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**Province of San Juan**  
**Republic of Argentina**  
**Public Financial Management Assessment**

July 2012

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Latin America and the Caribbean Region



World Bank Document

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## CURRENCY EQUIVALENCE AND APPROXIMATE EXCHANGE RATE

Currency Unit: (AR) Peso - US\$1 = 4.49 pesos

## ECONOMIC FISCAL YEAR

January 1st – December 31st

**ABBREVIATIONS AND ACRONYMS**

AGAs	Autonomous Government Agencies
BOGAR	Spanish acronym for Guaranteed National Bonds
CA	Central Administration
CFAA	Country Financial Accountability Assessment
COA	Court of Accounts
COFOG	Classification of Functions of Government
DSA	Debt Sustainability Analysis
FML	Financial Management Law
FRL	Fiscal Responsibility Law
GA	General Administration
GAO	General Accounting Office
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GGP	Gross Geographic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDAs	Ministries, Departments, and Agencies
MOF	Ministry of Finance
NA	National Administration
NB	National Bank
NFPA	Non-Financial Public Administration
NFPS	Non-Financial Public Sector
PDB	Province Directorate of Budgeting
PDIT	Province Directorate of Information Technology
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Finance Management Assessment
PGT	Province General Treasury
PI	PEFA Indicator
SAI	Supreme Audit Institution
SIIF	Spanish acronym for Financial Information Integrated System
SN	Sub-National
SOEs	State-Owned Enterprises
TSA	Treasury Single Account
TSS	Tax Sharing System
UF	Unified Fund
UN	United Nations
WB	World Bank

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## PREFACE

Following the publication of Argentina's Country Financial Accountability Assessment in March 2008, the authorities of the Republic of Argentina agreed with the World Bank to conduct a sub-national public financial management (PFM) assessment for four provincial governments: Buenos Aires, Cordoba, Santa Fe, and San Juan. The four were selected in consultation with the country authorities, based on their relative economic size and importance and their financial relationship with the Bank (size and numbers of active portfolio loan operations). Since the Bank's interaction with Argentina's sub-national governments has been increasing significantly, measuring the performance of provincial public financial management systems and identifying opportunities for improving systems, processes, and institutions are critical aspects of the Bank's prudent management of its fiduciary exposure. Also, the results of the sub-national assessments could serve as an entry point for the Bank's assistance on building more sustainable PFM capacity at the sub-national level in Argentina, based on action plans prepared by provincial governments and agreed with the Bank.

The assessment for the Province of San Juan was prepared jointly by the Ministry of Finance of the Province of San Juan and the World Bank on the basis of findings from missions. It seeks to: (i) provide the provincial government with a reference tool for dialogue and action to strengthen their public financial management systems; (ii) assess the province's PFM systems and identify and address their main fiduciary issues, as well as their impact on the implementation of World Bank operations; and (iii) contribute in a broader sense to the dialogue between the Bank and Argentina's national and provincial authorities regarding fiduciary portfolio management and reliance on the country's systems. The assessment is not a fully fledged PFM performance report using all PEFA performance indicators. As agreed with the provincial government and the World Bank's Country Management Unit, the team selected and used 19 performance indicators (PI 1, PI 4, PI 5-7, PI 9-12, PI 16-18, and PI 20-26) to review the status of PFM in the province.

The report was prepared based on the findings of the missions that visited Argentina in October-November 2006 and April-May 2007. Unlike the other three provinces involved in this exercise, it has not been possible to get and discuss any comment from the provincial government. Therefore, the ratings and conclusions of the initial draft study were maintained in this final version which only includes changes in editing.

The PFMA team was led by Alexandre Arrobbio and Mamadou Deme (WB). Core team members were: Mozammal Hoque, Santiago Pinto, Federico Guala, Marcelo Barg, Luis Anconetani, Delia Grisolia, and Carolina Biagini Majorel. Gerardo Hita, Mercy Sabai, Eliana Dam, Angie Vanoli, Febe MacKey, and Alfredo Le Pera also contributed to the report.

Quality assurance was provided through internal meetings and by the peer reviewers: Rajeev Swami (Sr. FM Specialist), Joseph Kizito Mubiru (Sr. FM Specialist), and Pedro Arizti (Public Sector Specialist). The preparation of the PFMA also benefited from comments and support from Jose Roberto Lopez Calix, Felipe Saez, Trichur K. Balakrishnan, Daniel Boyce, Alejandro Solanot, , Patricia McKenzie, Nick Manning, and Jamil Sopher.

The PFMA team would like to thank the government team of the province of San Juan led by Mr. Victor Molina, Minister of Finance, and consisting of Mr. Luis Ferrer, Secretary of Finance; Mr. Rafael Herrera, General Accountant of the Province; Mr. Alfredo Jordán, General Treasurer of the Province; Mr. Juan Puleri, Provincial Director of Budgeting and Financial Control; Mr. Leonardo Gioja, Director, San Juan Investment Development Agency;

and Mr. German Parra, Legal and Administrative Manager, San Juan Investment Development Agency. The team gratefully acknowledges all the support received.

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## EXECUTIVE SUMMARY

i. This public financial management (PFM) assessment has been prepared jointly by the Provincial Government of San Juan and the World Bank. As agreed with the provincial government and the World Bank's Country Management Unit, the team has selected a subset of 19 PEFA performance indicators to review the PFM status in the province (PI 1, PI 4, PI 5-7, PI 9-12, PI 16-18, and PI 20-26, as detailed in the summary table below).

### **Economic and Institutional Framework**

ii. Argentina is organized as a quasi-confederal state with 24 provinces and three levels of government: national, provincial, and municipal. The national level corresponds to the central government and accounts for around 55 percent of national-provincial consolidated non-financial public sector spending, while the 24 provinces account for the remainder.

iii. The economy of San Juan generates nearly one percent of the country's GDP, mainly from agriculture and mining. Agriculture focuses on wine: San Juan supplies around 40 percent of the country's wine production and nearly 10 percent of its wine exports. Most of the mining activities are run by multinational companies but some small and medium-size mining firms are also engaged in mineral extraction and processing.

iv. Like most Argentine provinces, San Juan has a tax system that follows very closely the national and provincial economic cycles, and a rigid expenditure structure. Even though the province's fiscal surplus decreased from 2005 to 2008, the government's fiscal position has remained solid.

v. The Constitution of the Province of San Juan reflects the quasi-confederal nature of the Argentine state, and defines the respective roles and responsibilities of the Executive, Legislative, and Judicial branches and control entities at the provincial level. Argentina's federal system assigns provincial governments most of the spending responsibilities for providing basic services such as health and education to its citizens, while most of the tax revenues are collected by the national government and redistributed to the provinces through the tax sharing system.

vi. San Juan's provincial non-financial public administration consists of two subgroups: (i) the general administration (GA), representing 84 percent of provincial budgeted expenditures in 2008; and (ii) special branches (4 percent), fiduciary funds created to finance the building of a civil project (3 percent), and "institutes and other entities" (9 percent). The GA comprises the central administration (accounting for about 60 percent of the provincial budgeted expenditures) and twelve decentralized entities (25 percent).

vii. The provincial Ministry of Finance (MOF) is part of the institutional structure in charge of public finances. Within the MOF, the provincial Directorate of Budgeting is the main agent for the formulation of the budget while the Province Treasury manages the funds and bank accounts. The provincial General Accounting Office, within the MOF, is in practice responsible both for accounting and for internal control and public credit. The Court of Accounts, created by the provincial Constitution, provides external control and independent oversight.

## Recent Public Sector Management Reforms

viii. ***Integrated financial information system.*** Since 2005 San Juan has had a fully operational integrated system of financial information (SIIF). The SIIF facilitates transparency and speedy processing of financial information, offering online information on the budget, treasury, and accounting sub-systems, and facilitates the preparation of timely reliable reports on budget execution.

ix. ***Treasury single account system.*** The provincial government has introduced a treasury single account (TSA) system; once the system becomes fully operational it will bring significant efficiency in PFM. The TSA is based on a common account, or set of interconnected accounts, through which the government executes all its payments. The system provides the government with essential financial services—including the processing of payments, accounting, fiscal reporting, and financial management—on a comprehensive and centralized basis; its networked computer systems integrate all of these functions for the Ministry of Finance and the line ministries and their spending units. The TSA gives decentralized spending units access to the funds they need to execute their budgets in a timely way, thus reducing payment arrears. It also provides for the proper management of cash, assets, and liabilities by maximizing the returns on available stocks and minimizing debt requirements.

## Strengths of the PFM System

x. The province's well functioning accounting and financial management systems contribute to fiscal discipline by providing adequate information, reporting, and control at the budget execution stage.

xi. San Juan has effective basic budget, accounting, and internal control processes, and a good record of “budget comprehensiveness and transparency” and “accounting, recording, and reporting,” two core PFM dimensions as defined by PEFA methodology. The province's PFM system is also quite good in some specific aspects of “predictability and control of budget execution,” another core dimension.

xii. ***Budget comprehensiveness and transparency.*** The comprehensive information included in San Juan's budget documentation allows for a complete picture of the government's fiscal forecasts, debt financing, budget proposals, and out-turns from previous years, and the consolidated provincial fiscal reports provide a complete picture of public sector projects.

xiii. ***Accounting and reporting.*** San Juan has significantly improved the quality and timeliness of its in-year budget reports. Budget execution reports are complete and allow for comparisons between budget out-turns and the estimates included in the original budget. The reports are prepared and published in a timely manner and contain reliable information. The consolidated accounts produced by the provincial government are submitted within six months to the Court of Accounts, meeting a key requirement of the national Fiscal Responsibility Law (FRL).

xiv. ***Predictability and control of budget execution.*** Among Argentine provinces, San Juan stands out for the quality of its debt recording. All of its domestic and foreign debt can be efficiently and transparently classified, registered, and monitored. Systems for contracting new loans and issuing guarantees are transparent. For example, the fulfillment of the FRL is checked and assured, and a specific provincial law needs to be issued for authorizing new loans or the issuance of guarantees. The provincial MOF manages debt operations quite effectively.



## Challenges and Opportunities for Improvement

xv. Some significant challenges remain. In particular, the budget process could be significantly improved in three areas: the link to policy, the analysis of debt, and the predictability of cash flows. The control framework in the province also requires significant improvement.

xvi. ***Policy-based budgeting.*** Formulation of sound budgetary policies in San Juan is undermined by several factors. The province does not regularly keep to a fixed budget calendar. Guidance is limited for the preparation and submission of the budget. The provincial budget system focuses on inputs and annual data and does not consider outputs or outcomes. Although Argentina's FRL requires the provinces to set their annual budgets in the context of a multi-year framework, San Juan has yet to do this effectively. During 2006-08 the province's budget laws included multi-year projections of expenditures and revenues for the following two years, but those projections were not used to set the financial ceilings on subsequent budgets. Sector strategies with multi-year costing of recurrent and investment expenditure are prepared for transport and housing infrastructure projects but are rare otherwise. The links between investment decisions and sector strategies are quite weak. San Juan rarely includes any cost implications in its forward budget estimates.

xvii. ***Debt sustainability analysis.*** San Juan does not conduct any debt sustainability analysis while preparing the budget. Multi-year analysis and forecasting of provincial indebtedness is very important for all Argentine provinces, given the country's high public debt. The provincial GAO prepares a quarterly report that covers the stock of public debt. The provincial government also publishes annual information about the Investment Account.

xviii. ***Cash flow predictability.*** Poor forecasting of cash flows negatively affects budget execution and service delivery. Cash flow forecasts are prepared by the provincial General Treasury (PGT) in coordination with the provincial Directorate of Budget and are sent to spending units at the beginning of the fiscal year. These forecasts are inaccurate, however, because they assume that the annual budget allocations are distributed proportionately. During the fiscal year, the PGT regularly monitors the cash flows of provincial resources, while the jurisdictional treasuries are responsible for monitoring their own.

xix. ***Efficiency and effectiveness of control.*** To improve the efficiency and effectiveness of the control environment in San Juan Province, systems and processes could be strengthened in several areas:

- ***Payroll control.*** HR and payroll management show a number of weaknesses: personnel and payroll data are not linked; there are delays in processing changes to personnel records in the education sector; and internal controls related to the change in personnel records and payroll are not enough to ensure the integrity of the data, causing a need for frequent retroactive payments.
- ***Fiscal risk.*** There is no formal regular monitoring of the financial situation of state-owned enterprises. Nor is there a formal channel of communication between these enterprises and the Ministry of Finance.
- ***Information and reporting.*** Information about primary service delivery units is limited. In education, the financial information available at the General Directorate of Culture and Education is aggregated by educational level (primary or secondary school) but there is no description of the resources received by each school. In health, detailed information is only available for the two main hospitals in the province.

- *Other challenges.* Control effectiveness is also weakened by the incomplete integration between the SIIF and other automated systems related to the execution of the budget. The provincial legal framework for public financial management is incomplete, still being partially defined by the 1959 Accounting Law and the 1998 Financial Administration Law.

**Table 0.1. PROVINCE OF SAN JUAN: SUMMARY OF PEFA INDICATORS**

Indicator	Score
<b>PI-1: Aggregate expenditure out-turn compared to original approved budget</b>	<b>B</b>
<b>PI-4: Stock and monitoring of expenditure payment arrears</b>	<b>B</b>
<i>Stock of expenditure payment arrears</i>	B
<i>Availability of data for monitoring the stock of expenditure payment arrears</i>	B
<b>PI-5: Classification of the budget</b>	<b>C</b>
<b>PI-6: Comprehensiveness of information included in budget documentation</b>	<b>B</b>
<b>PI-7: Extent of unreported government operations</b>	<b>B+</b>
<i>The level of unreported extra-budgetary expenditure (other than donor funded projects),i.e. not included in fiscal reports</i>	B
<i>Income/expenditure information on donor-funded projects which is included in fiscal reports</i>	A
<b>PI-9: Oversight of aggregate fiscal risk from other public sector entities</b>	<b>C+</b>
<i>Extent of provincial government monitoring of AGAs and PEs</i>	C
<i>Extent of provincial government monitoring of sub-national governments' fiscal position</i>	B
<b>PI-10: Public access to key fiscal information</b>	<b>C</b>
<b>PI-11: Orderliness and participation in the annual budget process</b>	<b>C</b>
<i>Existence of and adherence to a fixed budget calendar</i>	D
<i>Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)</i>	D
<i>Timely budget approval by the legislature or similarly mandated body (within the last three years)</i>	A
<b>PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>D+</b>
<i>Preparation of multi-year fiscal forecasts and functional allocations</i>	C
<i>Scope and frequency of debt sustainability analysis</i>	D
<i>Existence of sector strategies with multi-year costing of recurrent and investment expenditure</i>	D
<i>Linkages between investment budgets and forward expenditure estimates</i>	C
<b>PI-16: Predictability in the availability of funds for commitment of expenditures</b>	<b>D+</b>
<i>Extent to which cash flows are forecast and monitored</i>	D
<i>Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment</i>	C
<i>Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs</i>	C
<b>PI-17: Recording and management of cash balances, debt, and guarantees</b>	<b>A</b>
<i>Quality of debt data recording and reporting</i>	A
<i>Extent of consolidation of the government's cash balances</i>	B
<i>Systems for contracting loans and issuance of guarantees</i>	A
<b>PI-18: Effectiveness of payroll controls</b>	<b>C</b>
<i>Degree of integration and reconciliation between personnel records and payroll data</i>	C
<i>Timeliness of changes to personnel records and the payroll</i>	C
<i>Internal controls of changes to personnel records and the payroll</i>	C
<i>Existence of payroll audits to identify control weaknesses and/or ghost workers</i>	C
<b>PI-20: Effectiveness of internal controls for non-salary expenditure</b>	<b>C+</b>
<i>Effectiveness of expenditure commitment controls</i>	C
<i>Comprehensiveness, relevance and understanding of other internal control rules/ procedures</i>	B
<i>Degree of compliance with rules for processing and recording transactions</i>	B
<b>PI-21: Effectiveness of internal audit</b>	<b>C+</b>
<i>Coverage and quality of the internal audit function</i>	C
<i>Frequency and distribution of reports</i>	B
<i>Extent of management response to internal audit findings</i>	C
<b>PI-22: Timeliness and regularity of accounts reconciliation</b>	<b>B</b>
<i>Regularity of bank reconciliations</i>	B
<i>Regularity of reconciliation and clearance of suspense accounts and advances</i>	B
<b>PI-23: Availability of information on resources received by service delivery units</b>	<b>D</b>
<b>PI-24: Quality and timeliness of in-year budget reports</b>	<b>B+</b>
<i>Scope of reports in terms of coverage and compatibility with budget estimates</i>	B
<i>Timeliness of the issue of reports</i>	A
<i>Quality of information</i>	A
<b>PI-25: Quality and timeliness of annual financial statements</b>	<b>C+</b>
<i>Completeness of the financial statements</i>	B
<i>Timeliness of submission of the financial statements</i>	A
<i>Accounting standards used</i>	C
<b>PI-26: Scope, nature and follow-up of external audit</b>	<b>C</b>
<i>Scope/nature of audit performed (incl. adherence to auditing standards)</i>	C
<i>Timeliness of submission of audit reports to legislature</i>	C
<i>Evidence of follow-up on audit recommendations</i>	C

## 1. INTRODUCTION: THE SAN JUAN ASSESSMENT IN CONTEXT

1. This public financial management assessment for San Juan has been prepared jointly by the Provincial Government of San Juan and the World Bank, and forms part of a broader study of the public finances of four provincial governments in Argentina: Buenos Aires, Córdoba, Santa Fe, and San Juan.<sup>1</sup> The objectives of the study are to: (i) provide the provincial governments with a reference tool for dialogue and action to strengthen their public financial management (PFM) systems; (ii) provide an assessment of provincial PFM systems, identifying and addressing their main fiduciary issues, as well as the impact of these issues on the implementation of World Bank operations; and (iii) contribute to the World Bank's dialogue with Argentina's national and provincial authorities on fiduciary portfolio management and reliance on country systems.

2. The study focuses on budget preparation and execution, with emphasis on budget comprehensiveness and performance, and on public accountancy and control. It describes strengths and weaknesses of the provincial systems and analyzes their impact on fiscal discipline and the allocation of resources.

3. The methodology used in the study is based on the application of selected public expenditure and financial accountability (PEFA) indicators that are designed to measure the performance of public financial management.<sup>2</sup> Like the other three provincial assessments, the assessment for San Juan is not a full-fledged PFM performance report using all PEFA performance indicators. Rather, as agreed by the provincial government and the Bank's Country Management Unit, the team selected 19 PFM performance indicators (PI 1, PI 4, PI 5-7, PI 9-12, PI 16-18, and PI 20-26) to review the PFM status in the province. To prepare for the study, a seminar on PEFA methodology was organized and delivered to the government counterparts of all four selected provinces. The goal was to disseminate the PEFA methodology and to exchange ideas and achieve consensus on the selection of PEFA indicators consistent with the scope and feasibility of the analysis, considering both methodological and contextual factors.

4. Implementation of the study was highly participative, relying on interdisciplinary teams formed by members of the ministries of finance representing the provincial governments, and the World Bank. Representatives of the provincial governments were in charge of information and data collection, whereas the analysis and report drafting were performed by the Bank's technical team in cooperation with the respective provincial governments.

5. Chapter 2 of this assessment describes the economic and institutional framework of the Province of San Juan. Chapter 3 summarizes the province's main achievements and challenges ahead in public financial management reform, drawing on Chapter 4, which gives a detailed analysis of public financial management in the province, using the PEFA indicators agreed with the provincial government.

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<sup>1</sup> On average for 2005-07, the total expenditures of these four provinces represented 42.4 percent of overall consolidated provincial public expenditures (24 provincial jurisdictions).

<sup>2</sup> Public Financial Management Performance Measurement Framework, by the PEFA Secretariat, available at <http://www.pefa.org/Documents.htm>. The set of indicators covers the entire PFM cycle, and draws on international standards. This provincial assessment uses the PEFA guidelines for assessing sub-national governments.

## 2. ECONOMIC AND INSTITUTIONAL FRAMEWORK

### A. Economic Framework

6. San Juan province is located in the Cuyo region in northwest Argentina. With an area of 90,000 km<sup>2</sup>, it has a population of about 650,000, 25 percent of whom live in the provincial capital. The province supplies nearly 1 percent of the country's GDP. The primary sector accounts for 15 percent of the productive structure of the provincial economy, with the secondary and tertiary sectors contributing around 35 percent and 50 percent each. Compared with the national averages, government and manufacturing have relatively large shares in San Juan's economy: each contributed about 30 percent of gross geographic product (GGP) in 2007.

7. The economy of San Juan generates nearly one percent of Argentina's GDP, mainly from agriculture and mining. Agriculture focuses on wine: San Juan supplies around 40 percent of the country's wine production and nearly 10 percent of its wine exports. Most of the mining activities are run by multinational companies but some small and medium-size mining firms are also engaged in mineral extraction and processing. During the last few years, rising international prices of some metals have caused a considerable increase in investment in mineral exploration and exploitation, with a strong impact on the local economy.

8. The unemployment rate in San Juan Province decreased remarkably between 2001 and 2007, from 16.5 percent to 7.3 percent. As a consequence of the economic, financial, and institutional crisis that began during the last years of the last century, the proportion of population below the poverty line mounted to 68 percent in 2002. Since then, however, the poverty rate has been decreasing, and was about 30 percent in the first semester of 2007.

### B. Legal and Institutional Framework

9. The framework governing financial management in San Juan is provided by federal legislation (the most relevant laws are the federal Tax-Sharing Law and the Fiscal Responsibility Law<sup>3</sup>), and by provincial norms and regulations: the provincial Constitution, Accounting Law<sup>4</sup>, Financial Management Law<sup>5</sup> (which replaced the previous Accountancy Law), and Court of Accounts Organic Law<sup>6</sup>.

#### *Federal Government*

10. Public finance in Argentina reflects the quasi-confederal structure given by the country's Constitution. There are three levels of government: national, provincial, and municipal. Each province has its own constitution, executive, legislative, and judicial branches, and its own control entities. In 2008 the national government accounted for 55 percent of national-provincial consolidated non-financial public sector spending, while the 23 provinces and the Autonomous City of Buenos Aires accounted for the rest.

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<sup>3</sup> Law N° 25917, 2004.

<sup>4</sup> Law N° 2139, 1959.

<sup>5</sup> Provincial Law N° 6905, 1998. Through the implementation of the FML, the Province of San Juan seeks to reorganize its financial administration and reinforce the use of the public budget as a management instrument. The law provides the legal framework for building budgets based on programs and sets the foundation for an effective application of performance-based management.

<sup>6</sup> Law N° 5821 as amended (5894, 6293, 6406 y 7713)

11. Argentina is a good example of a federal system in which public expenditures are decentralized, being delegated to a great extent to the provinces, and tax revenue collection is centralized, remaining concentrated at the national level. The resulting vertical fiscal gap is financed through a system of transfers from the national government to the provinces. In 2007 these transfers represented almost 62 percent of the total consolidated provincial tax revenue.

12. The taxes collected by the national administration are allocated among the national and provincial governments through the tax sharing system. This system distributes the resources according to coefficients defined by Argentina's Law N° 23.548/88, as modified by many subsequent laws and federal and bilateral agreements. Article 75 of the 1994 national Constitution establishes that a new tax-sharing agreement should be approved by the end of 1996, but this constitutional requirement has not yet been satisfied; recent years have seen many failed attempts to introduce such a law.

13. Argentina's Fiscal Responsibility Law (FRL) defines the objectives and criteria of provincial fiscal discipline, and establishes the regulatory framework for bilateral financial agreements between the national government and provinces. The FRL also governs aspects related to PFM transparency, accountability, and sound fiscal performance. The Province of San Juan adheres to the Federal System of Fiscal Responsibility through Provincial Law N° 12402, 2005. In October 2009, Congress approved a suspension of key provisions of the Fiscal Responsibility Law for two years to avoid non-compliance of the law.

### ***Provincial Government***

14. San Juan's Ministry of Finance is responsible for the province's financial management through the provincial Directorate of Budgeting; the provincial General Treasury, and the provincial General Accounting Office (GAO). In practice, the GAO is in charge not only of accounting but also of internal control activities<sup>7</sup> and public credit.

15. The Court of Accounts, created by the provincial Constitution, is the external control unit, responsible for supervising the activities of the entire provincial government. One of its obligations is to submit an annual report on the current fiscal year general account to the Congress, within 30 days after the account has been approved.

### ***Public Sector in San Juan Province***

16. As shown in Table 2.1, the non-financial public administration consists of two subgroups: (i) the general administration (GA), representing 84 percent of provincial budgeted expenditures in 2008; and (ii) the Legislative and Judicial Branches (4 percent), fiduciary funds created to finance the building of a civil project<sup>8</sup> (3 percent), and "institutes and other entities" (9 percent).<sup>9</sup> In turn, the GA comprises the government's central

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<sup>7</sup> San Juan's Financial Management Law establishes that the internal control system will be in charge of the Province General Syndicate, but this institution has not yet been established.

<sup>8</sup> The Civic Center building, opened in April 2009.

<sup>9</sup> There are two Health Insurance Institutes: the Federal Health Program and the Provincial Health Insurance. Two other social assistance programs are also included in this category.

administration (about 60 percent of total budgeted expenditures in 2008), and twelve decentralized entities (25 percent).<sup>10</sup>

**Table 2.1. Province of San Juan: Public Expenditure of the Non-Financial Public Administration, by Administrative Classification**

*Millions of AR\$*

<b>Non-Financial Public Administration (NFPA)</b>	<b>Budget Law 2008</b>	<b>Percent</b>
<b>General Administration (GA)</b>	<b>2,586.6</b>	<b>84.6</b>
Central Administration (CA)	1,810.1	59.2
Consolidated Decentralized Entities (CDEs)	776.5	25.4
<b>Special Branches (SB)</b>	<b>116.8</b>	<b>3.8</b>
<b>Fiduciary Funds (FF)</b>	<b>83.2</b>	<b>2.7</b>
<b>Institutes and Other Entities</b>	<b>271.4</b>	<b>8.9</b>
<b>Total NFPA</b>	<b>3,058.0</b>	<b>100</b>

*Source:* Own elaboration based on information from the Financing, Savings, and Investment Schemes, General Budget 2008. Provincial Directorate of Budgeting, MOF, Province of San Juan.

### C. The Province's Fiscal Situation

17. The total revenue of the Province of San Juan amounted to AR\$3,153.0 million in 2008, representing about 34 percent of GGP. San Juan's revenue structure is similar to that of other medium and small provinces in Argentina in that it strongly depends on transfers from the national government, mainly received through the tax-sharing system. These transfers accounted for about 70 percent of provincial revenue in 2008.

18. The tax base within San Juan Province is relatively small, and some 90 percent of it comes from three taxes: turnover, automotive, and stamp taxes.<sup>11</sup> However, it is important to highlight the growth in local tax collection that took place during 2005-08, produced not only by vigorous economic growth but also by improvements in tax administration. The accumulated growth of the GA's revenue during this period was 119 percent.

19. In 2007 the primary executed public expenditures of San Juan's general administration were AR\$1,940 million, equivalent to 1.7 percent of Argentina's consolidated provincial primary expenditures. During 2005-08, the GA's total expenditures grew 145 percent, much more than revenue.

20. A more detailed analysis of San Juan's expenditures provides a better understanding of the province's fiscal situation.<sup>12</sup> First, GA current expenditures are very rigid, especially because a large share of them (38 percent) is used for payroll. Payroll expenditures finance around 33,000 public jobs, some 80 percent of which are long-term contracts, and more than 40 percent are teaching jobs (27 percent of total expenditure in 2008). The large number of teaching jobs mostly reflects the growth that has taken place in real direct investment over the last three years, with the initiation of various infrastructure projects in the province. More

<sup>10</sup> The Health Secretariat, Mining Directorate, Road Directorate, and the Housing Institute, among others.

<sup>11</sup> According to the latest available data, from 2007. The most important provincial taxes are the turnover tax (70 percent), automotive tax (9.4 percent), and stamp tax (7.5 percent). The information is expressed as a percentage of the total tax collection originating in the province in 2007.

<sup>12</sup> Annex A presents further detail.

than half of the provincial public expenditures<sup>13</sup> are devoted to social programs, basically in education, health, and housing. The operating costs of the GA take around 27.4 percent, on average.

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<sup>13</sup> The average for 2006-08 was 53.6 percent.



**Table 2.2. Province of San Juan: Executed Revenues and Expenditures of General Administration (CA and CDEs)***Millions of AR\$ and percentage of GGP*

General Administration	2005	% of GGP	2006	% of GGP	2007	% of GGP	2008	% of GGP
<b>a. TOTAL INCOME</b>	<b>1,440.9</b>	<b>30.7</b>	<b>1,880.8</b>	<b>30.6</b>	<b>2,409.5</b>	<b>31.9</b>	<b>3,152.9</b>	<b>34.0</b>
<b>I. Current Income</b>	<b>1,375.7</b>	<b>29.3</b>	<b>1,755.2</b>	<b>28.5</b>	<b>2,307.9</b>	<b>30.5</b>	<b>2,917.2</b>	<b>31.4</b>
Tax revenue (provincial origin)	182.6	3.9	229.6	3.7	307.4	4.1	394.5	4.2
Tax revenue (national origin)	1,126.8	24.0	1,364.8	22.2	1,785.0	23.6	2,255.7	24.3
Other non tax	64.8	1.4	1,36.1	2.2	184.2	2.4	205.4	2.2
Royalties	1.5	0.0	24.7	0.4	31.3	0.4	61.6	0.7
<b>II. Capital Income</b>	<b>65.2</b>	<b>1.4</b>	<b>125.6</b>	<b>2.0</b>	<b>101.6</b>	<b>1.3</b>	<b>235.7</b>	<b>2.5</b>
<b>b. TOTAL EXPENDITURES</b>	<b>1,116.6</b>	<b>23.8</b>	<b>1,581.9</b>	<b>25.7</b>	<b>1,991.1</b>	<b>26.3</b>	<b>2,740.4</b>	<b>29.5</b>
<b>III. Current Expenditures</b>	<b>898.6</b>	<b>19.1</b>	<b>1,187.7</b>	<b>19.3</b>	<b>1,541.8</b>	<b>20.4</b>	<b>2,009.1</b>	<b>21.6</b>
Payroll expenses	540.3	11.5	709.1	11.5	914.0	12.1	1,197.6	12.9
Debt Interests	37.7	0.8	46.6	0.8	50.9	0.7	33.9	0.4
Other current expenditures	320.5	6.8	432.1	7.0	577.0	7.6	777.6	8.4
<b>IV. Capital Expenditures</b>	<b>218.0</b>	<b>4.6</b>	<b>394.2</b>	<b>6.4</b>	<b>449.3</b>	<b>5.9</b>	<b>731.3</b>	<b>7.9</b>
Public works	145.2	3.1	307.4	5.0	327.6	4.3	514.6	5.5
Financial investment	72.4	1.5	80.8	1.3	116.2	1.5	215.6	2.3
Other capital expenditures	0.4	0.0	5.9	0.1	5.4	0.1	1.1	0.0
<b>V. Economic Result (I-III)</b>	<b>477.1</b>	<b>10.2</b>	<b>567.5</b>	<b>9.2</b>	<b>766.1</b>	<b>10.1</b>	<b>908.1</b>	<b>9.8</b>
<b>VI. Financial Result (a-b)</b>	<b>324.3</b>	<b>6.9</b>	<b>299.0</b>	<b>4.9</b>	<b>418.5</b>	<b>5.5</b>	<b>412.5</b>	<b>4.4</b>
<b>VII. Primary Result (VI + Debt Interests)</b>	<b>362.0</b>	<b>7.7</b>	<b>345.6</b>	<b>5.6</b>	<b>469.3</b>	<b>6.2</b>	<b>446.4</b>	<b>4.8</b>

21. Even though the fiscal surplus of the province fell from 7 percent of GGP in 2005 to 4.4 percent in 2008, as a consequence of the unequal growth in expenditures and revenues, the government's fiscal position remains very solid. An analysis of the government's indebtedness confirms this situation. The public debt stock was AR\$1,648.3 million at the end of 2008—much lower than in 2005. In 2002 the government exchanged provincial bonds for guaranteed bonds (BOGAR), as part of the provincial debt restructuring program implemented by the national government. Since then, most of the debt has been held with the national government.

22. The ratio of provincial public debt to GGP was only 18 percent at the end of 2008, less than half the amount of three years earlier, thanks to the progressive cancellation of debts with the national government, the steady repayment of public bonds used to build infrastructure projects, and the steady and strong provincial economic growth.

**Table 2.3. Province of San Juan: Public Debt Stock, by Type of Creditor***Millions of AR\$ and percentage*

<b>Type of creditor</b>	<b>2005</b>	<b>%</b>	<b>2006</b>	<b>%</b>	<b>2007</b>	<b>%</b>	<b>2008</b>	<b>%</b>
National Government <sup>(1)</sup>	1,408.4	73.1	1,387.4	74.4	1,293.0	72.2	1,269.9	77.0
International Institutions	157.5	8.2	144.8	7.8	132.0	7.4	135.8	8.2
Banking and Financial Institutions	22.1	1.1	23.2	1.2	23.8	1.3	24.2	1.5
Consolidated Debt	34.9	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Public Bonds	305.0	15.8	309.0	16.6	342.9	19.1	218.5	13.3
<b>Total Public Debt</b>	<b>1,927.8</b>	<b>100.0</b>	<b>1,864.4</b>	<b>100.0</b>	<b>1,791.7</b>	<b>100.0</b>	<b>1,648.3</b>	<b>100.0</b>

<sup>(1)</sup> Includes debts with the Fiduciary Fund for the Province Development, Federal Regional Infrastructure Fiduciary Fund, and other debts with the national government.

Source: Province and national MOF.

### 3. PFM REFORM: MAIN ACHIEVEMENTS AND CHALLENGES AHEAD

23. San Juan's budget process and PFM systems and practices show a mix of strengths and opportunities for improvement. The province's well functioning accounting and financial management systems contribute to fiscal discipline by providing adequate information, reporting, and control at the budget execution stage. San Juan has effective basic budget, accounting, and internal control processes, and a good record of both comprehensiveness and transparency in the budget. Several challenges need to be addressed, however. The budget focuses mostly on inputs, without considering outputs and outcomes, and is poorly linked to policy planning. The control framework in the province also requires significant improvement. This chapter describes the provincial government's recent PFM reforms and then, based on evidence obtained through the systematic use of PEFA indicators for 2006-08 (see Chapter 4), it highlights the main PFM-related strengths and opportunities for improvement.

#### A. Recent Achievements in PFM Reform

24. *Integrated financial information system.* Since 2005 San Juan has had a fully operational integrated system of financial information (SIIF). The SIIF facilitates transparency and speedy processing of financial information, offering online information on the budget, treasury, and accounting sub-systems, and facilitates the preparation of timely reliable reports on budget execution.

25. *Treasury single account system.* The provincial government has introduced a treasury single account (TSA); once it becomes fully operational it will bring significant efficiency in PFM. The TSA is based on a common account, or set of interconnected accounts, through which the government executes all its payments. It provides the government with essential financial services—including the processing of payments, accounting, fiscal reporting, and financial management—on a comprehensive and centralized basis; its networked computer systems integrate all of these functions for the Ministry of Finance and the line ministries and their spending units. The TSA gives decentralized spending units access to the funds they need to execute their budgets in a timely way, thus reducing payment arrears. It also provides for the proper management of cash, assets, and liabilities by maximizing the returns on available stocks and minimizing debt requirements.

#### B. Strengths of the PFM System

26. San Juan has effective basic budget, accounting, and internal control processes. In particular, the provincial budget has a good record of comprehensiveness and transparency. The provincial administration also performs well in accounting, recording, and reporting, and in some specific aspects of the predictability and control of budget execution.

27. *Budget comprehensiveness and transparency.* The comprehensive information included in San Juan's budget documentation allows for a complete picture of the government's fiscal forecasts, debt financing, budget proposals and out-turns from previous years.<sup>14</sup> The consolidated provincial fiscal reports cover practically the whole of public sector operations<sup>15</sup> and provide thorough information on donor/IFI-funded projects.<sup>16</sup>

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<sup>14</sup> See PEFA Indicator 6, Chapter 4.

<sup>15</sup> See PEFA Indicator 7, first dimension, Chapter 4.

28. **Accounting and reporting.** San Juan has significantly improved the quality and timeliness of its in-year budget reports. Budget execution reports, prepared by the provincial GAO, are complete and allow for comparisons between budget out-turns and the estimates included in the original budget. The reports are prepared and published in a timely manner and contain reliable information.<sup>17</sup> The provincial financial statements consolidated by the GAO are quite comprehensive, covering around 90 percent of the total NFPA, and are submitted to the Court of Accounts within six months after the end of the fiscal year, in compliance with the legal norms.<sup>18</sup>

29. **Predictability and control of budget execution.** San Juan's PFM systems and processes also perform well in the recording and management of cash balances, debt, and guarantees.<sup>19</sup> Among Argentine provinces, San Juan stands out for the quality of its debt recording. Provincial public debt is registered by the General Accounting Office in the debt management module of the SIIF, which allows all of the domestic and foreign debt to be efficient and transparently classified, registered, and monitored. Systems for contracting new loans and issuing guarantees are remarkably transparent: first, the fulfillment of the Financial Responsibility Law is checked and assured systematically by the national MOF; second, the approval of a specific provincial law is required for authorizing new loans or the issuance of guarantees; and third, the management of these operations relies exclusively on the provincial MOF.

### C. Challenges and Opportunities for Improvement

30. Some significant challenges remain. The first of these relates to the need for more performance-oriented allocation and use of resources, in particular with regard to policy-based budgeting and the predictability of cash flows for budget execution. The second concerns the need for a more effective and efficient control framework, in particular for payroll procedures, monitoring of fiscal risks, and quality of financial information.

#### ***Policy-based Budgeting***

31. Formulation of sound budgetary policies in San Juan is undermined by several factors. Unlike the provinces of Buenos Aires, Cordoba, or Santa Fe, San Juan does not regularly keep to a fixed budget calendar.<sup>20</sup> Guidance is limited for the preparation and submission of the budget.<sup>21</sup> Second, the provincial budget system focuses on inputs and annual data and does not consider outputs or outcomes. Although Argentina's FRL requires the provinces to set their annual budgets in the context of a multi-year framework, San Juan has yet to do this effectively. The FY 2006-08 provincial budget laws included multi-year projections of expenditures and revenues for the following two years, but these projections were not used to set the financial ceilings on subsequent budgets.<sup>22</sup> In the preparation of the budget, the links with policy planning are quite poor. Sector strategies with multi-year costing of recurrent and investment expenditure are prepared for transport and housing infrastructure projects but are rare otherwise.<sup>23</sup> The links between investment decisions and

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<sup>16</sup> See PEFA Indicator 7, second dimension, Chapter 4.

<sup>17</sup> See PEFA Indicator 24, Chapter 4.

<sup>18</sup> See PEFA Indicator 25, first and second dimensions, Chapter 4.

<sup>19</sup> See PEFA Indicator 17, Chapter 4.

<sup>20</sup> See PEFA Indicator 11, first dimension, Chapter 4.

<sup>21</sup> See PEFA Indicator 11, second dimension, Chapter 4.

<sup>22</sup> See PEFA Indicator 12, first dimension, Chapter 4.

<sup>23</sup> See PEFA Indicator 12, third dimension, Chapter 4.

sector strategies are quite weak. San Juan rarely includes any cost implications in its forward budget estimates.<sup>24</sup>

### ***Debt Sustainability Analysis***

32. San Juan does not conduct any debt sustainability analysis while preparing the budget.<sup>25</sup> Multi-year analysis and forecasting of provincial indebtedness is very important for all Argentine provinces, given the country's high public debt. The provincial GAO prepares a quarterly report that covers the stock of public debt. The provincial government also publishes annual information about the Investment Account.

### ***Cash Flow Predictability***

33. Poor forecasting of cash flows negatively affects budget execution and service delivery. Cash flow forecasts prepared by the provincial General Treasury (PGT), in coordination with the provincial Directorate of Budget, are sent to spending units at the beginning of the fiscal year. These forecasts are inaccurate, however, because they assume that the annual budget allocations are distributed proportionately. During the fiscal year, the PGT regularly monitors the cash flows of provincial resources, while the jurisdictional treasuries are responsible for monitoring their own.<sup>26</sup>

### ***Effectiveness and Efficiency of the Control Framework***

34. To improve the efficiency and effectiveness of the control environment, systems and processes could be strengthened in several areas.

35. *Payroll control.* Strengthening the internal control framework in human resource management and payroll remains a challenging area to improve in San Juan. First, personnel and payroll data are not linked.<sup>27</sup> Second, there are delays in processing changes to personnel records in the education sector, which lead to retroactive adjustments and make it difficult to ensure the timely integrity of data. Changes in personnel records are normally recorded within the month they have taken place, except in the education sector, which represents around 20 percent of the total personnel expenditures. Important delays remain in this area due to the teacher-substitution system and other restrictions established in the statutes for teachers.<sup>28</sup> Third, internal controls related to the change in personnel records and payroll are not enough to insure the integrity of the data in a timely manner, causing a need for frequent retroactive payments.<sup>29</sup>

36. *Aggregate fiscal risk.* There is no formal regular monitoring of the financial situation of state-owned enterprises. The Court of Accounts audits public enterprises and decentralized entities annually. Public enterprises must provide financial information to the Ministry of Infrastructure and Technology, but have no formal communication channel with the Ministry of Finance.<sup>30</sup>

37. *Information and reporting.* Information about primary service delivery units is limited. In the education sector, the financial information available at the General Directorate of Culture and Education is aggregated by educational level (primary or secondary school)

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<sup>24</sup> See PEFA Indicator 12, fourth dimension, Chapter 4.

<sup>25</sup> See PEFA Indicator 12, second dimension, Chapter 4.

<sup>26</sup> See PEFA Indicator 16, first dimension, Chapter 4.

<sup>27</sup> See PEFA Indicator 18, first dimension, Chapter 4.

<sup>28</sup> See PEFA Indicator 18, second dimension, Chapter 4.

<sup>29</sup> See PEFA Indicator 18, third dimension, Chapter 4.

<sup>30</sup> See PEFA Indicator 9, first dimension, Chapter 4.

but there is no description of the resources received by each school. In the health sector, detailed information is only available for the two main hospitals in the province.<sup>31</sup>

38. *Other challenges.* Control effectiveness is also weakened by the incomplete integration between the SIIF and other automated systems related to the execution of the budget. The provincial PMF legal framework system is incomplete, still being partially defined by the 1959 Accounting Law and the 1998 Financial Administration Law.

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<sup>31</sup> See PEFA Indicator 23, Chapter 4.

## 4. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

### A. Budget Credibility

#### PI-1. Aggregate expenditure out-turn compared to original approved budget

##### Overall rating “B”

Dimensions to be assessed	Score
<p><i>Difference between actual primary expenditures and originally approved budgeted primary expenditures.</i></p> <p>In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 percent of budgeted expenditure.</p>	<b>B</b>

39. A government’s ability to implement expenditure as budgeted is crucial to its ability to deliver public services for the year, fulfilling its commitments expressed in policy statements, output commitments, and work plans. PEFA indicator 1 measures this ability by comparing annual actual government expenditures to the original approved budget as defined by budget documentation and fiscal reports. The indicator is based on primary expenditures, which are measured by deducting from total expenditures two categories over which the government has little or no control: (i) interest payments on debt, and (ii) expenditures related to projects financed with external resources, whose management and reporting are typically under donor agencies’ control.<sup>32</sup>

40. The performance of the Province of San Juan on PI-1 is evaluated considering expenditures budgeted and executed by the general administration, fiduciary funds, and special branches, as defined in the budget law.<sup>33</sup> These expenditures represent about 91 percent of the non-financial public administration’s total expenditures.

**Table 4.1. Province of San Juan: Primary Expenditure Deviations<sup>(1)</sup>: Original Approved Budget vs. Out-turn, 2006-08**

*Millions of AR\$ and percentage*

Year	Budget Law <sup>(2)</sup> (millions of AR\$) (a)	Executed <sup>(3)</sup> (millions of AR\$) (b)	Deviation (a) - (b) (%)
2006	1,571.8	1,667.2	6.1
2007	1,900.7	2,141.3	12.7
2008	2,672.0	2,914.7	9.1

<sup>(1)</sup> Primary expenditures = total expenditures – interest debt payments.

<sup>(2)</sup> Original approved expenditures of the general administration, fiduciary funds, and special branches.

<sup>(3)</sup> Budget executed until December 31<sup>st</sup>. Accrual accounting method.

Source: Budget Laws and Savings Investment Financing Schedule until December 31<sup>st</sup>.

41. Table 4.1 shows the deviation of executed expenditures from budgeted expenditures during 2006-08, comparing actual primary expenditures to the expenditures reported in the original budget law. The table shows that in 2006-08 actual expenditures were significantly over-executed, being on average 9.3 percent higher than budgeted.

<sup>32</sup> For 2008, loans from international financial institutions executed by the GA amounted to AR\$31 million, representing less than 1 percent of the executed consolidated expenditures.

<sup>33</sup> Source: Ministry of Finance of the Province of San Juan.  
(<http://www.hacienda.sanjuan.gov.ar/presupuesto/ley.php>).

42. As shown in Annex A, while current expenditures have always been over-executed relative to the original budget, capital expenditures have tended to be under-executed. Actual current expenditures were higher than budgeted by 10.0 percent in 2006, 18.9 percent in 2007, and 14.7 percent in 2008; for capital expenditures the deviations were –3.5 percent in 2006, and -6.5 percent in both 2007 and 2008.

43. Once the adjustments and modifications to the budget introduced during the corresponding fiscal year are considered<sup>34</sup>, the deviations turn out to be negative; available resources are underused by about 19.7 percent each year. During 2006-08, provincial and national revenue out-turns typically turned out to be greater than forecast. The provincial authorities have taken a conservative approach to projecting their resources. But because 85 percent of the province’s tax revenues come from the national government, the provincial government’s ability to forecast and execute expenditures as budgeted depends critically on the national government’s revenue estimations incorporated in the national budget law.<sup>35</sup>

#### ***PI-4. Stock and monitoring of expenditure payment arrears***

##### ***Overall rating “B”***

Dimensions to be assessed	Scoring
<p><i>Stock of payment arrears (as a percentage of total actual expenditure for the corresponding fiscal year) and any recent change in the stock.</i></p> <p>The stock of arrears constitutes 2-10 percent of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25 percent) in the last two years.</p>	<b>B</b>
<p><i>Availability of data for monitoring the stock of expenditure payment arrears.</i></p> <p>Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.</p>	<b>B</b>

44. Expenditure payment arrears are expenditure obligations that have been incurred by the government and whose payment is overdue. For the government, they constitute a form of non-transparent financing. A high level of arrears can indicate a number of problems, such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items, or lack of information. PEFA Indicator 4 measures the stock of arrears and the extent to which the systemic problem is being addressed. While special exercises may be needed to identify and pay off old arrears, they will not be effective if new arrears continue to be created (payments due during the last year but not made). Most fundamental, however, is the assessment of the existence and completeness of data on arrears.

45. In San Juan, the amount of payment arrears is defined by the GA as floating debt, measured as the difference between accrued and paid amounts.

46. *Stock of expenditure payment arrears.* The stock of payment arrears of the GA decreased from 5.2 percent of total expenditure at the end of 2006 to 2.8 percent at the end of 2008. Most of these payment arrears are related to personnel expenditures<sup>36</sup> and transfers.

<sup>34</sup> Modifications and adjustments to the original budget introduced by specific resolutions from the MOF. The modifications introduced to the budget law represented increments of 37.4 percent, 41.9 percent, and 29.6 percent relative to the original budget in 2006, 2007, and 2008, respectively.

<sup>34</sup> See Annex A for more details.

<sup>35</sup> On average, the national government underestimated resources during 2006-08 by about 17 percent per year. See Annex A.

<sup>36</sup> Basically, salaries that were unpaid at the end of the period and salary contributions that were retained by the provincial General Treasury.



47. *Data availability on payment arrears.* In the GA, information about payment arrears is available only for some types of expenditures. The General Accounting Office is in charge of the registry system. This system provides detailed information about payment arrears including each payment, order and payment execution dates, etc., so that the seniority of arrears can be determined at every moment in the fiscal period. However, the system does not give information about the maturity of the payment arrears.

**Table 4.2. Province of San Juan: General Administration – Floating Debt**

*Thousands of AR\$ and percent of total expenditure*

<b>Expenditure Category</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>	
Personnel	46,119.8	2,7%	25,177.2	1,2%	28,105.5	1,0%
Suppliers and contractors	824.4	0,0%	6,729.2	0,3%	6,740.5	0,2%
Transfers	36,501.4	2,1%	11,760.1	0,6%	20,126.0	0,7%
Other	5,297.7	0,3%	12,621.1	0,6%	21,826.0	0,8%
<b>TOTAL</b>	<b>88,743.3</b>	<b>5,2%</b>	<b>56,287.5</b>	<b>2,8%</b>	<b>76,799.0</b>	<b>2,8%</b>

Source: MOF, Province of San Juan.

## B. Budget Comprehensiveness and Transparency

### PI-5. Classification of the budget

#### Overall rating “C”

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<p><i>The classification system used for formulation, execution and reporting of the provincial government's budget.</i></p> <p>The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.</p>	<b>C</b>

48. A robust classification system allows spending to be tracked on the basis of administrative unit, economic use, function, and program. Where standard international classification practices are applied, governments can easily track and monitor selected categories of expenditure. The international standard for classification systems is *Government Finance Statistics* (GFS), which provides the framework for economic and functional classification of transactions (Table 4.3). Under the UN-supported *Classification of Functions of Government* (COFOG), which is the functional classification applied in the GFS, there are ten main functions at the highest level and 69 functions at the second (sub-functional) level.

49. In the Province of San Juan, the expenditure classification used in the budget law and budget execution is comprehensive. Expenditures are classified and reported by institution, category, financing source, economic use, programs, and function. The integrated system of financial information (SIIF) includes a detailed classification by programs, but the formulation of a program budget is still at a very early stage of implementation. The provincial administration will gradually introduce program budgeting by jurisdiction. The functional classification only reports five different expenditure purposes<sup>37</sup> and is not as detailed as the one defined by the GFS.<sup>38</sup>

<sup>37</sup> The five expenditure categories by purpose are: Government Administration, Security Services, Social Services, Economic Services, and Public Debt. The purposes are subsequently divided into 28 functions. This is the same type of scheme as used by Argentina's national administration.

<sup>38</sup> Before the implementation of the Fiscal Responsibility Law, the provincial functional classification included additional categories. The classification was later reduced to make it compatible with the requirements established by the Law.

**Table 4.3. Functions Defined by GFS**

Nº	Function
1	General public services
2	Defense <sup>(1)</sup>
3	Security and law enforcement
4	Economic affairs
5	Environment protection
6	Housing and community services
7	Health Services
8	Recreation, culture, and religion
9	Education
10	Social protection

<sup>(1)</sup> Not relevant for provinces.

Source: IMF Government Finance Statistics Manual, 2001.

### **PI-6. Comprehensiveness of information included in budget documentation**

#### **Overall rating “B”**

Dimensions to be assessed	Scoring
Share of the above listed information in the budget documentation most recently issued by the provincial government (in order to count in the assessment, the full specification of the information benchmark must be met). Recent budget documentation fulfils 5-6 of the 9 information benchmarks.	<b>B</b>

50. The PEFA methodology establishes that annual budget documentation (the annual budget and budget supporting documents), as submitted to the Legislature for scrutiny and approval, should allow a complete picture of provincial government fiscal forecasts, budget proposals, and out-turns of previous years. To be considered complete, the annual budget documentation should include information on the nine elements listed in Table 4.4.

**Table 4.4. PEFA Methodology: Information That Should Be Included in the Budget Documentation**

1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation, and exchange rate.
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.
3. Deficit financing, describing anticipated composition.
4. Debt stock, including details at least for the beginning of the current year.
5. Financial Assets, including details at least for the beginning of the current year.
6. Prior year's budget outturn, presented in the same format as the budget proposal.
7. Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

51. In the Province of San Juan, annual budget documentation includes six out of the nine items shown in Table 4.4. Main budgetary documentation presented annually to the Legislature covers items 1, 2, 3, and 5, and revenue and expenditure data for the current and the previous fiscal year (item 8) are sent on a separate report to the commissions in the Legislative Branch that analyzes the budget. However, budget reports do not include information on the provincial debt stock (item 4) nor the current year's budget (item 7),<sup>39</sup> and

<sup>39</sup> Both items are regularly submitted though to the National Government, according to the Fiscal Responsibility Law.

information on the prior year's budget out-turn (item 6) is presented only to the provincial GAO through the fiscal year General Account.<sup>40</sup>

### ***PI-7. Extent of unreported government operations***

#### ***Overall rating “B+”***

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<i>The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.</i> The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5 percent of total expenditure.	<b>B</b>
<i>Income/expenditure information on donor-funded projects which is included in fiscal reports.</i> Complete income/expenditure information for 90 percent (value) of donor-funded projects is included in fiscal reports, and these expenditures represent less than 1 percent of executed expenditures of General Administration in 2008.	<b>A</b>

52. Annual budget estimates, in-year execution reports, year-end financial statements, and other fiscal reports for the public should cover all the budgetary and extra-budgetary activities of provincial government to allow a complete picture of government revenue, expenditures across all categories, and financing. PEFA Indicator 7 accounts for the relative size of extra-budgetary operations (government activities that are not included in the annual budget law, such as those funded through extra-budgetary funds), and for activities (mainly donor-funded projects) that are included in the budget but managed outside the government's budget management and accounting system.

53. *Level of unreported extra-budgetary expenditure.* In the Province of San Juan, the documentation included in the budget law (consolidated and annexes) covers 98 percent of the total resources of the NFPA. The budgets of some public enterprises, representing less than 2 percent of the NFPA, are not covered. The consolidated budget covers approximately 90 percent of total public resources. Annexes to the budget law provide information about institutes and other entities.

54. *Income/expenditure information on donor-funded projects that is included in fiscal reports.* External financing includes loans from international financial institutions (IFIs). The budget and fiscal reports provide complete information about the debt stock over time, debt amortizations and debt service to the IFIs. In 2008, the government paid AR\$31 million for donor-funded projects, representing less than 1 percent of the consolidated budgeted expenditures.

### ***PI-9. Oversight of aggregate fiscal risk from other public sector entities***

#### ***Overall rating “C+”***

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<i>Extent of provincial government monitoring of AGAs and PEs.</i> Most major AGAs/PEs submit fiscal reports to the provincial government at least annually, but a consolidated overview is missing or significantly incomplete.	<b>C</b>
<i>Extent of provincial government monitoring of sub-national governments' fiscal position.</i> The net fiscal position is monitored at least annually for the most important level of sub-national government, and provincial government consolidates overall fiscal risk into a report.	<b>B</b>

55. Municipal governments, autonomous government agencies (AGAs), public enterprises (PEs), and state-owned banks can potentially generate fiscal risks with important

<sup>40</sup> Information not sent to the Legislature during the budget approval period.

implications at the provincial level. Thus, the provincial government should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor their performance against financial targets. Consolidation of information is important for achieving an overview and reporting the total fiscal risk for the provincial government.

56. *Extent to which the provincial government monitors autonomous public sector entities and public enterprises.* The Court of Accounts audits public enterprises and decentralized entities annually. The public enterprises must provide financial information to the Ministry of Infrastructure and Technology. Though the PEs have no formal channel of communication with the Ministry of Finance, the MOF performs an informal evaluation of their financial statements. To request a loan from either the public or the private sector, a public enterprise must first obtain authorization from the national MOF and then the approval of the provincial Legislature and the provincial GAO.<sup>41</sup>

57. *Extent to which the provincial government monitors the fiscal situation of local governments.* The Ministry of Finance receives bi-monthly information about the 19 municipal governments in the province<sup>42</sup>, covering their budget execution, payroll, personnel data, local tax revenue, and floating debt. In this way the provincial government can monitor annually the fiscal position of local governments. Additionally, the Court of Accounts audits the municipal public accounts.

58. The procedure that municipal governments must follow to request loans is similar to that followed by the provincial government: local governments must request explicit approval from the provincial government through a report that is later monitored by the Court of Accounts, and, in addition, they must accept the conditions stated in the FRL.<sup>43</sup>

### ***PI-10. Public access to key fiscal information***

#### ***Overall rating “C”***

Dimensions to be assessed	Scoring
<p><i>Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).</i></p> <p>The government makes available to the public 1-2 of the 6 listed types of information.</p>	<b>C</b>

59. Transparency in the budget process depends on whether information on the fiscal plans, positions, and performance of the government is easily accessible to the general public or at least the relevant interest group.

60. For the information elements considered essential by the PEFA methodology, the documentation provided by San Juan’s provincial government is as follows:

- *Annual budget documentation:* The public can obtain a complete set of documents through the provincial government website when the budget is submitted to the Legislature.
- *In-year budget execution reports:* The reports are routinely made available to the public through the GAO’s website. Quarterly information at the general administration level is provided by jurisdictions.

<sup>41</sup> According to the Fiscal Responsibility Law and regulatory decree.

<sup>42</sup> All municipal governments adhere to the FRL.

<sup>43</sup> Article 25 and Annex VI, National Decree N° 1731/2004.

- *Year-end financial statements:* The Fiscal Year Account prepared by the GAO is not published.
- *External audit reports:* Audit reports for the fiscal year are not publicly available.
- *Contract awards:* Contracts awarded with values above approximately USD 100,000 are not published in the provincial government’s website.
- *Resources available to primary service units:* For both health<sup>44</sup> and education services, information about transfers to primary service units (schools, hospital, etc.) is available only at an aggregate level.

### C. Policy-Based Budgeting

#### PI-11. Orderliness and participation in the annual budget process

##### Overall rating “C”

Dimensions to be assessed	Scoring
<p><i>Existence of and adherence to a fixed budget calendar.</i> A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs’ budget preparation is clearly insufficient to make meaningful submissions.</p>	D
<p><i>Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).</i> A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p>	D
<p><i>Timely budget approval by the Legislature or similarly mandated body (within the last three years).</i> The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p>	A

61. While the Ministry of Finance is usually the driver of the annual budget formulation process, effective participation in this process by other ministries, departments, and agencies, as well as the political leadership<sup>45</sup>, affects the extent to which the budget will reflect macroeconomic, fiscal, and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual.

62. *Existence of and adherence to a fixed budget calendar.* The Province of San Juan does not have a fixed calendar for budget formulation that determines the deadlines for each stage. In practice, budget formulation usually begins between July and August, and the average review time by the Legislature is more than 30 days.<sup>46</sup>

63. *Clarity and comprehensiveness of, and political involvement in, the guidance on the preparation of budget submissions.* The provincial Directorate of Budget (PDB), under the Ministry of Finance, submits a budget booklet to each jurisdiction, requesting it to prepare a preliminary budget following a standardized format. Once these preliminary budgets are received, the PDB communicates the financial ceilings for public investment only, and

<sup>44</sup> Detailed expenditure information is presented for the two most important provincial hospitals, the Dr. Guillermo Rawson Hospital and the Dr. Marcial Quiroga Hospital. For the rest, only aggregate information is available in the budget itemization of the Ministry of Health.

<sup>45</sup> By “political leadership” is meant the leadership of the Executive, such as the Cabinet or equivalent body.

<sup>46</sup> During the period studied, the proposed budget was presented to the Legislature in the first week of November and the budget law was published around the third week of December.

determines the analytic distribution by jurisdictions. Then, the PDB requests the definite approval of the budget by the Governor. After the budget has been approved, jurisdictions make the necessary adjustments.

64. *Timely budget approval by the Legislature.* During 2006-08, the Legislature consistently approved the budget in a timely manner before the beginning of the fiscal year. The budget law has always been published before December 31<sup>st</sup>.

### ***PI-12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting***

#### ***Overall rating “D+”***

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<i>Preparation of multi -year fiscal forecasts and functional allocations.</i> Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	<b>C</b>
<i>Scope and frequency of debt sustainability analysis.</i> No DSA has been undertaken in the last three years.	<b>D</b>
<i>Existence of sector strategies with multi-year costing of recurrent and investment expenditure.</i> Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.	<b>D</b>
<i>Linkages between investment budgets and forward expenditure estimates.</i> Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	<b>C</b>

65. Expenditure policy decisions should have a multi-year perspective and be aligned with the availability of resources in the medium-term perspective. For effective allocation of resources and to allow budget planning of public policies, budget formulation needs to take a multi-year perspective, founded on multi-year fiscal forecasts of revenue, medium-term expenditure aggregates for mandatory expenditure, and potential deficit financing.

66. *Multi-year fiscal forecasts and functional allocations.* As specified by the Fiscal Responsibility Law, during 2006-08 the provincial budget laws included multi-year projections of expenditures and revenues for the following two years.<sup>47</sup> However, there is no evidence that the multi-year projections were used to set financial ceilings on subsequent budgets, and no report explaining the differences between the projections and the actual values.

67. *Scope and frequency of debt sustainability analysis.* The GAO prepares a quarterly report covering all the public debt, and publishes annual information about the investment account. This account incorporates projections of amortizations and debt interest for the current fiscal year. Because of the lack of a multi-year analysis of future provincial indebtedness, the score assigned to this dimension of public finance management is the lowest, i.e., “D.”<sup>48</sup>

68. *Existence of sector strategies with multi-year costing of recurrent and investment expenditure.* Sector strategies with multi-year projections are developed in sectors such as Health and Education, but Ministry of Finance’s involvement in this process and linkage between budget and sector strategies are limited.

<sup>47</sup> The multi-year budget projections cover resources by type of expenditure, function, object, investment programs, municipal co-participation, type of debt, and budget policies.

<sup>48</sup> An adequate debt sustainability analysis would consist in this case of the construction of medium-run projections (at least two or three years) of the ratio of debt/GGP under different assumptions about economic growth, provincial fiscal performance, interest rates, exchange rates, the institutional and financial relationship with the national government, etc.

69. *Linkages between investment budgets and forward expenditure estimates.* Investment plans are presented for the main sectors, including information about multi-year investment costs. When the multi-year budget is formulated, the operating costs of the most important projects are considered. However, the limitations concerning sectoral strategies make for a weak link between investment planning and the subsequent budget. A Public Investment Project Database<sup>49</sup> currently operates within the Secretariat of Public Management, under the Ministry of Finance. The investment projects are registered by the Secretariat of Public Works, within the Ministry of Infrastructure and Technology, and by the jurisdictions.

#### D. Predictability and Control in Budget Execution

##### *PI-16 Predictability in the availability of funds for commitment of expenditures*

**Overall rating “D+”**

Dimensions to be assessed	Scoring
<i>Extent to which cash flows are forecast and monitored.</i> Cash flow planning and monitoring are not undertaken or of very poor quality.	D
<i>Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.</i> MDAs are provided reliable information for one or two months in advance.	C
<i>Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.</i> Significant in-year budget adjustments are frequent, but undertaken with some transparency.	C

70. Effective execution of the budget, in accordance with work plans, requires that the spending ministries, departments, and agencies (MDAs) of the provincial administration receive reliable information on what funds they can commit for recurrent and capital inputs. PEFA Indicator 16 assesses the extent to which the provincial MOF provides reliable information on the availability of funds to the MDAs that manage administrative (or program) budget heads (or votes) in the provincial government budget and are therefore the primary recipients of such information from the MOF.

71. *Extent to which cash flows are forecast and monitored.* At the beginning of the fiscal year, the provincial Directorate of Budgeting (PDB) determines the commitment quotas, and coordinates with the provincial General Treasury (PGT) to prepare a monthly cash flow forecast for the jurisdictions for the whole year. However, the monthly projections are inaccurate, being based on the assumption that the annual budget allocations are proportionally distributed. During the fiscal year, the PGT regularly monitors the cash flows of provincial and national resources, while the jurisdictional treasuries are responsible for their own resources.

72. *Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.* Ceilings for expenditure commitments are set monthly and adjusted depending on the availability of resources and the financial needs of the jurisdictions. Reliable information is provided one month in advance. As long as the jurisdictions comply with the established expenditure ceilings, they are free to spend what they have been assigned. If the jurisdictions need to spend more than their quota, they must seek the approval of PDB and PGT one month in advance. Additional spending requirements must not exceed the annual budget credit unless the budget has been previously adjusted.

<sup>49</sup> This database was designed following the national model. It is not connected with the SIIF.

73. *Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.* Adjustments to budget allocations are frequent, as noted above, and in 2008 they added up to AR\$588 million, or 37.4 percent of the original budget. In San Juan the budget law normally delegates to the Executive the power to modify the budget by decree. To make the process more transparent, the province ought to require the Executive to follow certain specific rules and regulations. In particular, it ought to require a new law to be approved if the budget modifications entail additional financing or an increase in provincial debt.

### **PI-17. Recording and management of cash balances, debt, and guarantees**

#### **Overall rating “A”**

Dimensions to be assessed	Scoring
<i>Quality of debt data recording and reporting.</i> Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly.	<b>A</b>
<i>Extent of consolidation of the government’s cash balances.</i> Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	<b>B</b>
<i>Systems for contracting loans and issuance of guarantees.</i> Provincial government’s contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.	<b>A</b>

74. *Quality of debt data recording and reporting.* Maintenance of a debt data system and regular reporting on the main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

75. San Juan Province’s public debt is recorded by the GAO using the debt management module of the SIIF. Use of this module allows the entire domestic and foreign debt to be efficiently and transparently classified, recorded, and monitored. GAO can also prepare quarterly reports containing detailed information about debt service, stock, and operations. Since the registration of the debt information is directly carried out in the SIIF, the information can be organized and structured very easily.

76. *Extent of consolidation of the government’s cash balances.* The consolidation of the bank accounts of the GA is organized as follows:

- The Treasury Single Account (TSA) serves the central administration and is managed directly by the provincial General Treasury; funds in the TSA are calculated and consolidated daily.
- More than 400 accounts are part of the Unified Fund (UF)<sup>50</sup> which serves the rest of the jurisdictions and decentralized entities; funds in the UF are calculated and consolidated daily.

<sup>50</sup> The UF is a contract between the Bank of San Juan and the provincial General Treasury under which the Bank performs a daily consolidation of the bank accounts by regrouping their balances into a single temporary account. At the beginning of the following day, the balance of the UF is automatically redistributed without modifications to the original accounts. The UF incorporates the bank accounts of decentralized entities and revolving funds that cover the minor expenditures of each institution.



- Jurisdictional special accounts are related to specific programs of the national government at the National Bank. These are not subject to daily calculation and consolidation.

77. The provincial General Treasury is responsible for administering all issues related to the opening, closing, and management of bank accounts.

78. *Systems for contracting loans and issuing guarantees.* The government contracts loans and issues guarantees following transparent criteria and fiscal goals established by the Law of Fiscal Responsibility. The National MOF checks the fulfillment of these criteria.<sup>51</sup> Next, the provincial government requires the approval of an indebtedness law authorizing these operations and delegates its management exclusively to the provincial MOF .

### ***PI-18 Effectiveness of payroll controls***

#### ***Overall rating “C”***

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<i>Degree of integration and reconciliation between personnel records and payroll data.</i> A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.	<b>C</b>
<i>Timeliness of changes to personnel records and the payroll.</i> Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.	<b>C</b>
<i>Internal controls of changes to personnel records and the payroll.</i> Controls exist, but are not adequate to ensure full integrity of data.	<b>C</b>
<i>Existence of payroll audits to identify control weaknesses and/or ghost workers.</i> Partial payroll audits or staff surveys have been undertaken within the last 3 years.	<b>C</b>

79. The effectiveness of payroll controls depends on the extent to which payroll information is integrated in a personnel database. This database, sometimes called the “nominal roll,” should list all staff who should be paid every month; it should be verifiable against the approved establishment list and the individual personnel records or staff files. The link between the personnel database and payroll is a key control. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

80. In San Juan Province, the wage bill represented 38.3 percent of the total budgeted expenditures in 2008.

81. *Degree of integration and reconciliation between personnel records and payroll data.* Personnel records and payroll data are not directly linked through an automated process in the Province of San Juan. The Human Resource System, replicated in every jurisdiction, is consolidated and managed by the provincial Directorate of Information Technology within the Ministry of Finance. These data are transmitted monthly to the SIIF and then used to pay the wage bill. Consolidated reconciliation between payroll payments and personnel records exists, but with some limitations, e.g., with low frequency (every 6 months on average), and generally taking place after adjustments on personnel records were already done.

<sup>51</sup> If the criteria are not fulfilled, the National MOF does not authorize the loan or the issuance of the guarantee.

82. *Timeliness of changes to personnel records and the payroll.* Changes in personnel records are normally recorded within the month they have taken place, except in the education sector, which represents 20 percent of total personnel expenditures. There are important delays in this area due to the teacher-substitution system and other restrictions established in the teacher statutes.

83. *Internal controls of changes to personnel records and the payroll.* Internal controls related to changes in personnel records and payroll includes a monthly registry that is prepared by the provincial Directorate of Information Technology. The reconciliation of this registry is carried out by the delegates of the GAO in each jurisdiction. However, these controls are not enough to insure in a timely manner the integrity of the data, again resulting in frequent retroactive payments.

84. *Existence of payroll audits.* The Court of Accounts audits annually payroll balances, and carries out a review of payroll internal control procedures. However, the latter focuses on financial aspects only, and does not cover all MDAs. Additionally, the GAO reconciles the payroll with the National Social Service Administration.

#### ***PI-20. Effectiveness of internal controls for non-salary expenditure***

##### ***Overall rating “C+”***

<b>Dimensions to be assessed</b>	<b>Scoring</b>
<i>Effectiveness of expenditure commitment controls.</i> Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	<b>C</b>
<i>Comprehensiveness, relevance, and understanding of other internal control rules/procedures.</i> Other internal control rules and procedures incorporates a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.	<b>B</b>
<i>Degree of compliance with rules for processing and recording transactions.</i> Compliance with rules is fairly high, but simplified procedures are used occasionally without adequate justification.	<b>B</b>

85. *Effectiveness of expenditure commitment controls.* San Juan Province has a commitment stage for all expenditure categories including minor expenditures that are paid using revolving funds. This commitment stage is registered in the SIIF by the accounting departments of each jurisdiction. During the registration thorough control measures are applied, in order to keep expenditure commitments consistent with the cash available (monthly financial quotas) and budget allocations: (i) controls within the SIIF (conformity with budget allocations and availability); and (ii) registry conformity validation by the GAO delegate in each jurisdiction. However, there is no effective and comprehensive procurement plan to ensure that the product that has been acquired fulfils the intended purpose of the expenditure.

86. *Comprehensiveness, relevance, and understanding of other internal control rules/procedures.* An effective internal control system is in place and its rules and regulations are fully understood. The controls covering all budget execution stages are implemented using the SIIF and by the GAO delegates in each jurisdiction. The ex-ante controls carried out by the GAO delegates cover the preventive assignment, definite commitment, and accrual stages, while the controls within the SIIF focus on the accrued commitment and payment stages. There is no formal manual explaining the rules governing the internal control practices, but the norms issued by the GAO are published on the GAO website.

87. The degree of compliance with internal control rules and regulations is high.

**Table 4.5. Province of San Juan: Stages of the Budgeting Process**

Stage	Registry of Budget Execution	Responsible
Preventive expenditure assignment and verification of the budget entry		Jurisdictional Accounting Area
Control of preventive expenditure assignments, prior to the registration of the commitment		GAO Delegate
Expenditure commitment – Registry in SIIF	Registration in SIIF	Jurisdictional Accounting Area
Control of the expenditure commitment		GAO Delegate
Expenditure accrued – Registry in SIIF	Registration in SIIF	Jurisdictional Accounting Area
Expenditure payment - Request of fund to the PGT		PGT
Review of expenditure		COA Delegate

The accounting registration is automatically carried out through the SIIF after the accrual stage of the budget registration.

### ***PI-21. Effectiveness of internal audit***

#### ***Overall rating “C+”***

Dimensions to be assessed	Scoring
<i>Coverage and quality of the internal audit function.</i> The function is operational for at least the most important provincial government entities and undertakes some systems review (at least 20 percent of staff time), but may not meet recognized professional standards.	<b>C</b>
<i>Frequency and distribution of reports.</i> Reports are issued regularly for most audited entities are distributed to the audited entity, the ministry of finance, and the SAI.	<b>B</b>
<i>Extent of management response to internal audit findings.</i> A fair degree of action taken by many managers on major issues but often with delay.	<b>C</b>

88. The General Audit Department within the provincial GAO is in charge of internal audit. It is chaired by a Department Chief and staffed by four auditors, who have the required professional background.

89. *Coverage and quality of the internal audit function.* The General Audit Department (GAD) only performs ex-post audits. Its activities are defined in its annual plan. Audits are performed in a timely manner and focus on the financial aspects of specific programs financed by the national government. There is no procedures manual and the methodology followed by the GAD is not in line with international audit principles and standards.

90. *Frequency and distribution of reports.* The General Audit Department systematically produces a report after concluding each audit. The conclusions and recommendations in these reports are sent to the audited jurisdictions, the Ministry of Finance, and the Court of Accounts. However, there are no fixed deadlines for the preparation of reports.

91. *Extent of management response to internal audit findings.* Most of the jurisdictions adopt corrective measures in response to recommendations by the General Audit Department with a significant delay.

### E. Accounting, Recording, and Reporting

#### PI-22. Timeliness and regularity of accounts reconciliation

##### Overall rating “B”

Dimensions to be assessed	Scoring
<p><i>Regularity of bank reconciliations.</i> Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.</p>	<b>B</b>
<p><i>Regularity of reconciliation and clearance of suspense accounts and advances.</i> Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.</p>	<b>B</b>

92. *Regularity of bank reconciliations.* As explained earlier, the provincial administration’s flows of funds are managed in three ways: (i) the Treasury Single Account managed directly by the provincial General Treasury; (ii) the Unified Fund at the Bank of the Province of San Juan, which groups together jurisdictional and other government entities’ bank accounts; and (iii) special accounts with allocations that are earmarked by the national government, generally at the National Bank.

93. The reconciliation of these bank accounts is performed as follows:

- Treasury Single Account: daily reconciliation.
- Unified Fund accounts: monthly reconciliation, by their respective treasuries, of bank accounts belonging to decentralized entities<sup>52</sup>, and annual reconciliation of revolving funds and other jurisdictional accounts.
- Jurisdictional special accounts: monthly reconciliation by the GAO, comparing the information from the SIIF to the accounts’ balances.

94. *Regularity of reconciliation and clearance of suspense accounts and advances.* Advances—defined as cash payments made, from which no expenditures have yet been recorded—are only authorized for the management of minor expenditures and revolving funds. During the fiscal year, advances are registered in suspense accounts, compensated in the corresponding budget accounts once expenditures are incurred, and later restored. The balances of the suspense accounts are cleared and closed at the end of each fiscal year.

#### PI-23. Availability of information on resources received by service delivery units

##### Overall rating “D”

Dimensions to be assessed	Scoring
<p><i>Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.</i> No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.</p>	<b>D</b>

95. Information about the resources actually received by front-line service delivery units (for example, schools, health clinics) is very important to guarantee that the resources are used for their intended purpose, avoid delays in transfers of resources, and prevent unjustified reallocations.

<sup>52</sup> There is no regulation stating that this monthly control should be satisfied.

96. In the Province of San Juan, the information about primary service delivery units is limited. In education, the financial information available at the General Directorate of Culture and Education is aggregated by educational level (primary or secondary) and there is no description of resources received by each school. In health, detailed information is only available for the two main hospitals in the province.

**PI-24. Quality and timeliness of in-year budget reports**

**Overall rating “B+”**

Dimensions to be assessed	Scoring
<i>Scope of reports in terms of coverage and compatibility with budget estimates.</i> Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages.	<b>B</b>
<i>Timeliness of the issue of reports.</i> Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	<b>A</b>
<i>Quality of information.</i> There are no material concerns regarding data accuracy.	<b>A</b>

97. *Scope of reports in terms of coverage and compatibility with budget estimates.* The budget execution reports prepared by the GAO are complete and cover the whole central administration. It is possible to compare (at an aggregate level, since detailed information by type of expenditure by the jurisdictions is not included) the budget execution to the estimates in the original budget. The budget and accounting classifications are equivalent and they are incorporated into the SIIF, which integrates the budget, accounting, and treasury systems. The reports cover the commitment, accrual (in the province this stage is called “ordered to pay”), and payment stages of the budget execution.

98. *Timeliness of the issuance of reports.* Reports on budget execution are prepared quarterly by the General Accounting Office, and published in a timely manner within four weeks after the end of the quarter. Jurisdictions and other government entities have access to these reports through the official website.

99. *Quality of information.* Budget reports generated from the SIIF present accurate and reliable information, which helps to assure an effective internal control system.

**PI-25. Quality and timeliness of annual financial statements**

**Overall rating “C+”**

Dimensions to be assessed	Scoring
<i>Completeness of the financial statements.</i> A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure, and financial assets/liabilities.	<b>B</b>
<i>Timeliness of submission of the financial statements.</i> The statement is submitted for external audit within 6 months of the end of the fiscal year.	<b>A</b>
<i>Accounting standards used.</i> Statements are presented in consistent format over time with some disclosure of accounting standards.	<b>C</b>

100. *Completeness of the financial statements.* The financial statements of the provincial NFPA are consolidated by the GAO. Statements from the public enterprises and some

entities, which together represent 11 percent of the total expenditures of the NFPA, are not included.<sup>53</sup>

101. *Timeliness of submission of the financial statements.* The GAO complies with the submission requirements for the financial statements. During 2006-08, the financial statements were received by the Court of Accounts within six months after the end of the fiscal year, in compliance with the legal norms.<sup>54</sup>

102. *Accounting standards used.* Financial statements are presented in a coherent format over time in line with national accounting practices and norms.

## F. External Scrutiny and Audit

### PI-26. Scope, nature, and follow-up of external audit

#### Overall rating “C”

Dimensions to be assessed	Scoring
<i>Scope and nature of audit performed.</i> Provincial government entities representing at least 50 percent of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.	C
<i>Timeliness of submission of audit reports to legislature.</i> Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors).	C
<i>Evidence of follow-up on audit recommendations.</i> A formal response is made, though delayed or not very thorough. but there is little evidence of any follow-up.	C

103. The Court of Accounts (COA) is responsible for the external control of the public sector in the Province of San Juan. Its functions are established by the Constitution of the Province of San Juan and by the Organic Law.

104. *Scope and nature of audit performed.* The annual external audit by the COA covers all revenues and expenditures of the public sector. It focuses mainly on financial aspects and the review of transactions.

105. *Timeliness of submission of audit reports to Legislature.* According to the provincial Constitution, the COA must send an audit report of the public accounts to the Legislature within twelve months after the end of the period covered. In 2006-08, the COA complied with this calendar.

106. *Evidence of follow-up on audit recommendations.* A partial formal response is presented, but with some delay. There is little evidence of follow-up on audit recommendations.

<sup>53</sup> The water and sewerage and energy companies, and social security institutions are not included.

<sup>54</sup> Financial statements corresponding to the fiscal year closing December 31<sup>st</sup> should be sent before June 30<sup>th</sup> of the following year.

## ANNEX A – TABLES

**Table A.1. National Administration: Deviations Between Budgeted and Revenue Out-turns <sup>(1)</sup>***Millions of AR\$.*

Year	Budget Law (a)	Revenue Out-turns (b)	Deviation (b) - (a) %
2006	112.419	126.406	12,4
2007	137.802	164.451	19,3
2008	185.601	218.231	17,6
<b>Average 2006-2008</b>	<b>145.274</b>	<b>169.696</b>	<b>16,8</b>

<sup>(1)</sup> Revenues include domestic taxes and taxes on international trade.

Source: Own elaboration based on information from the budget laws, MOF.

**Table A.2. Province of San Juan: Primary Expenditure Deviations: Original Approved Budget vs. Out-turn, 2006***Millions of AR\$*

	Budget Law <sup>(1)</sup> (a)	Modifications <sup>(2)</sup> (b)	Definitive budget (c) = (a) + (b)	Variation in Budget Law %	Executed (d)	Deviation (d) - (a) %	Deviation (d) - (c) %
Current Expend.	1,144.0	276.0	1,420.0	24.1	1,258.7	10.0	-11.4
Capital Expend.	471.8	316.0	787.8	67.0	455.1	-3.5	-42.2
<b>Total</b>	<b>1,615.8</b>	<b>592.0</b>	<b>2,207.8</b>	<b>36.6</b>	<b>1,713.8</b>	<b>6.1</b>	<b>-22.4</b>
Debt Interests	44.0	4.8	48.8	10.9	46.6	5.9	-4.5
<b>Total Primary Expend.</b>	<b>1,571.8</b>	<b>587.2</b>	<b>2,159.0</b>	<b>37.4</b>	<b>1,667.2</b>	<b>6.1</b>	<b>-22.8</b>

<sup>(1)</sup> Original approved expenditures of the central administration.<sup>(2)</sup> Changes to the budget law introduced during the fiscal year.

Source: Own elaboration based on information from the Financial Information Integrated System (SIIF) provided by the Directorate of Budgeting, Province of San Juan.

**Table A.3. Province of San Juan: Primary Expenditure Deviations: Original Approved Budget vs. Out-turn, 2007***Millions of AR\$*

	Budget Law <sup>(1)</sup> (a)	Modifications <sup>(2)</sup> (b)	Definitive budget (c) = (a) + (b)	Variation in Budget Law %	Executed (d)	Deviation (d) - (a) %	Deviation (d) - (c) %
Current Expend.	1,381.5	465.1	1,846.6	33.7	1,642.0	18.9	-11.1
Capital Expend.	588.3	331.6	919.9	56.4	550.2	-6.5	-40.2
<b>Total</b>	<b>1,969.8</b>	<b>796.7</b>	<b>2,766.5</b>	<b>40.4</b>	<b>2,192.2</b>	<b>11.3</b>	<b>-20.8</b>
Debt Interests	69.1	0.4	69.5	0.6	50.9	-26.3	-26.8
<b>Total Primary Expend.</b>	<b>1,900.7</b>	<b>796.3</b>	<b>2,697.0</b>	<b>41.9</b>	<b>2,141.3</b>	<b>12.7</b>	<b>-20.6</b>

<sup>(1)</sup> Original approved expenditures of the central administration.<sup>(2)</sup> Changes to the budget law introduced during the fiscal year.

Source: Own elaboration based on information from the Financial Information Integrated System (SIIF) provided by the Directorate of Budgeting, Province of San Juan.

**Table A.4. Province of San Juan: Primary Expenditure Deviations: Original Approved Budget vs. Out-turn, 2008***Millions of AR\$*

	Budget Law <sup>(1)</sup> (a)	Modifications <sup>(2)</sup> (b)	Definitive budget (c) = (a) + (b)	Variation in Budget Law %	Executed (d)	Deviation (d) - (a) %	Deviation (d) - (c) %
Current Expend.	1,868.6	414.0	2,282.6	22.2	2,143.4	14.7	-6.1
Capital Expend.	861.0	353.3	1,214.3	41.0	805.2	-6.5	-33.7
<b>Total</b>	<b>2,729.6</b>	<b>767.3</b>	<b>3,496.9</b>	<b>28.1</b>	<b>2,948.6</b>	<b>8.0</b>	<b>-15.7</b>
Debt Interests	57.6	-22.8	34.8	-39.6	33.9	-41.1	-2.6
<b>Total Primary Expend.</b>	<b>2,672.0</b>	<b>790.1</b>	<b>3,462.1</b>	<b>29.6</b>	<b>2,914.7</b>	<b>9.1</b>	<b>-15.8</b>

(1) Original approved expenditures of the central administration.

(2) Changes to the budget law introduced during the fiscal year.

*Source:* Own elaboration based on information from the Financial Information Integrated System (SIIF) provided by the Directorate of Budgeting, Province of San Juan.



**ANNEX B – LIST OF STAKEHOLDERS INTERVIEWED**

<b>NAME</b>	<b>POSITION/ORGANIZATION</b>
Ferrer, Luis Alberto	Secretary of Finance. Ministry of Finance.
Herrera, Rafael	General Accountant of the Province. Ministry of Finance.
Rosales, Julio	Secretariat of Finance. Ministry of Finance.
Jordan, Alfredo	General Treasurer of the Province.
Fernández, Mario	General Sub-treasurer of the Province.
Puleri, Juan	Provincial Director of Budgeting and Financial Control. Secretariat of Finance. Ministry of Finance.
Román, Graciela	Provincial Directorate of Budgeting. Secretariat of Finance. Ministry of Finance.
Vargas, Jimena	General Treasury of the Province.
Gioja, Leonardo	Director of the San Juan Investment Development Agency.
Parra, Germán	Legal and Administrative Manager of the San Juan Investment Development Agency.
Sánchez, Jimena	San Juan Investment Development Agency.
Puerta, Marisu	San Juan Investment Development Agency.