements with regard to experience, working under a CPA and performing the auditing function, from state to state. Within the last five or six years, the state boards of accountancy have gathered together and basically have decided on a single set of requirements, including 150 graduate hours, which is basically the equivalent of a masters degree, five years of college. To tell you the truth, I don't know what they've agreed upon, or if they've even addressed the experience requirement.

This movement is in part driven by the need to make it easier for a CPA who is licensed in one state to practice in another without having to get a license from each state.

So that is basically what we have been doing here in the United States recently. I know that IFAC has promulgated some international accounting standards. I do know that the Financial Accounting Foundation in the United States, which oversees the Financial Accounting Standards Board and the Governmental Accounting Standards Board, is quite interested in getting the United States more involved in the establishment and acceptance of international accounting standards. So that is the topic for this afternoon. For our transcript, it would be interesting to hear from different countries as to how you set your accounting and auditing standards, and the extent to which you participate in international efforts, or the extent to which you would be interested in pursuing international efforts.

PIOTR DOBROWOLSKI (Poland): I think that this is a very good opportunity to share experience and receive information about situations in other countries concerning avoidance of the duplication of audit assignments. I understand that in the United States there is a central research notification system, a system whereby you know what kinds of audits have been carried out by other audit institutions, which is a very helpful tool for GAO and other audit institutions. I would like to know how this system is organized in other countries.

PATRICIA O'CONNOR (United States): In 1984, the U.S. Congress passed the Single Audit Act, which was basically designed to eliminate the federal government's duplication of the audit work that was done on state financial statements and other grantees of federal money. It was set up to avoid

duplicating the efforts on their financial statements either by state auditors or by private sector auditors, whoever had the contract to do the state's financial statements.

The GAO standards, the Yellow Book standards, provide guidance for audits performed under the Single Audit Act. The thrust of the Single Audit Act was that, regardless of whoever did the audit of the state's financial statements, be it a private sector auditor or a state auditor, that audit would be acceptable for purposes of federal programs if the Yellow Book standards were met. The Yellow Book standards add specific requirements with regard to planning, with regard to field work and with regard to auditing. There are extra measures having to do with compliance with federal laws and regulations, and the federal program. And so when an auditor does a single audit, he adds on these extra jobs to comply with general laws and regulations, and he also complies with the specific requirements of whatever program it is—if it is a welfare program or an agriculture program, whatever specificities were written into that law.

So doing a single audit is a bigger job, but it is not so big as having the financial audit done by, say, a state auditor, and then having federal auditors effectively do the same work again. That's basically how that problem has been addressed in the United States. Is there duplication elsewhere?

MICHAEL PARRY (United Kingdom): I know this is a problem in the former Soviet Union. You might be interested in the British experience, which is not dissimilar to the States in some ways, I think. In Britain, state-owned enterprises were formed by an act of Parliament which would specify the audit requirements. Audits would normally be done by the National Audit Office, and so there was no duplication.

Recently there has been a trend to convert state-owned enterprises into registered companies, and so under company law they are also required to be audited. But in that circumstance, the National Audit Office does accept the audit which is carried out for company law purposes. At present, there are no audit standards for government in the United Kingdom, and the National Audit Office has its regulatory framework, but it has not actually adopted any audit standards or guidelines. So compliance with the audit standards that apply to the private sector is regarded as sufficient for that purpose.

I do know, because I've been working in countries in the former Soviet Union, that there it is quite frequently a problem because there is a requirement by the state audit or the supreme audit institution to carry out audits of any enterprise which has any form of state involvement. But under new legislation concerning the formation of private enterprises, there is also a requirement for audit. So there is a problem of duplication in many countries of the former Soviet Union. The logical solution is exactly the one that has been adopted in the states by legislation, and de facto that has been adopted in the United Kingdom to have only one audit of those institutions. But it is an issue.

PATRICIA O'CONNOR (United States): The Single Audit Act can apply basically to any recipient of federal funds, so it applies not only to state governments but local governments, not-for-profit organizations and universities which might receive federal funds to carry out some of their programs.

ALFRED AGBOR ENOH (Cameroon): In Cameroon we differentiate between the private sector and government sector. The audit standards for the private sector were established by multinational organizations, an economic union made up of six or seven countries around Cameroon. It is that union

that regulates the business practices of the private sector and also regulates the practices of the private accountants and issues licenses and certificates to most of the private accountants. So the audit standards for the private sector are established by that organization.

For the government sector there is no formal auditing standards. The National Audit Office has its own guidelines that it uses for audits of government structures. As the man from France said this morning, the ministries have the Auditor General, and also they have audit offices such as the Inspectors General. They have their own guidelines.

PATRICIA O'CONNOR (United States): The original source of accounting standards in this country was for the private sector. They come from the Financial Accounting Standards Board, which has been in existence since, I believe, the early 1970s, and it had numerous predecessors. The Governmental Accounting Standards Board was organized in 1986. The auditing standards which have been used for private sector audits for many, many years and form the basis for audits of financial statements in the governmental sector are promulgated chiefly by the American Institute of Certified Public Accountants, which is the professional association of public accountants. Some people wonder about the wisdom of having accountants do their own standards, but that is the way that we do it. I believe that we are somewhat unusual in the world in that respect, but that is the structure of our standards in the United States.

MICHAEL PARRY (United Kingdom): The issue of accounting and auditing standards and guidelines creates a number of problems. The first one is that there are two sets of international accounting standards for the public sector—those issued by IFAC and those issued by INTOSAI.

PATRICIA O'CONNOR (United States): INTOSAI issues accounting standards?

MICHAEL PARRY (United Kingdom): It issued a set of accounting standards very recently. They appear to be very similar. It is certainly a source of confusion. So when you talk about international accounting standards for the public sector, which set do you mean?

I've just been working in one country where they are trying to establish accounting and auditing standards, and the confusion is immense. First of all, under USAID sponsorship, they've adopted international accounting and auditing standards for the newly created private sector. For whatever reason, I accepted these. And then we come along trying to set up a supreme audit institution and say, "Oh, well, those are okay, but now you need another set of auditing standards and guidelines." And they say, "Why?" That's a very good question. Because in fact the auditing guidelines published by INTOSAI are very similar to the private sector, but they're written from scratch. They're not just additions or variations. They are written as a completely new set of auditing guidelines, and it does cause confusion.

In New Zealand, they adopted and then dropped public sector accounting standards on the basis that they should use the same standards as the private sector, because they were using full-accrual accounting. And there is some logic in that.

So I think we have a very confused situation where there is a multiplicity of standards emerging. When countries are asked to adopt all of these different standards, particularly in countries in Eastern

Europe, the former Soviet Union, where these things are being done from the beginning, it does cause great confusion. At the same time we have a huge gap.

We have a gap because—it is one of things I noticed about this session—we keep on talking about accountants and auditors. Most public sector financial management is not done by accountants. Most public sector financial management starts with your planners and your people who prepare budgets and your debt management systems. Those are rarely controlled around the world by accountants; they are normally economists. There are no standards about budgeting internationally. There are no standards about how you deal with—well, there is some material prepared by the IMF, but it is not really standards, it is just some guidelines for statistical purposes—debt and debt management. There are no guidelines about fund management and fund release in the public sector. So the whole process so far has been driven by accountants and auditors, and it has ignored the other aspects of financial management.

So on the one hand we have a plethora of standards for accounting and auditing, and on the other hand we have a total absence of standards dealing with other aspects of public sector financial management. If the ICGFM is looking for roles, it would seem to me that there is one standing there waiting to be filled.

PATRICIA O’CONNOR (United States): Those are very interesting comments for a variety of reasons. I can tell you why we have two sets of accounting standards in this country and, as Michael pointed out, it is because we don’t do full accrual accounting for our governments. Pieces of governments do full accrual accounting, and they use the private sector standards and that works just fine. We’re moving in that direction, but we’re not all the way there yet.

The other major difference, I think, in government, is that you need to demonstrate, both on the audit side and on the accounting side, compliance with the budget and local laws and regulations, if not with the federal laws and regulations. If you don’t receive federal money, then you don’t have to worry about a single audit, but you still need to comply with the laws and regulations of whatever body is appropriating the money that you are spending and accounting for.

We don’t have budgeting standards in this country for government. No one thought that we had any hope of telling 50 state legislatures and 3,000 counties and I don’t know how many cities and towns how to do their budgets. Of course, because most of them do budgets on a near-cash basis, that inhibits the movement toward accrual. It does seem reasonable that budgets are done for a year or two and that there is always going to be a short-term focus on a large part of it.

Do you think that there is a need internationally for separate governmental auditing standards?

JACK PERSON (Canada): Separate standards from commercial standards? Well, I tell you, half my experience is in the commercial sector for Fortune 500 and the other half is in the government or international sector. There probably is a necessity for stronger audit standards in the government sector, the reason being even for the biggest companies you have to have a certain amount of revenue coming in. There are certain intense internal controls on a commercial company where, if you don’t have the dollars coming in, you can’t do your business. So you can’t steal more than you have. If they don’t do well, they go broke. But except at the smallest level of government, like maybe a house

district that might collect rent from each house and then put up a water system, there is such a large separation from the funds coming in and the funds going out.

In the government sector you can go for years doing a poor job either financially or operationally and nobody knows because you're missing a whole level of internal control which is simply that customers don't have any right to withhold their money. So there probably is a fundamental difference between commercial accounting in this aspect and in governmental accounting. What level needs to ensure that the principles are the same? The internal controls are in many ways the same, but in government you're missing one whole aspect of internal control, and that is the fact that customers have no say in how much money comes in the door.

PATRICIA O'CONNOR (United States): So do you think there is a need for separate auditing standards then, or accounting, or both? I heard you say auditing.

JACK PERSON (Canada): The accounting standards could be the same, but there is another aspect of that as well, in that you have enormous entities in the government and the idea of accrual, some of the ideas of amortization and depreciation, don't mean anything to the federal government. There is no possibility of that. There is no need for that. Even on an accrual basis, obviously we have a population that is either growing or aging. But at the individual agency level, accrual accounting doesn't make a lot of sense because you only control what you have coming in, and you are better off spending the time on effectiveness, which is what the new Controller General discussed. We'd be better off spending our time on—and the federal government is moving in that direction—cost accounting. Not the classical cost accounting, but outputs—what am I getting for my money, rather than trying to get into all kinds of details about accounting rules and things like that.

So in one sense, there probably is no need for different rules, just pick off the shelf what the AICPA has done and apply it. On the other hand, there are a number of aspects of internal control which are missing in the federal government, which means you probably have to control your money in a different way. So there are arguments on both sides. But there are fundamental differences between the commercial sector and the government sector that need to be addressed.

PIOTR DOBROWOLSKI (Poland): I'm thinking about a subsequent issue like decentralization. This is a subject of this conference, and I'm thinking about internal audit systems that provide objective information on the management and cost effectiveness in government operations. I would like to ask about the experience of the other participants. How effective is an internal audit system when the internal auditor will have the right to report not only to central management from government agencies, but also beyond the agency to other officials who have the legal oversight authority? What can happen if the head of the internal audit body that is part of the government agency is appointed not only by the agency head but other officials who have legal oversight authority? In the United States, the Inspectors General of the major agencies are appointed by the President. So I know the American experience. But what about the experience of other countries?

PATRICIA O'CONNOR (United States): We're moving to internal auditing. Anyone want to comment? I don't know too much about internal auditing myself, so I will refrain.

Does anyone have views on the need for internationalizing audit standards as opposed to accounting standards? I think we might have discussed the two of those already. Does anyone want to comment on auditing standards?

Finally, the last topic that was mentioned to me was international certifications, international standards for people becoming Chartered or Certified Public Accountants or Auditors.

JACK PERSON (Canada): There are pros and cons. I haven't done anything yet, but the AICPA put me on the committee to look at the examination for the Canadians to become American accountants. The AICPA has done a lot. I haven't started doing that yet. They have a standard exam for Canadians and Australians who want to take the CPA exam, which I think is a good move forward.

I became a CPA in Illinois, and I'm very glad I was able to do so because in Illinois they didn't require any kind of indentured servitude to a CPA firm before I became a CPA. If we had national standards then maybe I would not be a Certified Public Accountant today. The AICPA a few years ago put through this 150 hours requirement to become a CPA. They're not getting enough young people to become CPAs now because they're stunned by this extra requirement. So now the CPA firms are desperate for young people to come into the profession. Now, if this were locked into some international level or even a national level, the profession would be hurting.

In our country we have both private and public universities. A young man starts out, and I know this is an actual fact, at the University of Notre Dame which charges maybe \$20,000 a year tuition. It is a fine university. The young man becomes a senior and finds out that if he wants to become a CPA he has to spend a fifth year. He can either switch to a public university, which might not be his desire, or the University of Notre Dame is going to get another \$20,000 out of him. Frankly I'm an accountant by career, and at that stage the young man is better off out with a CPA firm seeing real businesses and getting some experience under his belt than paying \$20,000 for a few extra accounting courses.

So if we have international standards, the danger is the cirrhosis that would set in. I think it is a good idea in principle, but if we lock ourselves in, I think we'll be in a jam later.

PATRICIA O'CONNOR (United States): I think about 36 states have accepted the proposal, and they have passed state legislation requiring the 150 hours. So it is not national yet, and I suspect there will be a few holdouts. There usually are. If what you say is right, I think the profession may demand it.

H.B. KALONGONDA (Malawi): I wanted just to add to what my colleague has said here in connection with international standards. On the public sector, the supreme audit institutions are part of the international organization, and this organization from time to time issues accounting standards and auditing standards. And most of these supreme audit institutions follow these auditing or accounting standards. On the private sector, we use the international standards issued by INTOSAI. There could be slight modifications here and there, but indeed, as members, we have to follow those accounting or auditing standards which are issued from our own mother organizations.

MICHAEL PARRY (United Kingdom): I'm surprised that we can teach the United States something on competition, but we have a wonderful private sector system of qualifying accountants.

There are three major accounting bodies in England, plus another one for Scotland and another one for Ireland. Each one sets its examinations and certifies accountants. It has nothing to do with the government whatsoever, other than they've authorized those bodies to do it. Of course, they compete with each other for membership. So it actually provides a powerful disincentive to having any system which is unduly expensive or onerous to qualification. I don't think the quality of accountants suffers unduly, so it is a system that does have some merits.

The other point on international certification, I come back again to the point that I was making in relation to standards. We talk about the training of accountants. If we are talking about public sector financial management, most of it is not and never will be done by accountants. There is actually no certification process for public sector financial managers.

I was involved in developing a school in Sri Lanka on public financial management. There was actually very little accounting in it, because most of it is about the process of planning, identifying targets, relating those to financial objectives, putting them into a multi-term expenditure framework, relating those to cash management, fund management, debt management, borrowing, and at the end you've got budget execution and accounting. In the private sector, financial management is driven by the accounting process because it is about reporting profits, paying dividends, paying taxes. In the public sector, as you've just heard, those issues really don't arise. The process is budget driven. There is no international certification program anywhere which addresses those issues. To my knowledge there is no body which is actually providing any sort of certification in those areas. So, again, I think that there is a gap.

I have worked in about 16 countries looking at public sector financial management. The reality is that you're going to spend most of the time dealing with people other than the accountants. You spend most of your time dealing with the economists who are running the budget planning system. And the accountants have a very low status—much too low. So I do think there is a need to look at the training of those people and the need for some sort of international training process. It is something that I've been very much aware of when we're asked to provide training programs. We're always having to develop ad hoc programs.

There are university programs certainly around the world, in the States, in Canada and the United Kingdom which are appropriate, but they don't lead to any sort of general certification. There are no standards about what they're covering, and they're not necessarily related to the sort of problems that those people face when they come back because they tend to teach the financial management system in the States or Canada or the United Kingdom or whatever. They don't really teach about it in a general sense. So I think there is a gap there.

I would be interested in hearing from some of the representatives from countries in the former Soviet Union and in Africa particularly, and in South America. Have you had problems or experiences in this area and how did you get around this problem of training and certification for financial management in the broader sense?

PATRICIA O'CONNOR: (United States): Does anyone want to respond? I can offer a comment here. The Association of Government Accountants instituted, about five or six years ago, a certification program called, "The Certified Government Financial Manager." Actually, there are a number of brochures available. They have partnered with a private sector group that does training, and

they have established a series of courses of about 16 or 20 days that you would take over a period of a few years. The courses cover the kinds of areas that Michael was talking about, not only accounting but also economics and public administration and general financial management. They require a test after these courses and they then offer the Certified Government Financial Manager certificate.

It is not established by any government; it is just a program that the AGA started itself a few years ago. To that extent, I think that that might start to address some of the problems that Michael was talking about in terms of the limited knowledge that we require of accountants and auditors. That really is not enough for the whole scope of financial management required in government.

Any more comments? If none, it's time to close this session.

## Roundtable Discussion - Saturday, October 2

### Moderator:

**John Radford, Administrator, Oregon State Controller's Office**

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I am really impressed with the attendance this morning. I hadn't expected this many members and delegates to stand by for a Saturday morning in beautiful Washington, D.C. So thank you very much for your attendance.

This morning the rules on a roundtable session are pretty informal, so we'd like to have as much dialogue and interaction and discussion as possible. We're going to spend about an hour or so on a couple of topics. The topics chosen for this morning are leadership in government and ethics in government and financial systems. So we're touching a little bit on management of your offices and your operations, the managerial concepts of leadership and ethics, and then a little bit on the technical side, financial systems and what are some of the issues and questions.

What I thought we would do for this morning's discussion is start off by asking members of this session what some of the issues are in your jurisdictions. Generally what we like to do in these roundtables is pose it as an issue or as a question, such as, in my jurisdiction, or in my government, we are having a problem with X or a problem with Y, or we're having an issue right now, and here's what we're thinking about as an approach. You might want to talk a little bit about the background, and then we can discuss it. The organizations can share experiences. Perhaps another organization came across that problem and undertook some kind of resolution or solution.

It really depends upon participation. So we're going to open the floor up now to invite you to participate. The issues are leadership, ethics or financial systems. Who has an issue or a comment they'd like to offer the group?

PAT O'CONNOR (United States): John, perhaps it would be helpful to start by describing how Oregon organizes whatever code of ethics you have—state government or in your local governments.

JOHN RADFORD (United States): Statutorily directed by the Oregon legislature is an Oregon Government Ethics Board. It is a commission, comprised of appointed persons by the legislature and approved by the governor, to describe and defend some of the ethical practices of managing government units in Oregon. The commission is responsible for ethical behavior of all publically elected officials, appointed officials and employees of all government organizations in the state. So that means that the employees of municipal operations, school districts and state agencies are required to abide by a code of ethics.

The ethics code is spelled out in law. It requires certain procedures. In addition, a big part of the Ethics Board jurisdiction is lobbying efforts. Corporations and individuals who lobby legislators for legislation are required to file financial statements and they are required to file the number of hours

they participate in lobbying individual legislators. They are required to file financial statements and make certain disclosures known about how they spend money to try to lobby and influence legislation. Basically it is just policies of honesty and integrity in conducting government operations. That's how it basically works in Oregon.

What do some of the other countries have in terms of formalized ethics commissions or ethics bodies that are required by statute to provide ethical guidelines to government officials?

FELIPE CASTRO (Dominican Republic): During the last two years, we have begun a task to have our public employees and officials become aware of how important it is to have ethical standards. Insofar as the handling of institutions and behaviors that they had before them for a long time, the Dominican Republic was not aware of what it means to have an appropriate behavior and to perform a task of this kind which could be showcased to the taxpayers and that would ensure the taxpayers that the officials are aware and they have the ability of performing an appropriate task for the community. We would specifically like to know what some of the challenges that the Oregon officials have to face in terms of the ethical code. What are the requirements? We know that financial statements have to be filed, but that applies to the lobbyists. Must an official from Oregon state behave in accordance with the code?

JOHN RADFORD (United States): I'm not familiar with the details of the statutory requirements in all areas, particularly as it pertains to elected officials. I can give you some examples of some behaviors that resulted in official actions.

In one instance we had a publicly elected official who merely stated some inconsistencies on his filing record for the election. It became public information and public knowledge. The adverse publicity and the investigation that was conducted resulted in his eventual removal from office. It was just a very narrow inconsistency that he alluded to in his election filing documents. He was elected, but then later it was found out that, and I hesitate to use the word, he had lied. But that's probably all you can say. He lied on some election documents and he was removed from office. That was a relatively minor transgression.

The ethics commission in Oregon feels so strongly that they have to set an example, and they have to enforce the laws. It was a very lengthy, drawn out, due process. Every opportunity was given to this individual to challenge the accusation, but it eventually resulted in his removal.

We've had situations where public officials have tried to remove funds from their care, from their fiduciary responsibilities. Some are minor, but it is still theft or the misappropriation of public funds. There are numerous agencies that conduct investigations. In addition there are legal investigations which result in legal actions. Then the Oregon ethics commission comes into play and reviews the facts. They have limited power. They can make findings, but I don't believe they can take any legal action. It is up to the court system, the judiciary, to remove somebody from office.

We've had instances where employees have been involved in lying and minor theft. We've had instances where there have been some attempts to unduly influence officials or government actions or outcomes. In Oregon it is very open and very honest and very forthright in terms of its business dealings and with the public, and it is difficult to commit unethical behavior. I would say it is very

difficult. It is just too much of an open society. Communication flow is very freely up and down the chain of the power structure. It seems to be a process working very well.

ROBERTO DI MARTINO (Argentina): I simply wanted to make a comment because in 1999 a new ethics code was put in place in Argentina. This code replaces the previous code and it is very, very similar to the one that is in place in the United States. A gentleman from the U.S. National Office of Public Ethics was in Argentina collaborating with us, so I repeat that this code was put in place and the code is very similar to the one that is used in the United States. Public officials have to present a sworn statement as to their assets. This is done once a year and this applies to a certain level of officials from directors on upwards as well as anyone having to handle money. They must present this sworn statement. They have certain deadlines when they must present these sworn statements as to their assets. We really don't have any experience yet as to what the result will be, but in my own personal opinion, I think that we have made headway and we have moved forward. I think that this will, from the ethical point, establish certain boundaries as to the behavior of these people in the performance of their activities.

RAFAEL VIDAL (Dominican Republic): In our country in 1982 a law was passed which obliges all public officials of a certain rank to present a statement of their assets. This is required of them also when they leave their jobs, because this allows us to ascertain their economic situation in comparison. It is possible to find out whether there has been income from unknown sources. However, I have to tell you that it has really been a massive effort to get this in place. We have moved forward on this, we have progressed a bit, but what we had to do was threaten the public officials that we would withhold their earnings unless they acted on this. Furthermore, we had to really pressure legislators in order for them to turn in their sworn statements on their assets. But I have to say to you that we have a bill that is in the works on an ethics code for public officials. So we have moved forward.

AGUSTIN URENA (Costa Rica): For my colleague from Argentina and my colleague from the Dominican Republic, perhaps it might be interesting to share the experience that we have had in Costa Rica which is directly related to this issue. We have a law which is very similar to Argentina and the Dominican Republic. It says that any public official has to present a sworn statement as to their assets. Now, in a practical way we have had certain problems. That is to say, it is something that was not included in the law. The legislators didn't foresee it. The law doesn't have practical mechanisms that will allow us to determine whether this sworn statement is correct or not. Of course, there are certain things that are easy to find out—real estate, automobiles—but what about bonds and stocks? It is very difficult for us to determine whether this was something that he had before he held public office.

We had an example in the Finance Minister. At one given time the Finance Minister was carrying out certain activities that, in the view of some people, appeared to be illegal—he tried to form a union. What they did was to try to seize the assets of the minister, and as it turned out he didn't even have a bicycle. He didn't have a car or a house, although he lived in a fabulous mansion. What he did was set up a legal structure whereby he avoided anything being done about what he owned or did not. As we said, he didn't have a bike, he didn't have a car, he didn't have anything, but we knew perfectly well that he had all of these things. So what I'm saying here is that our law did not go far enough to avoid malice on the other part. This has to do with asset disclosure.

In Costa Rica we know that ethics and the proper behavior on the part of the public official, as well as on the part of the person who manages or handles funds, is directly related to how ethical the

private sector is. Generally speaking, the person who will take a bribe in the government sector will be receiving it from the private sector. This matter of ethics in the public sector always has to be directly linked between the two sectors, the private and the public sector. The public sector is not hanging out in midair by itself. The public sector is there to serve society, and this society, to a certain extent, determines the quality and the depth of the job that's being done by the public servant. To a degree, ethics has to be a national issue, because indeed if we believe that this is something that behooves the public sector and that's it, then we are forgetting the other side. We are forgetting our private life where we have to function on a daily basis. Ethics, then, has to be looked at from this perspective.

We made the mistake in Costa Rica to focus as if this was a problem only of the public sector. We've looked at flaws in the public sector, but there are dishonest practices that continue. We haven't come to realize yet, or maybe we haven't wanted to realize, that some of these practices come from the private sector because in the private sector there are certain things that it is okay to do. Let's say you call them bonuses, which appear okay, but in the government sector that doesn't necessarily hold true. This is not something that you can carry over to the public sector because you would be violating certain laws. In Costa Rica, as I said, we haven't handled this, but we are looking at it. We are trying to see how we can make the private sector understand that what we need is public officials that are free of pressures to perform their activities, their duties, following ethical practices.

JAIME GONZALES (Philippines): In the Philippines, some time in the late 1980s, a law was passed by our congress about the code of conduct and ethical standards among government officials and employees. This law was passed as a consequence of the proliferation of graft and corruption in our country before the People's Revolution in 1986. This law was based on the principle that public office is a public trust. Under this law, public officials and employees are expected to lead frugal and simple lives, preserve professionalism and dedication in their official duties. This law also requires government officials and employees to see to it that their private interests do not conflict with their official duties. This law also provides that sanctions will be imposed on any officials and employees. Of course, graft and corruption in our country was not eliminated overnight, but our government is doing its best to minimize, if not eliminate, graft and corruption. In the previous administration as well as in the current administration, many officials and employees have been put behind bars as a result of the campaign that the government has against graft and corruption. This is our record on ethical practices.

JUAN HERNANDEZ (Honduras): We work at the Public Ministry as the general unit for the whole country, and I'd like to say that I've heard that the best way to spend time is to read a book. I've found a book from Chile that said you have to be loyal to your word and you have to stand behind what you believe in. When I say that, I am saying that I believe in the code of ethics and that, beyond that, being honest is a decision you make. If we don't make a decision to be honest, the code of ethics means nothing. To conclude, honesty is just one's own effort so you won't be called a scoundrel. We have an obligation to commit ourselves before congress when we are elected as officials. We also have an obligation to file a financial statement when we begin office and, at the latest, 30 days after we finish with our term.

There is corruption that we have not been able to overcome because of the party system we have in Honduras. There is a Liberal and a National party. Leadership from the parties are opposed to corruption. We have taken to court many officials from the previous government. The criminal

investigation is following its course, but we have not been able to make headway. There is now new legislation in regard to immunity, not to make punishment easier, but to make it stiffer. We first need the report from the Controller's Office and then we proceed criminally. The three of us work for the Public Ministry as state attorneys to monitor that justice is done. We are trying to break that vicious circle in Honduras, and at the same time we commit ourselves to perform our duties.

JIM WESBERRY (United States): I've not been able to join you until now because I only came in at 9:00 PM last evening from Guatemala, so I will share with you things about Guatemala that have to do with this subject. I am the director of the project that deals with corruption, the Americas' Accountability/Anti-Corruption (AAA) project financed by USAID.

In Guatemala on Thursday we had something that occurred which was very meaningful, where controllers took positions in this area of ethics. The first one, in Panama, occurred several years ago. That's where the example started for offices, for counterparts. Then Peru and Guatemala also launched their own efforts.

In Guatemala, ex-congressman Napoleon Santos, who was president of the oversight committee for the Ecuadorean congress during the Alarcon scandal, has been cooperating with the controller's office on a project that is being financed by IDB. It is a short-term project to develop a code of ethics as well as an ethics office, but a national plan on ethics as well. This national plan was made public on Thursday. It was a very huge event—about 500 attendees. Guatemala right now is in the midst of a presidential campaign, and elections are going to be on November 8, very soon. They invited all of the presidential candidates. There are ten people seeking the presidency in Guatemala. Seven participated, two sent a representative, and one did not show. In the program, they had some presentations on the importance of ethics and the importance of fighting corruption.

There was also a video featuring the President of IDB. The IDB is very involved in supporting this effort. And there was another very interesting video, and I'm going to ask for a copy of this video. It is a speech by him. Then each of the nine candidates for the presidency spoke about their philosophy, their platform, and they spoke to the Guatemalan citizenry. There was TV coverage; the media was there. Then they had a question and answer session. All of these questions were turned in in writing by the public, and the candidates had an opportunity to answer the questions.

Then to conclude, they drafted a project, an ethics project. They used the words "to fight corruption." It includes a council. It has an ethics office staffed at the office of the General Controller, and of course it also includes a reform of all of the Guatemalan legislation in the areas of ethics and corruption. It was a long list of things that everybody agreed should be reformed, and each of the candidates that was present signed the document in support of this effort.

My office will have that on our website for those that are Spanish speakers here. I've brought a diskette and at noon on Monday at the latest, we're going to have the Guatemalan plan on the website, Respondanet. I hope that you've gotten our pamphlet and you are familiar with the web. The Guatemalan plan together with the national plans of five other countries are by now also on the web in Spanish. In English, we only have two—Ecuador and Nicaragua. For Guatemala we're going to have six different plans. They all have their own names, ethics, fight against corruption, transparency, what have you. So what we'll have is a database in this area.

Last Friday, by the way, all of Central America's laws have been transferred onto the web, probate, the fight against corruption, what have you, and as I say, within the next coming months, we will have all of the laws of all of Latin America in Spanish.

The idea is very interesting to have presidential candidates join in. In Argentina it seems that they did something similar for those who are running for president, where they presented their ideas on ethics and on the fight against corruption. I think that it is a pretty good idea during the electoral process, and I think this is something we should keep in mind in the United States. We ourselves will be having elections next year.

ERIC HARID (Zimbabwe): Just to share the experience of our country, and this was limited more to the ruling party, people started registering businesses in names of uncles, nephews and things like that to such an extent that it had to be abandoned because it became ineffective.

But the government went further, and this has become quite effective in that we have legislation that describes what corruption is, and anybody guilty of that will be tried in criminal proceedings under the courts.

H.B. KALONGONDA (Malawi): I only want to add to what my colleague from Zimbabwe said. What we see across the table is that each country has some sort of code of conduct in one way or another. In Malawi, we have the regulations or the financial code regulations. All these are intended to display the manner officials should conduct themselves. Now, it was not until very recently when the Anti-Corruption Act was passed, and also an Anti-Corruption Bureau was formed, where the regulations or the code of conduct was extended, and as regards to assets, it became a requirement that all people who are appointed to public offices should declare their assets.

Now, for a number of years many people had paid less tax, and under declared the value of their assets. Now they find themselves in a position where they are asked to declare their wealth. And they find they may be required to pay more tax because they never paid tax in the past, and declare their assets. Now, the question is either they continue under declaring or they don't declare at all. Since we're talking of top officials, ministers and even presidents, nobody wanted to touch it. So at this time a declaration of assets is voluntary, but it is encouraged in the event the Anti-Corruption Bureau wishes to investigate the conduct of top officials.

I wanted just to share this aspect of under declaring of assets, because it is an issue with which people live. They really didn't want to give the proof, the picture, of how much they have. And even at the end of office, they didn't want the public to know what they are worth.

IOANE NAIVELI (Fiji Islands): I would like to share some of the experiences we had in the Republic of Haiti. Four years ago the government enacted an act for public sector reform. This was to address the problem of efficiency and performance and effectiveness in the public sector. Following that, we had a code of ethics for public service so that there is no conflict of interest, corruption. Two years ago we had the Public Financial Management Act. The Public Sector Reform Act, of which I was the chairman of the task force for a couple of years, is to make the departments of the government become commercialized or corporatized or even privatized. So last year we had an additional act where entities have to, on a monthly basis, prepare financial statements. They have to prepare proper

plans. They have to prepare audited accounts. There are certain time limits, at the end of the financial year, three months after the financial year, for each department or entity.

Last year, as part of this Public Sector Reform Act, they reformed the Revenue and Custom Authority. We combined it into the Custom Authority Act. For the first time we have prepared a balance sheet; we do an evaluation of the assets. First we determine the existence of the assets, and then we look at the estimated useful life of these assets. Then we do an evaluation. So that's how we are able to prepare a balance sheet.

This year, in Fiji, we established an organization; I'm sure most of you have heard of it. It is the Transparency International, which is a legal set-up where a person who worked for the World Bank left the World Bank, and he set this up to fight against corruption in governments. I just want to share that because yesterday we talked about corruption. Maybe this is one way the Consortium can share knowledge with Transparency International, the fight against world corruption.

JOHN RADFORD (United States): It is certainly clear that all of the parts of the system have to work together to try to combat corruption and fraud and deceitful behavior. I appreciate the comments from Costa Rica—both on the public sector side and the private sector side. If your total environment permits an undisciplined approach to the conduct of financial business, there is that kind of underlying breakdown of trust and underlying breakdown of this general sense of discipline that can lead to undesirable results.

In the United States, a major player in fighting corruption and exposing corruption is the press. The press in the United States, at many levels of government, plays a key role in uncovering undisciplined behavior of both public officials and appointed officials. I would be curious to find out if in other countries the public press, the journalistic infrastructure, plays as vital a role in anti-corruption fighting.

EDUARDO GRINBERG (Argentina): In Argentina, in the Buenos Aires province, which is the largest province of the country, we had a case which got a lot of coverage not only in the country, but it was also written up in other countries. The entity was not one that was very strong, very well known. But let's not forget that corruption is not going to end simply because we have these sworn statements or we have documents. We have to have in place a very strong institutional system with a strong judiciary and strong control agencies. These really are what holds a political system in line. That's where you have all things functioning in a country, the congress and all the other entities that not only promote the laws, pass the laws, but actually see that the laws are carried out.

So as I said, it was an independent entity and not a very strong one. In the municipality there were cars and the cars, let's say they were \$4,000 to \$5,000 each, and into each car they had put \$100,000 in repairs over a period of time that was not particularly long. Needless to say, we had bills, all the necessary written proof, but at the same time we saw that someone had produced and submitted too many xerox copies. And so the press picked up on these goings on and the press of course informed the citizens and then the citizens support the control entity. What happened there is that because of the participation of the press, because the people got knowledge of this, then there is a real strengthening for the control agency. Before we were independent because the Constitution stated it, and now we are independent and strong because we have the backing of the community. So we should

work toward this because when the citizens have knowledge, this gives us strength to continue to work in a vigorous fashion to try to achieve our objective.

I'm very pleased to hear what Jim just shared with us about his trip to Guatemala. He is telling us that the Office of Public Ethics is an independent entity, which is the counterpart of GAO. I think this is the way to go, because many countries present a front that they are fighting against corruption. They have a government office and it has some forms and some papers and it is in some ministry or some public office. But the reality is that the entity should be independent from political forces.

JOSE RENE PADILLA (Honduras): I work for the Public Ministry. We have been speaking about corruption here, and I would like to share a comment on this. Corruption is a two-way game. We have been speaking about corruption from the public sector's point of view, but we have not talked about corruption in the private sector. In order for there to be corruption, there has to be two parties—the one that corrupts and the one that gets corrupted. So here, in Honduras, it is typical that the private sector wants to keep corruption going because it is good for them. That is to say, the private sector promotes corruption.

I wish to speak a little bit about the press. The press may be agents to see what the government officials are doing. However, recently, in my country, we've had something quite important that's been going on, and that's that the press has been called corrupt. So what happens? If a press person learns that somebody is corrupt, he says, "I will blackmail you." And he proceeds to blackmail him. So nobody knows about the corruption that is going on. We have seen, for example, that the people in power, the public officials, place key media people in positions as advisors or in public relations in their government. Therefore, corruption finds a very neat spot and this breeds itself. Some people in the media are honest, are straightforward, and they dare to say that a large number of the press people in my country are contaminated.

JAIME GONZALES (Philippines): I'd like to make a comment on the press. The Philippines press, which is considered to be the freest in our part of the world, is playing a leading role in fighting graft and corruption in our country. Even the president, the top government officials are being criticized and exposed in the newspapers. That's how free our newspaper is.

FELIPE CASTRO (Dominican Republic): With regard to the comments by the Argentinian delegate, it is true that institutions that are called to control and to exert pressure to deal with corruption have to be strengthened and they have to be independent. An example in the Dominican Republic, we have the counterpart of the GAO, and we have the Congress and we have the Chamber of Accounts. Recently, in these past two years, we have a department to prevent corruption which is under the attorneyship of the Attorney General of the country. This is all well and fine, but we cannot lose sight of the education factor. Education, at least in countries such as ours, has been neglected for a long time. One can see this in the high rate of illiteracy that is prevalent in both cities and smaller towns. A nation where there is a large degree of illiteracy shall never find the way to strengthen its institutions because there will always be that aspect that those who are on top will take advantage of this lack of education. I believe, and I have spoken to this in my country, that if we wish to move forward and to do so objectively in development and in striving to strengthen the conscience of the citizenry, we must begin to do a good job in reducing illiteracy. People need to get an education. They need to have an awareness of what their duties are, as well as what their rights are. So I hope that each

of us in our respective countries, those that come from more powerful countries, will begin to help out a bit more in improving education. I think this will be very useful.

In referring to the press I wish to urge you to keep in mind that in countries such as ours the press plays a role, but many times that role is biased. That is our experience.

JOHN RADFORD (United States): Those have all been very useful comments, our shared information across all of the countries here. I can tell you from my experience, and I've been to many places in the world and worked in a variety of governmental support institutions, that all of these comments are relative to the developing economy and well-being of the population. A lot of this depends on the corruption or the anti-corruption environment that various countries find themselves in. We've just heard literacy as one of the factors involved here.

Recently I was in a country halfway around the globe and was surprised to find the extent to which corruption, as we define corruption in the United States, was rampant at the routine level. One example is a parking ticket. We received a parking ticket in this country halfway around the globe, central Eurasia, and the officer that wrote the ticket negotiated a fee such that he himself could obtain most of the cash. Very little of it went to the government. That is at a routine, day-to-day practice in that country.

Another example was a carpet salesperson in a storefront. The price of the carpet and the quality of the carpet was such that he really didn't want to do business in the store. He wanted you to go to his house in a residential community so that you could conduct business and avoid all of the government taxation and the recording of the sale.

Many, many other aspects of day-to-day life in that country were absolutely corrupt. I realize that different societies define corruption differently, but as we define corruption, that's the way business was being conducted. We were there to try to help them establish governmental institutions, processes, procedures, policies, to build their society to enter global capitalization, if I can use those terms here, to understand how the pieces of the puzzle fit together so that they can make economic progress, raise their standard of living and participate on a global scale.

The question was obvious to us. How can you do that if there is this level of basic corruption in society? How can we get them past that? How can we get information out in the hands of the population, get them to understand participatory democracy—even though they are just an individual, collectively they can make change and make a big difference in how their economy moves forward? But in this particular country, the basic question was how can people transact financial transactions in a trusting, open, honest environment, such that some of those economic transactions can result in revenues to the government who are helping to build and maintain that infrastructure? It is a big question in some of these societies.

JIM HAMILTON (United States): It is interesting, as we go around the table, we're getting some factors that indicate the causes of corruption or, conversely, the factors in good governance. If you look back 20 years ago, good governance was a bad word in Washington and many capitals of the world, because national sovereignty preempted all discussions of good governance. You couldn't get into the private affairs of governments because that was considered the sovereign states. So the World Bank and the Fund, they gave money, regardless of these indications. People lost their jobs at these

institutions until about five or ten years ago, when there was a turnaround. Now you see a lot of booklets on the IMF shelf about social conditions being important and all these factors of good governance and what have you. Recently there have been several papers done by gentlemen in the World Bank on good governance. These economists always put things into equations. A particular economist developed an equation which has all of the factors of good governance and, interestingly enough, he's done correlation analysis to the subject of our conference, decentralization. Looking at 80 different countries, he's found there is a positive relationship between those countries who have successfully decentralized and gotten decisions and funding and expenditures at a more local level with good governance. Those countries who have decentralized successfully tend to have better governance.

But it's interesting, if you look at the factors he has in his equation, you find things like literacy. You find things like the independence of the media or the impact of the media on the government. You find factors like the real independence of the central bank in financial decision making. A lot of it depends on public institutions, the quality of life, the physical security of people. If people are threatened in the street with guns, if politicians are threatened, then good governance goes down. So I think what we're doing here is focusing on some of these issues which are giving a lot of validity to this equation.

We hope this discussion doesn't end here. I know Jim Wesberry and his anti-corruption network is very effective in Latin America. I've passed out this list of our upcoming conferences and I'd like to draw your attention to the one that is coming up in Madrid, because we're going to carry on this subject of fiscal decentralization and how it ties into good governance in our societies. We'd like to carry on some analysis and develop an index of fiscal decentralization as it relates to good governance. I think we're making some good points, particularly the point we've made about literacy, the challenge to get people educated, getting people aware and the freedom of the press in real terms. I think these are things that have to be considered. Democracy doesn't exist in a vacuum. It can only thrive when people are educated, when you have a free press and when you have independent institutions of government, as Eduardo said.

Are there any other factors you can think of that are important?

JOHN RADFORD (United States): How about leadership? What role does leadership play at all levels in an organization of governance, particularly the elected officials? What can they do? I'll go back to Costa Rica's comments about the private sector. In this country that I talked about earlier, a notion was that we need to bring leaders from around the world to this country to talk to the legislative body about the concept of ethical behavior and setting an example, etc. etc. Our thought was that that would work to a certain extent, but if the entire business community was somehow left out of this equation, what good is it to talk to the legislative leaders and prescribe for them a set of standards or talk to them about so-called Western standards of ethical behavior and how we may or may not define corruption? What good is that going to do if the people that they deal with on a day-to-day basis, i.e., business leaders, the ones that are really making economic force change in that country, are excluded? It is very difficult. It's not in a conundrum. We can solve this, but it is going to take a lot of leadership on the part of the business community and government officials.

JIM WESBERRY (United States): I'd like to add something to that. Besides the business community, the civil sector, one gentleman mentioned Transparency International. Basically, what I've

found over the years is that you have to lobby for good government and for ethical conduct and for anti-corruption enforcement. We've got all kinds of laws, and the problem is the laws aren't enforced. It has to be lobbied for by applying pressure to the legislative body, just like the insurance industry applies pressure over on Capital Hill, and the labor unions apply pressure, the health industry, the banking industry, all of these groups are always lobbying. They are calling on Congressman, telling Congressman what they want. Well, there has to be a constant pressure brought by civil society, not only business. Business is a major part, the chambers of commerce and organized business communities, but there are other non-governmental organizations. Some of the most active in Latin America have interestingly been the human rights organizations which built up a powerful lobbying group for human rights and have now moved into the anti-corruption or ethics in government area in a number of countries. Basically there has got to be collaboration. The last people you can expect to support ethics and integrity in government are public officials unless the people outside government are bringing pressure on them and telling them, "If you don't do this, we will not support you."

JUAN ARNALDO HERNANDEZ (Honduras): As far as leadership goes, it is the difference between a hero and a martyr. They say the martyr is the one that becomes a martyr with the blood of the others. As far as the leader, there is a change in the roles. Yesterday the leader was the one who was at the head of the battle, but today the leader is the one who is behind, and he tells us to go out and fight for the cause. Look what happens with this thing called marketing. I have money. I sell myself to the people because I use the media. Therefore, I get to be a leader. Maybe I'm not a leader but, as I said, with money, I can become the poster boy. I can get to a position that maybe I don't deserve, but because I am well-marketed, I get there. So then, in selecting a leader, as our friend from the Dominican Republic was saying, we're speaking about the culture of the people. We have to fight for this because we are the privileged. We were able to go to school, and therefore we have a broader outlook. So we can help, all of us, to avoid making the mistakes that have been made over time.

H.B. KALONGONDA (Malawi): I just wanted to agree with the previous speakers. In our countries, whether we have very good conduct or regulations or any other ethical behavior, if we don't have political will, especially on top, everything will go in disarray. So, what is important, especially in the emerging democracies, is that we need political will at the top, so good conduct will trickle down to the public. What is very, very important, and we are seeing it now, is that the people on top, if they give a good example to their electorate, then things fall out very easily. You need good governance, you need good leadership, and then it trickles down.

MICHAEL PARRY (United Kingdom): There was a study done in Bangladesh. I think it was called, "The Study of the Role of Corruption," published in the 1980s but still very relevant. It was a fascinating study. It actually took a number of villages and studied the villages and named the individuals involved. It was written by a local NGO. I don't know if the people left the country afterwards or not.

They cited one example. One of the problems of Bangladesh was the role of deforestation. Trees were a very valuable commodity, and the government established a number of forest areas which still had trees in order to have a replenishable stock of trees. These were valuable to the local community because they got a lot of fallen wood and so on from them. But of course, the trees were also very valuable if they could be sold. So there was one established practice of corruption which was documented in this study where the tree merchants would cut down a tree in the government area and then have it stamped with a number that indicated that it came from a private area of forestry. In fact

they stamped it with a number of one of the trees that had already been cut down, and they used the same number again and again. There was a scale of charges. The study documented the scale of charges, the pay to the government officials for putting this illegal stamp on these trees.

And this practice went on in this one particular village for a number of months and the local community, the village, became very upset and they decided to stop the trees being moved out of the village, and so they blocked the road. The police were called and the police arrested the ringleaders from the village who were stopping the trees being moved because, of course, the police also had their scale of charges and were being paid off.

The lesson that emerges from this is that power and wealth are interchangeable commodities. I think this is very relevant to the issue of leadership. Because the reality is that in many countries there is a significant amount of wealth that is being created by illegal practices, and that can be used to obtain political power. So you've got political leadership which is corrupt, which then uses its wealth to maintain its political power and to maintain the levels of corruption.

I think the evidence around the world is that corruption is not getting better. One of the reasons it becomes such a focus of concern for major multilateral organizations is that it is actually a growing power. I think we've got to recognize that relationship between power and wealth, and I think some of the comments that are being made around the table have indicated in different countries how the wealth that arises from corruption has been used to pervert the attempts to stop the corruption. That relationship has got to be recognized and addressed in any program that attempts to address the issue of corruptions. Money is the root of all evil.

JIM HAMILTON (United States): Yes, I think that's a good point. I like that equation—power and wealth are interchangeable commodities. You know, we have to be careful, because a lot of times the powers of corruption change their faces, their appearances, and they have different names. This might sound a little bit outside the area that we're talking about but, as you know, in the United States we have what is called the Ku Klux Klan which terrorized our minorities into submission for about 100 years or more after they were officially declared free and full citizens. So they didn't vote, they didn't have participation in our democracy.

Today it is very unfashionable to wear a white, hooded garment and walk around and march in the streets. All these people have changed their labels. They are now parts of local militias with camouflaged uniforms, and they talk about their Bill of Rights, and their individual rights against the power of the central government.

So, be careful. The same thing happens in corruption. People switch their labels, don't they?

AGUSTIN URENA (Costa Rica): I agree with my colleagues with regard to the dangers when the press is overly powerful. Perhaps they will package a candidate for you, and if the country's level of culture is low, then it is quite easy to sell the leader that is in vogue at the time. But my personal relationship with the press is like an act of faith. I think that in any civil society that is reasonably free there should exist some private entity—call it what you will, media, press—that should be in charge of making news known in a timely fashion, hopefully by 6:00 PM because the next day it may be too late. This thing called corruption is not something that is short-range or long-range. It is something now, right this minute. If something is not known, the contract might get signed tomorrow. So we have to know it now.

The press is subjective, yes. The press has a position, yes. The press is biased, yes. Our press is biased too, just like in the Dominican Republic, but this is the cost of getting things known. This is the price to tell those public officials that they are not alone, not an island. Someone is out there watching. On the other hand, the press may say something about someone and that particular individual may lose everything because of what the press has said—Shakespeare said, “Take away my reputation and you’ve taken everything away from me.” So, here we have another cost. Okay, we have to have a free press. But the press also has to be responsible about what it says. But if I censor the press before it acts, then what I am doing is going backwards because I’m allowing the government to tell the private sector what to say, when to think, how to think and for whom it is convenient that it think. Let’s say if we must go to excess in any way, I go for the excess of freedom, and let the consequences fall as they may. But if we go the other way, I think we are in real danger.

The act of actual oversight, of being watchful, is not something that is just public. I think that what the Honduran delegate said is very important, and that is to be honest, that it is your own private decision, an internal decision. This internal decision can be reinforced in a lot of ways. If we reinforce the internal decision and at the same time, as the gentleman from the Dominican Republic says, we educate and instill culture and elevate the economic level and the spiritual level of human beings, and if on top of this we have a solid, good press that is free enough to say what it has to say, then at the end the citizens will be able to have an awareness. It won’t matter whether the press is lying to us, or the press is telling us half-truths or whether the press is telling us the truth. So that is our responsibility. How can we do this? With our minds. And those minds need to be educated and given culture.

This happens in Costa Rica. Sometimes they sell us candidates, and the majority of people, they allow themselves to be sold because they call it “progress with dignity.” Twenty years ago, one power said “progress with dignity.” Why? Because the previous candidate had generated some progress in the country but he wanted “progress with dignity.” So the phrase was catchy. It was short. If I sell it quickly and if I sell it fast, then at the end I will achieve the object. I will have sold my goods. So there are risks, I think, but the advantages of the press are far greater than the disadvantages.

JIM HAMILTON (United States): You know, there is a direct connection between our role in disclosure and making our reports available to the press, but there are some other vehicles that are available to us, and I think Mr. Wesberry has a few comments along those lines.

JIM WESBERRY (United States): Jim suggested I tell you a little bit more about our website and our newsletters.

Just before I left for Guatemala, here at the Brookings Institution on Wednesday, there was a program put on by Jack Blum, who is probably the top criminal investigator in the United States, and another gentleman who had done research for the Brookings Institution in the area of money laundering. The final conclusion of the research study for Brookings on money laundering is that we are losing the battle. There is so much criminal money that is being recycled and turned into honest money that when it is contributed to a political campaign or used for some other purpose, it is no longer tainted money. There is a tremendous amount of power through that financial money laundering and cleansing process that is being used more and more by what I call the macro-narco-cyber criminals

across the world. It is going to get worse before it gets better. This is a whole subject that we could talk about for hours, and they did talk about it considerably.

As you probably have noticed this week, if you've read the papers, and it has been in international papers too, the United States has proposed some new legislation in this area, and it is stepping up the campaign against international narco-criminals and money laundering in particular. But the problem is that the international syndicates are into criminal elements and they are working together. Principal money launderers for the cartels in Columbia are the Russian Mafia, and they recycle the money, as you have seen, back through banks in New York into legitimate money and then reinvest it. There is so much of that money in the world today that it is not necessary to buy politicians one by one, as was the practice in the past. The criminal elements can buy entire countries, and several countries have been bought and used as bases of offshore criminal operations by literally putting so much money into the countries that the entire government structure of the country was bought. This is probably the number one threat before us and before the democratic society in the 21<sup>st</sup> century.

In the website, we try to put as much as we can into it. We try to have the best website in the world on the Internet in the area of anti-corruption and accountability. It is especially about financial accountability. We started out as a financial management improvement project over ten years ago. We are now more of an anti-corruption project, but we include financial management accountability, auditing and the other elements of good financial management and internal controls. Our website is [www.respondanet.com](http://www.respondanet.com). Our prime site is in Spanish. If you want that in English, they have a slash. To go directly in English, you put a backslash and then the word English. We actually have more information on the English website than we have on the Spanish website because there is more written in the English language, although we do have more national laws in Spanish, as I mentioned.

One thing I forgot to mention, we have the new Ecuadorean law for the Anti-Corruption Commission. It is called the Civic Commission on Anti-Corruption in Ecuador. The only anti-corruption commission that I know of in the world, it was included in the Constitution after the major Bucaram scandals in Ecuador. As a reaction to that, the constitutional assembly created a constitutional civil sector independent commission on anti-corruption which is independent of the government, theoretically. It is composed of seven members. They are all appointed from outside the government. It took the congress in Ecuador a long time to pass the law and the law got watered down considerably from the one that was originally proposed, which often happens in legislative bodies. But we have that new law on our English website and in Spanish as well. It is featured on the front page.

We also have only in Spanish the book, *Ethics and Corruption*, by Napoleon Saltos, of which I presume some information has been published or there is information in our newsletter for those of you who speak Spanish. It is a 495-page book which you can download from our website in its entirety, or you can download it chapter-by-chapter, or we will give you a compressed diskette with the whole book on it. If all else fails, you can order a copy in printed form. It's free, but you have to pay the postage. The information is in our newsletter.

We have a section on ethics on the website. We would invite all of you to send us information from your countries in English or in Spanish, or any of the other languages. There is another website similar to ours, [www.nobribes.org](http://www.nobribes.org). That is a joint website run by the OECD and the anti-corruption

project in Eastern Europe. That has, I think, the original language and possibly several other languages as well as English, and we are linking into that site with our site.

One of the features we have on our site, if you are fanatic about corruption, is that we have scrolling news in English and Spanish which we try to update daily during the week. This covers the world and we try to keep up with the World Bank and IDP meetings directly from the speeches. There is a lot of work from Africa which we pick up from the international news services. Of course, on the Spanish site, we have a group of graduate students in Guatemala that feed us information via the Internet from all the news sources in Latin America, and we try to have all the news there is in Latin America. We have a search facility, so that if you are interested in one subject you can put those words in, in English or Spanish, and search all the articles for the last year that have been published in the newspapers that we have been able to find. Obviously there are a lot of newspapers in the world, and we can't get all of them, but we try to have as much as we can. It can be a useful research tool if you are looking for a specific subject. If you are looking for corruption of a social security system, you can search with the words "social security," or if you are looking for corruption of a certain country, you can put the country name in and search for that. We invite you to use that.

If you're not on the Internet, we urge you to get on it as soon as possible. It is the major anti-corruption mechanism in the world today, in my opinion.

I want to mention our newsletter, which I presume you may have gotten in your handouts. That newsletter is available on our website. It can be downloaded in any country in the world, and you have permission to reprint it. We mail it out in Spanish. We used to mail it out in English, but it got so expensive we had to stop. But we have it in English. It comes out quarterly in English, and more frequently in Spanish, and anybody in the world is welcome to reprint that newsletter, to plagiarize from it, to copy from it. Please use it in any way that might be useful to you in your activities in the anti-corruption area. If you have access to e-mail, please send us news from your countries, what is going on in the anti-corruption area, information from the press or information about what your organization is doing, and we will include it here in our newsletters, on our AAA flash. If it is a news item which is in the news service, or if it is a written document or law, or just a link to another website, we would be very interested in anything you have. What we are trying to do is be a clearinghouse of all the information possible on financial management, anti-corruption, auditing, budgeting, accounting, cash management, debt management and all related subjects.

JOHN RADFORD (United States): Jim, regulatory enforcement of anti-corruption laws, or just anti-corruption activities seems to be, on an international scale, a topic of some interest. In your association of local contacts here, who would be internationally the leaders in terms of being able to help us understand, on a global scale, what is going on. A year from now, in this conference, who would you recommend we should contact to come in and talk about that on a global scale? What global international organizations are working on this, and can they come to this conference and tell us what is going on on a global scale?

JIM WESBERRY (United States): Well, we had Peter Eigen, the President of Transparency International about three years ago. He was one of the featured speakers. I don't know that we've had anybody from Transparency International since then. We have always been a financial management conference, so we do more on financial management. The other organization besides Transparency

International, if we're talking about global, is the Financial Action Task Force (FATF), which is based in Paris, and it is affiliated with OECD.

The FATF is primarily concerned with money laundering. One of the reasons why we're losing the war on money laundering is that the laws of the different countries are not compatible. All someone has to do is get their money out of one country and into another country, and it can't be followed because it is so complicated. The laws are different, and what is a crime in one country may not be a crime in another country. Often they have a three-way deal where a person perpetrates a crime in their home country, they flee to a second country and they've got their money in a third country. It takes law enforcement people years to get through the legal regulations because all the laws of the countries were developed back in the days when borders were solid. What we now have are totally porous borders as far as financial transactions are concerned, and also as far as people are concerned. Plus, there has always been the traditional right to flee into exile that many people use.

The other international body would be the OECD and the OECD Anti-Bribery convention which was ratified and is now in effect by the OECD. The countries that are doing that are passing legislation similar to the Foreign Corrupt Practices Act of the United States that makes it illegal to pay a bribe in a third country. But most of the countries have not. The United States for many years was the only country that had that type law and, still, a lot of the OECD countries have not enacted the legislation. They promise to enact, so there is a lot of follow up necessary in those countries.

In the Western hemisphere we have the Inter-American Anti-Corruption Treaty, which is similar, and was approved through the OES and IDB. They are both supporting that strongly and our project is too. We're following up on what countries require legislation and actions to comply with the treaty. The problem with international treaties is that the countries will ratify the treaty because that is easy to do, but then when it comes to enacting legislation that must be passed by congresses, that's hard to do. We had a program in Argentina just the other day. The problem, again, in Argentina, was getting the ethics law through the Argentine congress; it is very hard to get anti-corruption and ethics laws through legislative bodies. That's why often they're doing it by presidential decree or by a resolution of some kind, because the vested interest can always undermine them. They can always water down the original legislation and make it weaker so that what was intended to be a very strong measure is a very weak measure.

JOHN RADFORD (United States): How about the IMF, World Bank, Interpol and some of the other organizations?

JIM WESBERRY (United States): The Interpol for the first time about a year ago had their first conference on corruption in government. They have always been more interested in criminal types, more of what we think of as the street-type crimes and criminal activities. The Interpol has gotten into the area. The World Bank, IMF and the Inter-American Development Bank, all the development banks have got policies. We're collaborating with the Inter-American Bank giving the training course which we've developed. We've given it four times already in Latin America. We'll be giving it five more times in five more Latin American countries. It is a two-week training course in Spanish on problems of detecting and investigating fraud and corruption in government.

There is also one other organization that is not active in the Spanish language, but in the English-speaking countries, the Association of Certified Fraud Examiners. They are the fastest growing

professional in the United States. It was only started about ten years ago. The Association is already almost as big as the Institute of Internal Auditors that was started in 1941. It is primarily a private sector organization that came out of the tremendous explosion of criminal acts and economic crimes against a business—white collar crimes as they are called in the private sector. Almost every major corporation, and many of the minor corporations have a team in their audit department or in the security department of Certified Fraud Examiners who are perpetually busy investigating internal fraud within the companies.

Internal fraud in the private sector is a major threat to the free enterprise system in the world today. You don't hear too much about it because most of the businesses do not even report it. Of the economic crimes against business, of the outright theft, less than 25 percent of them are ever even reported to the authorities because the businesses, particularly the banks, are ashamed that they've been taken. They don't want the press to find out and publicize it because the depositors would lose faith in them. So they write off the loss. They collect it if they can from the insurance companies, but they are willing to write off the loss and not report it to the prosecuting authorities to avoid the danger of being publicly embarrassed in the press. As a result, many financial crimes go, not only unpunished but unknown, and there are no hard concrete statistics in the private sector.

JOHN RADFORD (United States): I think a number of excellent points have been raised this morning on the subject of ethics. It is like the question: What is an acceptable level of unemployment in our countries? What level of corruption is minimally acceptable to us? Government leaders all have to play a role in terms of trying to do the best they can to keep a sense of balance and keep the component parts of our forces aligned to keep corruption at a level that is minimally acceptable. We've heard education is one element—literacy—an education openness; the strength of our institutions, particular our audit and control institutions; our transparency efforts; proper disclosure of behaviors and an honest portrayal of what the situation is; an open and free press that is critically important to us.

In our country, a lot of our auditing and control institutions work collaboratively in partnership with our press institutions to get the word out, to make that disclosure available for public consumption. Hopefully our public is able to separate the wheat from the chaff and to understand what is relevant and what is not, what has been inflated, what's real, and can make intelligent decisions. All of those decisions, of course, result in economic behavior and political behavior that helps move our country and our society and raises our standard of living. That is, after all, what we're after here—good economic transactions to allocate resources so that everyone can share in the wealth and raise our standard of living together. That's probably one of the most critical things here.

The gentleman from the United Kingdom raised the issue about power and wealth, and I hadn't thought of that. Corrupt individuals who are predisposed to corruption can gain wealth and power and then use that wealth and power to gain more wealth and power using corruptive tactics. Wealth and power are extremely dangerous in the wrong hands around the globe. How you fight that situation, I'm not sure. So keeping everything in balance and keeping all those forces aligned are very relevant and timely to this conference.

## **Closing Remarks**

### **James R. Hamilton, ICGFM Vice President - Conferences and Information Special Projects Officer, International Monetary Fund**

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John Radford spoke about having international speakers come in from international organizations that can help us shape our thinking and our approach to our individual countries and how we can collaborate and work together to try to diminish corrupt practices. We already have our dates for next year's conference, which is September 21 to 23 here in Washington again, and I think that we should give serious consideration to this as being our theme for next year.

The international organizations are concerned with money laundering. It crosses boundaries, as Jim Wesberry mentioned. It is something that law enforcement authorities are not equipped to deal with at the state and local level in most of our countries.

We have had a lot of influence from NASACT, our partners, our major organizational member at the state level in our country in organizing this conference. I'd like to thank all the NASACT people around the room.

One of the innovations that Relmond Van Daniker and his colleagues have done is introduce these roundtable discussion periods at key junctures between our presentations. Please let us know on your evaluation forms how you feel about them, and whether or not they can be improved. I think that has been a great contribution to our conference.

I would like to quickly summarize our program. We started out with Mr. Walker of the GAO. He gave a very comprehensive view as to how the control function interacts in every part of our government financial activities. We had great speakers from Africa, Mr. Harid and Mr. Kalongonda, explaining how this fiscal decentralization process is operating in their countries. We had speakers from NASACT in North America, Patricia O'Connor in particular. For the first time we had a presentation from our new member, our new partner from Russia, the Chamber of Accounts. Mr. Karmokov described how they've integrated, in a three-year cycle, recommendations and review of the budget, and monetary execution and post-evaluation of the budget, which is kind of a paradigm that the rest of us might be able to follow. We also heard from Mr. Jezierski about the decentralization process of Poland.

We had great speakers from Spain and France on how decentralization has been working in their countries, and then yesterday from South America, Eduardo Grinberg showed us a new paradigm on how we deal with procurement in our government agencies and Alex Olveira Rodrigues de Lima talked very openly about how privatization can be not so good if it is not carried out properly. Also, we heard from the Venezuela Controller General's Office on their decentralization in conjunction with constitutional reform.

I would like to let you know again that our conference is being transcribed, and you can have a diskette mailed to you of everything that's been said here. Literally everything, all the comments you personally made are going to be on a transcribed diskette. It's going to be available probably in about two months.

Also, we encourage you to become members of the Consortium. We've kept our fees low as a way for you to afford membership and be recognized internationally. On our publications, you can designate four people from your organization to be on our mailing list.

I'd also like to remind you that on our website we can continue these discussions. If you go to our website, at the upper left-hand column you'll see "forum." Click on "forum" and come down to our international forum and you can, on any issue of the day, literally go out to all of the board of directors, all of our members, and other people that have joined this mailing list and say, "This is a problem we're having. What are your ideas? Do you have any information? Do you have any research? Are you willing to work with us?" That will be posted to the website automatically.

Our website also offers information on our upcoming conferences. Please do communicate with us on all these upcoming conferences. We want you to join in. I would like to invite you to our next year's conference, September 21 to 23. Jim Wesberry has been very active in planning our March conference in Miami, March 27 to 31. We welcome you to come there and participate with us as well.

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