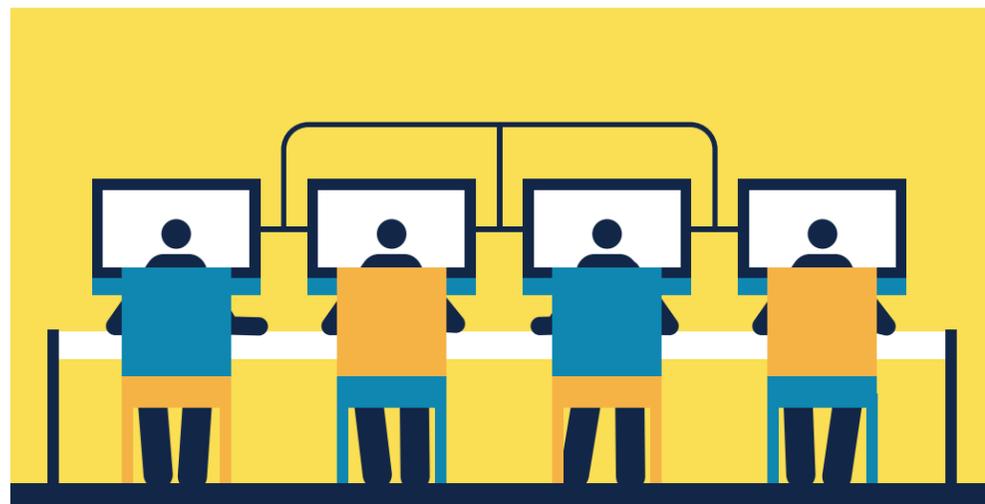


# INTEGRATED PFM SYSTEM

## Leveraging Technology & People for Efficient & Effective Service Delivery

### IN A NUTSHELL

- A functioning PFM system—supported by integrated ICT tools, streamlined processes, and capacitated professionals—is vital to the effective use of public funds.
- In the past, the 2010 PEFA assessment highlighted several gaps, especially in budget execution and accountability, resulting from a fragmented PFM system:
  - ICT systems on various PFM processes were not interconnected.
  - Cash management systems and account classification frameworks were fragmented.
  - Limited capacity of the agencies and PFM professionals
- From 2010 to 2016, the PFM oversight agencies—DBM, DOF, and COA—has collaborated to install the building blocks of an integrated PFM system:
  - Developed the conceptual design of an [Integrated Financial Management Information System \(IFMIS\)](#) and developed ICT systems that would form part of it
  - Installed the [Treasury Single Account \(TSA\)](#) to unify cash management
  - Adopted the [Unified Accounts Code Structure \(UACS\)](#) for all financial transactions
  - Capacitated public finance professionals through the [PFM Certificate Program](#)
  - Began the establishment of the [Office of the Comptroller General \(OCG\)](#)
- Moving forward, the government should consider the lessons learned from the last six years as it sustains its commitment to build an IFMIS:
  - Address technology and non-technology issues that hampered the implementation of ICT tools, e.g., internet connectivity, usability of ICT systems, readiness of users.
  - Stabilize the PFM policies and processes, e.g., UACS, while ensuring that ICT tools to be built are flexible enough to accommodate changes in policies and processes.
  - Pass a PFM law to formalize the OCG and continue efforts to strengthen its capacity to sustain the PFM Certificate Program, among others.



Public Financial Management (PFM) is defined as a “set of laws, rules, systems, processes used by sovereign nations to mobilize revenue, allocate public funds, undertake spending, account for funds, and audit results (Lawson 2015).” As Andrews et al., (2014) emphasized, PFM “consists of overlapping processes in a complex system,” which involves a wide range of government agencies “with peculiar characteristics, priorities, and interests.” Ultimately, the *process* of how governments manage resources should lead to *results* in the use of such scarce resources. Thus, a functioning PFM system should ultimately promote the sustained fiscal health of the government, ensure that financial resources lead to the actual delivery of services to citizens, and support public accountability.

To achieve such goals, governments worldwide have implemented various reform packages, particularly the development of financial management information systems (FMIS): “a set of automated solutions that enable governments to plan, execute, and monitor the budget by assisting in the prioritization, execution, and reporting of expenditures, as well as custodianship and reporting of revenues (WB, 2011).” However, FMIS solutions require not only robust ICT tools. As the World Bank emphasized in a study (Dener, Watkins, and Dorotinsky, 2011), FMIS projects have prerequisites that must be completed even before the rollout of the ICT solution (*see box*), especially the harmonization and streamlining of PFM processes, and the strengthening of the capacity of institutions and individual PFM professionals.

### Prerequisites of FMIS Solutions

- **Functional aspects**, including unified budget classifications, charts of accounts, commitment controls, and cash management
- **Technical aspects**, such as secure countrywide communication networks
- **Human resources**, particularly the presence of a core team of ICT specialists

Source: *Financial Management Information Systems (WB, 2011)*



### SITUATION BEFORE 2010

#### A Fragmented PFM System Managed by Inadequately Prepared Institutions

The PEFA assessment undertaken in 2007 by the World Bank (WB, 2010) highlighted several gaps and weaknesses in the Philippines’ PFM system, most notably in the execution and accountability phases of the budget cycle: in particular, the complex budget execution system (*see Fast and Efficient Budget Execution*), and the difficulty in assessing how the government spent according to the approved Budget (*see Budget Integrity & Accountability*). Cutting across these gaps were the lack of a government-wide ICT system and redundant financial reporting requirements. This “spaghetti-bowling” of systems and processes was aggravated by a bureaucracy that lacked the technical capacity to fulfill these requirements.

#### Islands of ICT Systems

The PEFA assessment highlighted the lack of a unified management information system capable of capturing resource flows from the national government to service delivery units, and of consolidating reports from such service delivery units. In addition, the PEFA report underscored the disconnected management information systems of the government—from personnel and payroll management, to budgeting and accounting. These systems included the COA’s e-NGAS, which supported its National Government Accounting System (NGAS),<sup>1</sup> the DBM’s E-Budget,<sup>2</sup> the Budget Preparation Management System (BPMS),<sup>3</sup> and the Government Manpower Information System (GMIS);<sup>4</sup> as well as the various ICT systems of the implementing agencies, if these were not dependent on manual processes.

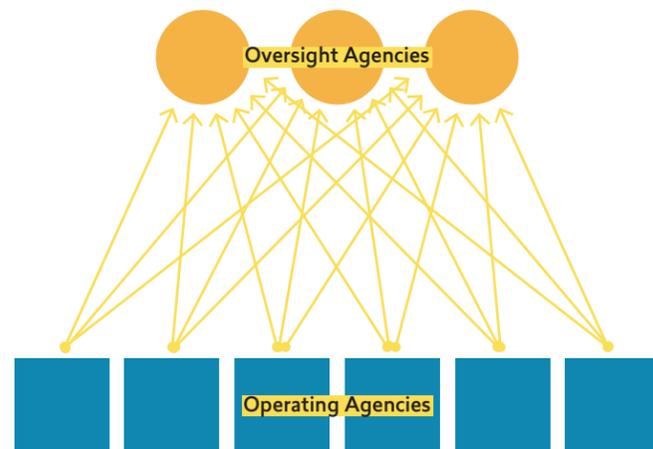
#### Messy Traffic of Transactions

The lack of a unified ICT system for PFM, while significant enough a problem, is only the tip of the iceberg. First, the 2007 PEFA flagged the issue of a fragmented cash management system, which had made it difficult for the government to consolidate and deploy cash resources in a timely and accurate manner. Although coordination mechanisms have been in place,<sup>5</sup> the current set-up—in which the DBM manages the release of cash allocations to the agencies and the DOF-BTr manages the supply of cash—has made the supply of cash resources to the agencies unpredictable, among other issues. Likewise, the government has had a Modified Disbursement Scheme (MDS) in place since 1990, through which the BTr has been providing the cash requirements to the agencies through government

servicing banks (GSBs). However, this system, which could have enabled the BTr to maximize available cash resources, has been limited by the fact that certain agencies have been authorized to retain earnings and other resources in bank accounts that are separate from the General Fund. Because of this, the BTr has had to borrow in order to fill cash supply gaps, when cash resources remain floating in these “off-budget” accounts (see *Budget Integrity and Accountability*).

Moreover, the oversight agencies used disparate account classification frameworks for budgeting, accounting and audit, and cash management. For one, the coding system used by the DBM to identify each line item program, activity, or project (P/A/P) in the Budget was entirely different from the account code system employed by COA’s NGAS. It was nearly impossible to compare the Budget against the Annual Financial Report because of this and other systemic issues: notably, the complex fund release system, and the proliferation of lump-sum funds. The disparate account classification frameworks had also given rise to a multitude of financial reporting requirements by the COA, the DBM, and the DOF (see *Figure 1*). Without an automated and integrated government information system, the agencies’ preparation of multiple financial reports and statements had been difficult, particularly for the agencies with regional offices and staff bureaus who had to consolidate reports manually. Because of these weaknesses, as the COA had observed, the system of budget execution is “vulnerable to double-payment of accounts payable, non-transparent realignment of funds, and diversion of funds to unintended uses.” (www.pfm.gov.ph).

**Figure 1. Messy Traffic of PFM Reporting Activities**



### Under Capacitated Institutions

As Andrews et al. (2014) highlighted, complexity is an expected characteristic of PFM: the phases of the PFM processes tend to overlap; and the system involves various institutions with distinct yet overlapping interests. This attribute seems to be the case of the Philippines’ PFM system, which is characterized by the fragmented systems and messy flows as described above and in the other articles herein. Worsening the situation, however, is the limited capacity of the agencies and individual public servants to navigate the already complex PFM system. The “normal” delays in the agencies’ submission of required financial accountability reports, as well as the frequent audit observations pertaining to inaccurately recorded transactions, only indicate the weak capacity of the agencies to comply with reporting and accounting standards.

The root cause of the fragmented PFM system in the Philippines, in the end, could be the fragmentation of oversight functions among several agencies: most notably the NEDA, the DBM, the DOF, and the constitutionally independent COA.<sup>6</sup> The PEFA assessment (WB, 2010) noted that this set-up tended to complicate the coordination required for the implementation of reforms. “An area that seems to suffer from this fragmented leadership is the integration of various information systems. The development of separate information systems for planning, budget preparation, budget execution, cash management, budget monitoring and reporting, foreign-assisted project management, and financial reporting could work effectively against meaningful coordination and meaningful reporting of actual outcomes (physical and financial) against [the Budget].” While this institutional set-up has provided a degree of checks and balances among the agencies, coordination problems have prevented the smooth flow of financial processes—and the unified implementation of PFM reforms.

## KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

### Installing the Building Blocks of an Integrated Financial Management System

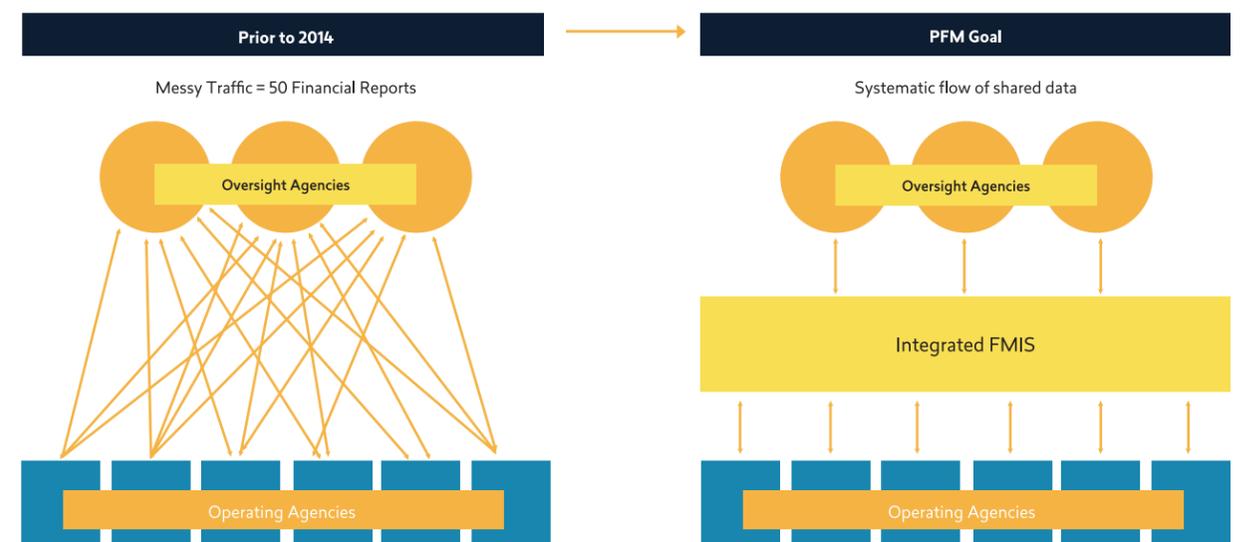
“Government financial systems will be harmonized for efficient financial reporting, thus lessening the incidence of corruption and making each government agency accountable for their financials.”

**President Benigno S. Aquino III**  
President’s Budget Message 2011

Recognizing the need to establish an integrated PFM system, career officials of the COA, the DBM, and the DOF-BTr began the work of developing a comprehensive PFM Reform Roadmap in 2009. Taking off from the findings of the PEFA assessment, they gathered several times to level off and unify their efforts toward the development of such reform. In January 2010, they signed a Memorandum of Agreement to foster the development of the [Government Integrated Financial Management Information System](#) (GIFMIS). In relation to this agreement, the PFM Reform Roadmap was endorsed in 2011 by the heads of the PFM oversight agencies and approved by President Benigno S. Aquino III through Executive Order (E.O.) No. 55 on September 6, 2011.

The GIFMIS would be an integrated ICT solution that could collect and organize financial information in a central database. The system would support the whole PFM process—from planning and budget preparation to financial reporting—and would be connected to the oversight agencies and the implementing agencies. Though not the sole reform promoted by the PFM Reform Roadmap, the GIFMIS was given an important place in it as the system would unify and automate the government’s disjointed and largely manual PFM processes. As envisioned, the system would address the messy traffic of documents and reports, reduce manual processes that had been prone to human error, and enable greater financial management and control (see *Figure 2*). Additionally, the system was envisaged to empower the oversight agencies to monitor transactions and report on the status of government finances in real time, and enhance the citizens’ access to information and facilitate their participation in fiscal governance.

**Figure 2. The Ideal Integrated Financial Management Information System**

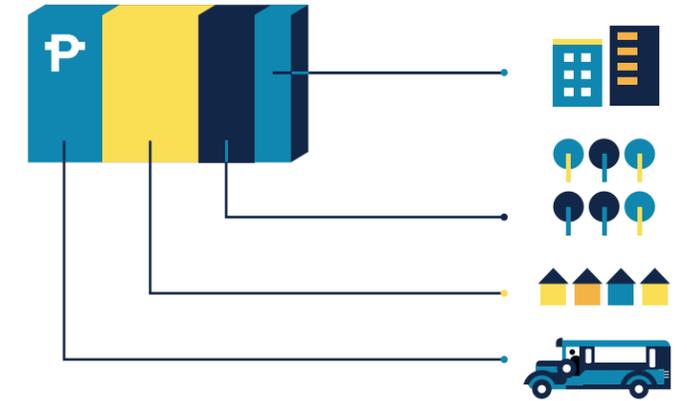


While the E.O. No. 55 put much emphasis on the development of the GIFMIS, the government was nonetheless conscious that installing ICT systems should not be the end-all and be-all of reform. Thus, the PFM Reform Roadmap promoted other major initiatives to integrate the PFM systems and processes of the government. For one, it emphasized that the GIFMIS required the harmonization of data structures, processes, reporting standards, as well as the government’s cash management mechanisms. Moreover, the Roadmap elevated capacity building as an important work stream. Finally, the implementation of the Roadmap itself—through the PFM Committee and a network of inter-agency working groups<sup>7</sup>—reflected the government’s emphasis on synergy in the implementation of reforms.

### Sticking to the Vision yet Adapting to Realities

To begin the work of building the GIFMIS, the PFM Committee, with the support of the Australian Department Foreign Affairs and Trade (DFAT) and other development partners, commissioned the development of a GIFMIS Conceptual Design to serve as blueprint for the rollout of the government-wide ICT system. Approved by the PFM Committee in April 2013, the Conceptual Design covered the specifications of the functional requirement, the institutional change requirements, change management, capacity building, and communication interventions needed to implement the GIFMIS (see Figure 3). The Conceptual Design prescribed a two-track approach to develop and implement the GIFMIS. Track 1 focused on the development of ICT systems for the management of human resources and personnel payments. Track 2 focused on the pre-requisites or core systems of the GIFMIS, such as the Treasury Single Account (TSA) and the Unified Account Code Structure (UACS). Aware that other countries took about a decade to roll out their GIFMIS on a full scale, the PFM Committee focused on integrating the systems of the COA, DBM, DOF, and BTr in the first phase of development, followed by the rollout of the system to the implementing agencies.

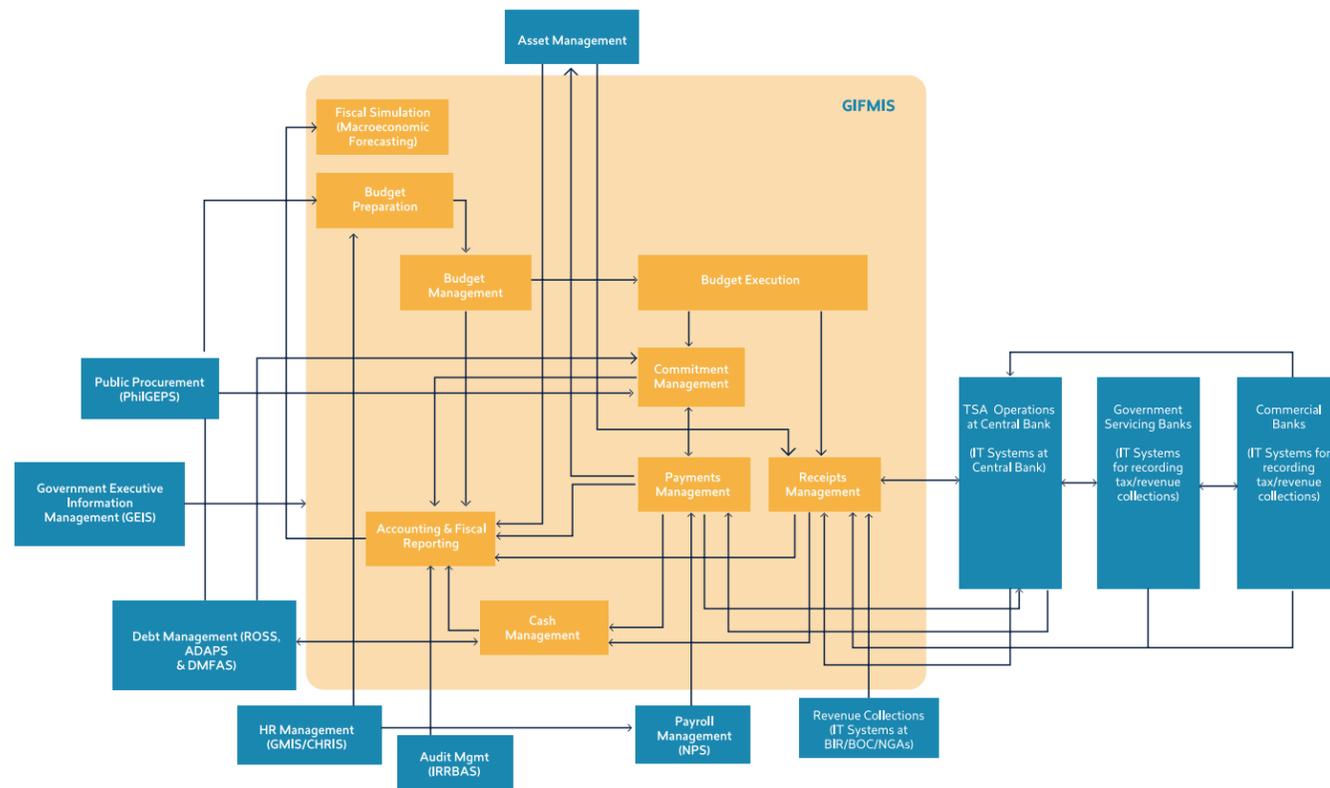
However, several setbacks prevented the government from proceeding with the rollout of GIFMIS as originally planned. Some obstacles were the necessarily long process in unifying account codes and fulfilling other prerequisites; the failure of contractors and other technical partners to fully meet their obligations; among other technological and non-technological issues. In the face of these obstacles, the government soldiered on and continued the rollout of the building blocks of the GIFMIS, particularly the **Budget and Treasury Management System (BTMS)**: a core system that links budgeting execution and treasury cash management.



### An ICT Solution for Government Manpower

Track 1 of the GIFMIS Conceptual Design entailed the development of an ICT solution to provide the government with real-time financial information on human resource and payroll: an expense class that constitutes about a third of the national government’s Budget. As envisioned, the **Comprehensive Human Resource Information System**<sup>8</sup> (CHRIS) would be an integrated system that encompasses the full cycle of human resource management: from recruitment to retirement. It would enable the oversight agencies to track human resource matters on a real-time basis; and the implementing agencies to process human resource and payroll information and pay their employees’ salaries directly to their bank accounts.

Figure 3. GIFMIS Conceptual Design



With the support of the Australian DFAT and technical assistance from the US Treasury Department, the government developed the technical specification of CHRIS and bid it out to private systems developers.<sup>9</sup> The contract was awarded in 2014 and the development process commenced. However, up until 2015, the winning developer failed to address recurring and unresolved technical deficiencies and other grounds, which put them in default. As such, the government decided to terminate the contract on January 26, 2016. In the face of this setback, the CHRIS Project Team devised a contingency plan: the enhancement of the existing GMIS, to include a Human Resource module.

The primary and immediate goal of the expansion and enhancement of the GMIS is to improve and enhance the current position budgeting system to provide enhanced data and processes management and control within the overall government manpower information functions. The long term goal would be the expansion and integration of human resource and payroll management. The policies and principles and specific goals identified for this project will include:

1. Implement a robust government position budget management and control system that would provide complete and accurate database of all positions, incumbents and authorized compensation in the whole of government;
2. Share comprehensive database, for both the DBM and the CSC, of government manpower that shall be updated on a regular basis by all departments and agencies to reflect all changes in positions and incumbents;
3. Improve functionality that would interface with the human resource and payroll management modules;
4. Enable the elimination of payments to non-validated employees; and
5. Engage the CSC to the system, as the central human resource agency for the whole government.

### Linking Budget Execution and Treasury Management

Following setbacks in the full-scale implementation of the GIFMIS, the PFM Committee decided in 2015 to focus on developing a core ICT system for the execution and accountability phases of the national budget cycle. This core system, the BTMS, would integrate budgeting, treasury, and financial management and reporting processes of the DBM and the DOF-BTr. In doing so, the BTMS would enable the collection and organization of financial information in a central database. The system would replace the DBM's existing eBudget system and absorb its functionalities, and be linked to the BTr's TSA.

In November 2015, the government signed the contract for the BTMS project with a joint venture of Free Balance Incorporated and Innove Communications. The BTMS is expected to go live in early 2017. After which, the government will procure licenses for the BTMS modules for the individual agencies. Such modules will enable the agencies to report their financial transactions directly into the BTMS. The complete rollout is expected until 2022 for all government agencies

“The BTMS will complement the Updated PFM Reform Roadmap strategy in emphasizing an incremental approach and consolidating progress around a number of key PFM reforms. As such, the new system will be embedded in critical areas like the budget management processes at the DBM and the cash management processes at the BTr.”

**Undersecretary Richard Moya**  
DBM OFFICE OF THE CHIEF INFORMATION OFFICER

### Other ICT tools for PFM

Prior to the rollout of the BTMS, the DBM developed other ICT-based systems that would later on be integrated into the GIFMIS. For one, it introduced the [Online Submission of Budget Proposal System](#) (OSBPS) in 2013, in time for the preparation of the 2014 Budget, to facilitate the faster consolidation of the agencies' budget proposals. Supplementing the BPMS, the OSBPS allowed the agencies to enter budget data directly into the web-based system and submit their proposals online. Together with the OSBPS, the government rolled out the [Unified Reporting System](#) (URS),<sup>10</sup> which enabled the agencies to submit budget execution

documents and budget and financial accountability reports online. The URS would be absorbed eventually by the BTMS.

Recently, the DBM also developed the [Budget Cycle Analytics](#) (BCA) Business Intelligence Solution with the support of the Australian DFAT. The system, which went live in January 2016, is an IT system capable of loading, organizing, consolidating, processing, and visualizing data from all phases of the budget cycle. It makes use of existing data generated by the DBM's ICT systems (the BPMS, OSBPS, eBudget, and URS), and eventually the BTMS. The BCA provides the budget analysts and managers of the DBM with a powerful tool to produce better financial and physical performance analysis as well as management reports and dashboards. These tools should enhance decision-making related to addressing problems and issues during budget execution.

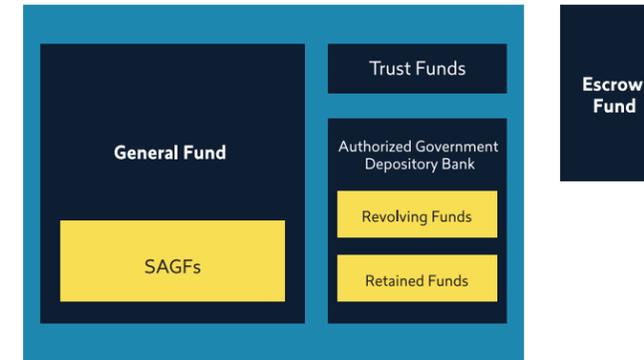
### A “Single” Bank Account for the Government

The government strengthened its ability to manage its cash resources in real time and make the availability of funds to the agencies more predictable. With the support of the Australian DFAT and other stakeholders, the BTr developed the [Treasury Single Account](#) (TSA): a unified framework for the management of government bank accounts. The TSA is a set of banking arrangements that enables the government to have a consolidated view of its cash position on a daily basis, and manage the cash balances of individual bank accounts of the agencies. The TSA supports the government's enforcement of the “One-Fund Concept” (see *Figure 4*), in which ideally all government financial resources accrue to the National Treasury—or at least visible to it, in the case of off-budget accounts. The TSA is managed by the BTr through the Bangko Sentral ng Pilipinas. It is supported by the TSA Reporting and Monitoring System (TRAMS), an ICT system that provides real-time information on cash resources.

To implement the TSA, the BTr inventoried all the bank accounts of government agencies, and closed those that were redundant or unauthorized. With the support of the BIR and the BOC, the BTr eliminated the old system in which banks that served as revenue collecting agents held the revenues they collected for five to 10 days. Under this old set-up, the agent banks earned by floating those resources to earn interest, but in the process delaying the government's access to its cash resources. In its place, the BTr installed a system by which the government paid these agent banks with set fees. Through this, the government ensured that cash resources

due to it were remitted immediately to the Treasury, thereby eliminating costs from banking transactions—an estimated P950 million annually.

**Figure 4. All Funds Visible via the TSA**



“TSA really improves cash management. When you have a TSA, you can consolidate all the financial resources of the government. It's all about fungibility and improving oversight on government resources.”

**Sharon Almanza**  
DEPUTY TREASURER OF THE PHILIPPINES

### A Single Language for All Transactions

The development of the GIFMIS and its building blocks required the harmonization of the disparate budget and accounting classification systems, reporting standards, and charts of accounts being used by the government. Thus, the Unified Accounts Code Structure (UACS) was introduced in 2013 and applied in the crafting of the 2014 Budget<sup>11</sup> through the collaboration of the COA, the DBM, and the DOF-BTr.

The UACS provides a single classification system for all financial transactions throughout the PFM cycle from budgeting to treasury cash management, accounting, and audit. Functioning like a barcode to be used in all financial transactions, the UACS assigns a unique 54-digit code (see *Figure 5*) for each budgetary item to be tracked accurately and consolidated into regular accountability reports. It serves as the backbone of the GIFMIS as it ensures that each item of expenditure uses a single code, from the time the DBM includes it in the Proposed Budget up to the moment that COA audits it. As President Aquino emphasized, the UACS is “foundational to the success of the PFM Reform Program,

as it overturns the past regime of convoluted accounting, inaccurate reporting, and leakages (2015).”

Together with UACS, the DBM and the COA prescribed common formats for Budget and Financial Accountability Reports (BFARs). The COA also introduced the Revised Chart of Accounts for implementation beginning January 2014,<sup>12</sup> to serve as the new basis for tracking the revenue and expenditure transactions of all the agencies. The UACS was further improved in 2015 to make the code classification consistent with international standards, which was used in preparing the 2016 Budget. In particular, the Classification of the Functions of the Government (COFOG)<sup>13</sup> was adopted to classify expenditures by sector.

**Figure 5. The 54-Digit UACS Code**



Source: UACS website (www.uacs.gov.ph)

To facilitate the smooth implementation of this coding framework, a UACS Manual and a Primer were published to inform and guide UACS users, a series of training and seminars were undertaken to capacitate government employees, and a UACS Help Desk was established in 2014 to respond to the queries and concerns of the agencies. The Help Desk is manned by technical staff from the DBM's Budget and Management Bureaus and is available from 8:00 a.m. to 5:00 p.m., Mondays to Fridays. A UACS website ([www.uacs.gov.ph](http://www.uacs.gov.ph)) was likewise created to provide UACS users—from government financial managers to civil society organizations—access to information and materials on the UACS as well as to all UACS codes, including new account codes not reflected in the UACS Manual.

### Enhancing the Bureaucracy's Capacity to Implement PFM

Recognizing that technologies and systems are not enough, the government pursued efforts to build the capacity of PFM professionals to plan, budget, implement, account for, and report financial transactions. This view was also validated by a change readiness survey<sup>14</sup> conducted in May 2012, which highlighted that government personnel, particularly those involved in PFM work, needed proper training on new PFM systems. The survey results nonetheless revealed “a strong agreement among managers and staff that the GIFMIS and other PFM reforms will improve transparency and accountability in their agencies and thus, is beneficial to government agencies.”

“At the end of the day, it's going to be contingent on people. We are going to fall and rise by the strength and competencies of people.”

**Ma. Grace Pulido-Tan**  
FORMER COA CHAIRPERSON

Following the survey, the PFM Committee developed a PFM Competency Model in order to clearly define the competencies needed for PFM positions, identify competency gaps, and help determine appropriate training and other capacity building interventions. In 2013, a team composed of international and local technical experts, with the participation of 1,000 PFM practitioners from the various oversight and implementing agencies, crafted a PFM competency model to clearly define the skills set, and behaviors and attitude of PFM practitioners in the areas of budgeting, accounting, treasury/

cash management, auditing, and procurement. Approved by the PFM Committee in January 2014, the Model was designed to support the current and future PFM systems and processes. To supplement the Model, a PFM Competency Dictionary was developed to define and explain the rationale for each PFM competency.

The Competency Model became the basis for developing the curriculum of the [PFM Certificate Program](#) (PFMCP). Officially launched in September 2015, the program seeks to make the capacity building of PFM practitioners more systematic and integrated. It offers competency-based training on the following tracks: foundation course, budgeting and performance, accounting, auditing, procurement, and cash management. Two of the six tracks of the Program have already been rolled out: the PFM Foundation track, and the Budgeting and Performance track. The PFM Foundation track provides core skills that would be useful even if guidelines change. The Budgeting and Performance track boosts the oversight agencies' ability to make better decisions particularly in scrutinizing data provided by the implementing agencies. To support the PFMCP, a series of “training of trainers” sessions were held that would develop a pool of trainers who would be tapped to coach about 20,000 PFM practitioners.

Related steps were also taken to widen the access of government employees and the public alike to resources on PFM. For one, the government launched the PFM website ([www.pfm.gov.ph](http://www.pfm.gov.ph)) that would serve as an information portal on the reform program. The website contains news articles, reform updates, audio-visual materials, and other relevant reference materials. It also features a feedback mechanism to facilitate user interaction. It also sets up a “PFM Nook” in the libraries of the DBM and the NEDA, where manuals, handbooks, reports, and other learning materials of PFMP may be accessed.

“The training is very informative. I was able to learn new techniques in preparing a budget proposal.”

**Lolita Estacion**  
DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS-  
OFFICE OF TRANSPORTATION SECURITY

### Strengthening Institutions

The government had acknowledged that oversight institutions must be strengthened to enhance the oversight and management of public finances. In particular, the DBM conceptualized and began the establishment of the Office of the Comptroller General (OCG) in 2014. This office would be responsible for formulating and enforcing effective internal controls and helping the COA to ensure the compliance of the agencies with accounting and auditing rules and regulations; as well as overseeing the implementation of public expenditure management policies by the LGUs, leading the consolidated financial reporting of the national government, and overseeing the operationalization of an integrated financial management information system in the government.<sup>15</sup>

In addition, the OCG would be responsible for formulating and implementing competency-based human resource policies on PFM, and in coordinating on the capacity-building requirements of PFM practitioners. As such, a proposal to create the PFM Institute (PFMI) under the OCG was made. The Institute would implement the PFM Competency Model and the PFMCP. Toward this end, the DBM established a TWG on the PFMI<sup>16</sup> to develop the functions and organizational structure of the Institute, support the development of the Model and the PFMCP in their progeny, and roll out the first two tracks of the PFMCP.

To support the setting up of the OCG and the PFMI, the government proposed the Public Financial Accountability Act (*see article on the topic*). The bill seeks to institutionalize the PFM reforms, notably the GIFMIS, through a permanent policy mandate for such government-wide ICT system; and the TSA, particularly by enhancing the mandate of the DOF-BTr to manage government bank accounts and financial resources.

“Establishing the Office of the Comptroller General is a clear commitment of the government with its mandate to promote sound, efficient, and effective management and utilization of government resources.”

**Undersecretary Janet Abuel**  
DBM COMPTROLLER GENERAL GROUP

### CHALLENGES AND MOVING FORWARD:

#### Can the GIFMIS Actually Be Built?

“Can the GIFMIS be built? Yes, absolutely! We have started it churning. Can it grow to its actual formation? Half of the answer lies on the appetite and temperament of PFM managers and of the PFM as an organization.”

**Undersecretary Richard Moya**  
DBM OFFICE OF THE CHIEF INFORMATION OFFICER

Building the core GIFMIS system in a short span of time encountered significant setbacks: fundamental and non-technology issues that needed to be sorted out, delays and other problems during the actual rollout of the ICT applications, and even its acceptability to the users. However, these hindrances did not mean the outright failure of the GIFMIS project. Comparatively, other countries had taken an average of about eight years, with a range of five to 10 years, to roll out their respective FMIS<sup>17</sup> (Dener, Watkins, and Dorotinsky, 2011). As it stands, the Philippines' progress so far does not deviate much from the global experience. Just the same, the recent PEFA assessment (WB, 2016) emphasized the need for the government to continue its efforts to build an FMIS as it “offers the government significant benefits in managing public monies more effectively...The establishment of an effective system also contributes directly to improving transparency and accountability.”

Since 2011, the government had managed to put the essential components of the GIFMIS in place. Most notably, the UACS and the TSA could be considered as the skeletal and nervous systems of the GIFMIS human body, so to speak. The rollout of the BTMS—a significant part of the GIFMIS brain—had also been jumpstarted. In relation to its human component—arguably the most important element of integrating the PFM system of the country—bold steps had been initiated to capacitate the bureaucracy and the key institutions. Even as the key ICT and institutional strengthening efforts have been ongoing, the next administration should be able to provide the much-needed resources to ensure their completion. The resources needed do not only concern financial support but also political will: the latter will be required especially to overcome the inertia of and resistance to reform.

## A Robust System or More Islands?

Moving forward, the next administration should not only sustain the rollout of the BTMS but also chart a bold yet realistic roadmap for the completion of the GIFMIS after the BTMS is completed in 2017. Moreover, the next administration may consider building on the lessons learned during the first six years of developing this government-wide system. If at all, the most important lesson is that the success of the GIFMIS depends not on ICT alone.

Among the non-technology issues that emerged while creating the GIFMIS were the usability of the ICT systems and the readiness of the users. For instance, the rollout of the OSBPS and the URS had been hampered by the poor compliance of the agencies with the policy of using the said systems in submitting their budget proposals and accountability reports. The agencies' PFM officers often cited the slow internet and other connectivity issues as reasons for failing to use the online systems—or why they opted to go physically to the DBM to encode their submissions. Apart from the real problem of internet connectivity, the DBM also realized that the agencies tended to submit their proposals and reports “online but on-site” because they could seek readily the help of the DBM's budget analysts and technical staff who were present (see *Linking Planning and Budgeting*). It should also be considered that the “rushed” development of the OSBPS and the URS in time for the 2014 Budget preparation gave the DBM limited time to train the PFM staff of the implementing agencies to use the systems.<sup>18</sup> These issues only emphasized the need for a more strategic and deliberate approach to handholding the users to ensure that ICT systems are embraced, understood, and applied.

The government should watch against risks of further fragmentation of PFM systems. For instance, after the DBM introduced the URS to be used for the submission of the BFARs, the COA likewise introduced its own system in 2015—the Budget and Financial Accountability Reporting System (e-BFARS),<sup>19</sup> and for the same purpose. This situation contradicted the core purpose of the GIFMIS to unify the systems of the PFM oversight agencies, and ultimately duplicated the reporting and compliance requirements of the implementing agencies. To address this situation, an inter-agency discussion has been opened and now ongoing between the DBM and the COA to explore the possibility of harmonizing their systems in order to generate a single report for both agencies to use. Eventually, such a common system for the online submission of reports should be supported

by a joint issuance of DBM, the COA, and other concerned agencies. Just the same, this situation only highlighted the need for the PFM oversight agencies to deepen their cooperation, collaboration, and commitment to the vision of the GIFMIS.

## Stability with Flexibility

Yet another drawback to the success of the GIFMIS and other ICT systems was the frequent adjustments to policies and processes even as these modifications were meant to improve on the PFM reforms. For instance, in the case of the OSBPS, the annual changes in the rules, procedures, and forms in submitting budget proposals<sup>20</sup> required frequent adjustments to the system. These changes compounded the problem of limited time to cascade and train the agencies' budget officers on the new functionalities of the OSBPS; the confusion on the submission rules and the functionalities of the system; and the overall weak compliance of the implementing agencies with the use of the system in submitting their budget proposals.<sup>21</sup> In 2015,<sup>22</sup> only 60 percent, or 182 agencies, of the 304 accounted agencies completed the online submission of budgetary proposals for FY 2016.

The lesson here was two-fold: one, the DBM should beef up its in-house capacity, with the support of outsourced suppliers, to quickly adjust ICT systems in order to accommodate new policies; two, the ICT systems should be built in a way that allows for reasonable flexibilities to accommodate changes in business processes. At the same time, the government should begin to limit the changes or adjustments to the PFM rules and procedures if only to stabilize the PFM policies, rules, and procedures. One such policy regime that needs to be stabilized moving forward is the UACS. For one, the adoption of the PREXC structure (see *Linking Budgeting and Results*) will require another major adjustment in the UACS code structure. While the PREXC is a crucial reform that should be implemented—and it is slated for implementation in 2018—it will have the unfortunate consequence of again breaking the comparability of the UACS codes and budgetary data over time.<sup>23</sup>

Aside from adjustments that the PREXC would cause, two other factors pose challenges to the long-term success of the UACS. One factor is the need to deepen the training of PFM professionals on the use of the UACS and to re-familiarize them with the system after the scheduled adjustments. The first time that the 54-digit structure of the UACS was

introduced already encountered some resistance from the implementing agencies because of perceived difficulties in using it. The second factor is the need to convince Congress—and enable its technical staff—to adopt and utilize the UACS in preparing the General Appropriations Bill (GAB). For various reasons—from the outdated ICT system of Congress to the inadequate understanding of legislators of the benefits of the UACS—the GABs produced and the GAAs enacted since 2015 had left out the UACS codes.<sup>24</sup> The former reason is currently being addressed through the development of an e-Appropriations system with the help of international donors. The latter one, however, will require the Executive to engage the 17<sup>th</sup> Congress, address their concerns, and enhance their knowledge of the UACS, and secure their acceptance of this foundational PFM reform.

## The Fate of the Comptroller General

The lack of progress in Congress of the proposed PFM Law set back the organization of the OCG and the development of its functions, particularly its envisioned role as consolidator of government accounts and whole-of-government financial reporting. However, this is not the only hurdle in setting up the OCG: the Constitution itself assigns the responsibility to prepare the government's Annual Financial Report (AFR) with the COA. In this regard, the dialogue between the COA and the DBM should continue, especially as the OCG will fill an important gap—management reporting on the government's finances within the Executive—that the COA cannot fully perform for the Executive as it is constitutionally independent. Thus, the OCG has been focusing on strengthening and institutionalizing the LGU PFM (see *Meaningful Devolution*) and on the implementation of the PFMCP.

## Do not Lose Sight of the Human Component

As emphasized throughout this article, while technology provides an essential backbone, the human component is a crucial factor—rather, the most important one—of an integrated and functioning PFM system. As noted by the results of the change readiness survey tackled earlier, managers are vital in cascading to their staff the vision and benefits of the PFM reforms, and in competently implementing such reforms. Good leadership likewise enables the government to manage resistance and cultural issues that pose a challenge to reforms.

For capacity building efforts, the rollout of the PFMCP on a wider scale—particularly the development and implementation of its four remaining tracks—will require the DBM to move closer towards organizing the PFM Institute. After all, thousands of PFM practitioners need to be capacitated on various PFM competencies. While the approval for the creation of such office has not yet been secured, the PFMI TWG has received technical assistance from the Australian DFAT and the Philippines-Australia Human Resource and Organisational Development Facility (PAHRODF). The PFMI TWG has also been taking steps to scale up the PFMCP by continued training delivery, improvement of content and training design, and development of the pool of trainers. It has also started demand-communications with agencies for better appreciation of the need to send their PFM workforce to the relevant PFMCP courses.

However, the PFMI TWG has been encountering key constraints, such as the dearth of experts in various fields of PFM who could serve as trainers; the difficulty in scheduling training sessions especially when the trainers to be tapped are government officials who have other functions to perform; as well as policy issues that prevent the government from providing trainers with competitive honoraria and other compensation. The DBM should also sustain the dialogue with other PFM oversight agencies,<sup>25</sup> which have or plan to have similar training institutes. Such dialogue will ensure that the initiatives of the PFMI and these institutes complement each other, and, eventually, consider the possibility of consolidating their efforts.



## NOTES

<sup>1</sup> The eNGAS, introduced in 2002 and rolled out in selected agencies and LGUs in 2003, replaced the outmoded half-century old government accounting system. This computerized version of the NGAS was developed to ensure uniformity in the application of government accounting rules and to facilitate consolidation of financial reports.

<sup>2</sup> The e-Budget system, introduced in 2004 and fully utilized and implemented in 2005, was designed to automate budget execution, particularly the processing of budget release documents.

<sup>3</sup> The BPMS, introduced in 1993 and implemented in 1994, automated the processing of budget preparation documents and facilitated the generation of management reports on actual budget utilization based on the budget preparation forms submitted by agencies.

<sup>4</sup> The GMIS, introduced in 1995, effectively served as the DBM's database for all approved positions of agencies, compensation, and their incumbents. The data generated from GMIS served as the basis for estimating the Proposed Personnel Services (PS) expenses to be included in the Proposed Budget.

<sup>5</sup> These mechanisms include the DBCC Cash Programming and Monitoring Committee.

<sup>6</sup> NEDA – planning and public investment programming; DBM – budgeting and, with NEDA, performance monitoring and evaluation; DOF – revenue generation, cash and debt management, government corporate sector, among others, and with DBM for cash program; COA – accounting and auditing.

<sup>7</sup> The PFM Committee is composed of officials from COA, DBM, DOF, and BTr, and is governed by a committee of PFM Principals—the COA Chairperson and the Secretaries of DBM and DOF.

<sup>8</sup> Earlier named as the Government Human Resource Information System.

<sup>9</sup> Before it decided to tender the CHRIS for private developers, the government attempted to develop a National Payroll System in-house through the National Computer Center (NCC). However, the pilot tests conducted in 2012 after the system was developed revealed various non-technology issues—such as the different ways used by agencies to compute their payroll—will hamper the system's roll-out on a full scale. The government decided to take a step back, address the fragmented policies on payroll management and other non-technology issues, and go straight to developing the full-scale CHRIS with a payroll functionality.

<sup>10</sup> The rollout of URS for BEDs was implemented in November 2013 for the 2014 budget execution plans and targets (DBM Circular Letter No. 2013-13 dated November 25, 2013) while the URS for BFARs was adopted by DBM in July 2014 for the harmonized budget and financial accountability reports.

<sup>11</sup> Joint Circular (JC) No. 2013-1 dated March 5, 2013

<sup>12</sup> COA Circular 2013-002 dated January 30, 2013

<sup>13</sup> Developed by the Organization for Economic Co-operation and Development (OECD) and promoted by the UN Statistical Division, the COFOG classifies budgetary outlays according to 10 major sectors: General Public Services; Defense; Public Order and Safety; Economic Affairs; Environmental Protection; Housing and Community Amenities; Health; Recreation, Culture and Religion; Education; and Social Protection. In comparison, the old "Budget by Sector" classification used by the Philippines identifies just five sectors: Social Services; Economic Services, General Public Services; Defense; and the Debt Burden. Moreover, in implementing COFOG, the government disaggregated each agency's budget according to their contribution to sector; as opposed to the past practice where the totality of an agency's budget is attributed to a sector. Through this, the government and the public can more accurately track how each agency's finances contribute to fulfilling multiple development goals.

<sup>14</sup> A total of 645 government employees composed of executives, managers, accountants, auditors, budget and planning officers participated in the survey.

<sup>15</sup> These functions of the OCG are based on the provisions of the proposed Public Financial Accountability Act. At present, the OCG and its component-units (the Public Expenditure Management Bureau and the PFM Institute) are still being fully set-up (see *DBM Organizational Strengthening*).

<sup>16</sup> Composed of the Training Division of the former Training and Information Service.

<sup>17</sup> The data is based on 55 completed FMIS projects that the WB supported since 1984. The timeframe for each project includes project design, procurement, development of information systems, and capacity building). An exception to the five-to-ten-year range is Malawi, which completed a project after 13.4 years. The WB also noted that "if viewed from a country perspective, rather than an individual project perspective, the time required to implement such systems may be considerably longer" considering that most countries have back-to-back projects (WB, 2011). Examples are Guatemala, with three consecutive projects taking a total of 16.5 years; and Ecuador, also with three projects but spanning 23.1 years.

<sup>18</sup> Based on an interview with OIC-Director Vinzon Manansala and other staff of the ICTSS.

<sup>19</sup> Through COA Circular No. 2015-004, the COA launched the Government Accountancy Sector Application Systems in July 15, 2015. It is composed of two systems: the Government Accountancy System (GAS)—the mother system—enables agencies to submit their Annual Financial Statements online; and the BFARS, a subsystem of GAS for the submission of BFARs.

<sup>20</sup> Ibid. It must also be noted that from 2013 to 2016, changes to budget preparation rules and procedures included the following: the adoption of 2TBA (i.e. the separate submission of forward estimates and new or expanded spending proposals); the move towards outcome-based PIB; and the adoption of COFOG and other adjustments to the UACS. The original plan to adopt PREXC for the 2017 Proposed Budget would have had required yet another major adjustment to the OSBPS. The DBM eventually decided to postpone the adoption of PREXC to the 2018 Proposed Budget because of limited time to recalibrate the OSBPS, revise UACS codes, and complete the restructuring of agencies' budgets, among others.

<sup>21</sup> Ibid. To address these setbacks, the DBM at times allowed agencies to submit incomplete budget proposals (e.g. by disabling some functions of OSBPS where agencies could not submit if details to their proposals are incomplete) and beyond the deadline (i.e. the DBM had to re-open the system to accept submissions beyond the deadline, particularly for the DPWH and other agencies with very detailed budgets).

<sup>22</sup> As of June 2, 2015

<sup>23</sup> Aside from the previously-stated reasons, the PREXC was postponed to the 2018 Proposed Budget in order to establish a complete three-year series (2015 to 2017) where UACS codes and budgetary data are comparable, and can thus enable a meaningful analysis of budgetary performance over time. Already, the introduction of UACS broke the time series: for one, the adoption of COFOG in 2015 (for the 2015 GAA and the 2016 NEP) broke the time series data of the budget by sector. For this reason, the DBM decided to publish the budget by sector using both COFOG structure and the old classification system.

<sup>24</sup> To address this problem, the DBM had to publish the GAA as signed and enacted (without the UACS codes) as well as produce a supplemental version of the GAA with UACS codes.

<sup>25</sup> These include the COA, the Civil Service Commission, and the GPPB-TSO relative to procurement.

## INSIGHT FROM A DBM JUNIOR LEADER

## The OSBP Experience

It was in 2009 when I first experienced the department-wide rationalization. I was then with the Regional Operations and Coordination Service and was transferred to the Budget Technical Service. I was initially assigned at the Standards and Policy Division and then moved to the Budget Preparation Division (BPD).

My division mates in the BPD taught me how to use the Budget Preparation Management System (BPMS), into which we input the following: actual obligations of the preceding year, current appropriations of the current year, and proposed budget for the following year. Encoding each agency's data takes about day, and three days for big agencies, such as the DPWH, the DENR, and the DepEd. We would render overtime or overnight work in order to meet deadlines.

The Budget Forum signals the budget preparation season that starts in January. By March, the agencies submit their actual obligations. By April, we at the BPD input into the BPMS these data, which are used in the Technical Budget Hearing (TBH). Consequently, the agencies submit their budget proposals in April. In June, our division enters into the system these data, which are used during the Executive Review Board. These occasions are the toughest for the BPD, most of which are spent on encoding data into the BPMS, notwithstanding we have other tasks, to name a few: We act as the technical secretariat during the Budget Forum and we sit in during the TBH. We also serve as the technical secretariat and in-charge of the minutes during the ERB. We proofread the drafts of the NEP and the BESF before and after printing, and effect all the errata.

A big change happened in 2013—the DBM, the lead agency for budget reforms, adopted the Unified Account Code Structure (UACS). To support the changes entailed by its use, the management customized the budget preparation systems.

By Zita Ann E. Cruz<sup>1</sup>

Secretary Abad signed the Office Order No. 2013-62, creating the DBM Budget Preparation Systems (BPS) Functional Testing Team, of which I was one of the members. The Online Submission of Budget Proposals (OSBP) was likewise launched in the same year. The OSBP allowed the agencies to encode and submit their budget proposals directly to the DBM, which were automatically uploaded into the BPMS.

Our team studied and analyzed the OSBP. We provided inputs, recommendations, and suggestions to the management, which we believed would help the system work efficiently and effectively, as used by the NGAs. We encountered many trials, some failed although most were successful, before we came up with a functioning and ready-to-use OSBP. After the OSBP was established, I thought it was already the end of our special project. The Office Order 2013-62A was signed, and it indicated that we would serve as resource persons and support group in the DBM's rollout of the UACS and the OSBP training activities for the NGAs. Nevertheless, I had a great experience because I was able to share my knowledge in using the OSBP.

I faced some challenges as the OSBP was being introduced. For example, not all the NGAs agreed that they would use the system because they believed it meant additional work for them. The internet connection of some NGAs were too slow that logging in was already a problem. Some of them did not want to accept changes and reforms.

Despite the challenges we faced, we carried on. We found the reform successful because the agencies had used the OSBP in submitting their budget proposals. Today, the online system submission is fully functional. Being part of the team that helped in making the OSBP successful was truly an honor for me.

<sup>1</sup> As of this publication, Cruz is a Budget and Management Specialist II of the Performance Monitoring and Evaluation Bureau.

## HOW WE LAID THE FOUNDATIONS OF TECH-DRIVEN BUDGETING

The government envisions an integrated financial management information system (IFMIS) to make financial reporting more efficient, transparent, and accountable. Since 2010, the government rolled out various tech-driven tools to automate processes and harmonized account codes structure, financial reports, and cash management.

More important is the capacity of the people who will operate the system. Thus, the government introduced the PFM Certificate Program to improve the capacity of PFM professionals throughout the bureaucracy.

### Unified Accounts Code Structure (UACS)

As the IFMIS's backbone, the UACS provides a harmonized classification system for budgetary, treasury, and accounting processes across the government.

### Treasury Single Account (TSA)

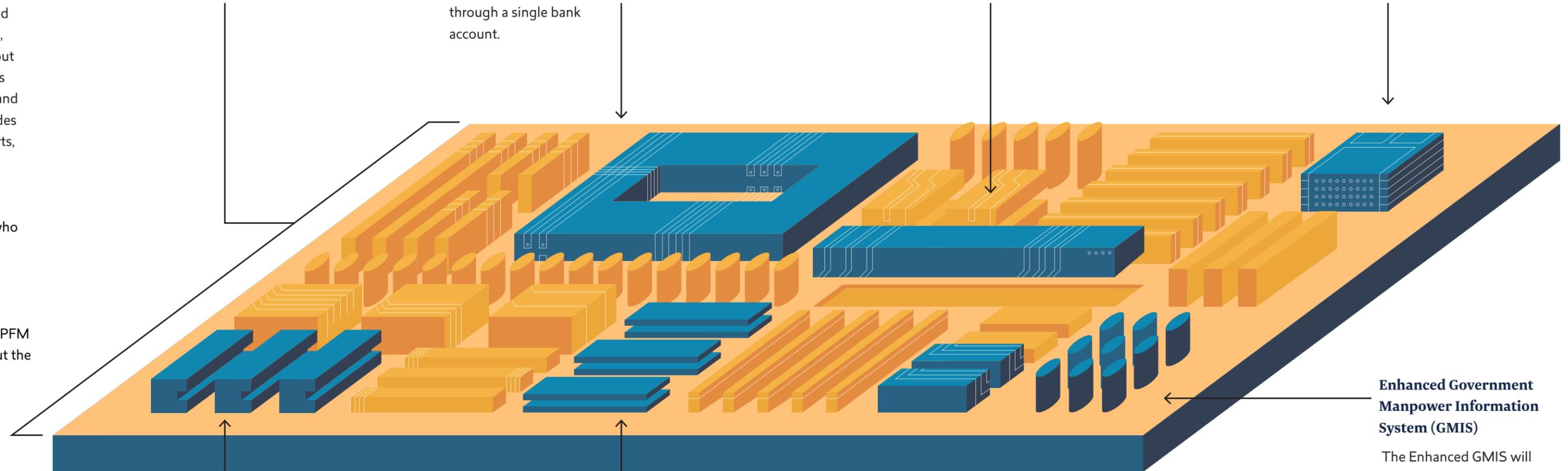
The TSA is a set of banking arrangements managed by the DOF-Bureau of the Treasury (BTr) that gives the government a consolidated view of its cash resources. Through the TSA, it is as if the government transacts through a single bank account.

### Budget Treasury and Management System (BTMS)

The BTMS will serve as an integrated system for budgetary, treasury, management, accounting, and reporting processes of DBM and DOF-BTr.

### Unified Reporting System (URS)

Like the OSBPS, the URS facilitates the online submission of Budget Execution Plans and Targets and Budget and Financial Accountability Reports (BFARs).



### Budget Cycle Analytics (BCA)

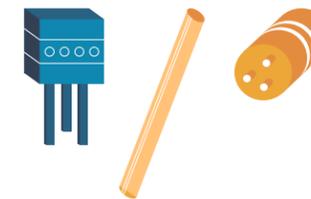
BCA enables cross comparison of UACS-based budgetary data, targets and accomplishments to support analysis and decision-making.

### Online Submission of Budget Proposals System (OSBPS)

Through the online and real-time submission of budget data, the OSBPS reduces paperwork in budget preparation.

### Enhanced Government Manpower Information System (GMIS)

The Enhanced GMIS will serve as a comprehensive and unified system to manage human resource information of agencies. It aims to expand and integrate manpower and payroll management.



\*Other components, such as agency modules to the BTMS are for development.