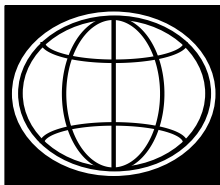


**Republic of Bulgaria
Institutional Fiduciary Assessment (IFA)
of Road Executive Agency**

July 31, 2006

Operations Policy and Services
Europe and Central Asia Region



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ABBREVIATIONS AND ACRONYMS

CFAA	Country Financial Accountability Assessment	IT	Information Technology
COA	Court of Accounts (State audit institution)	MOF	Ministry of Finance
CPAR	Country Procurement Assessment Report	MRDPW	Ministry of Regional Development and Public Works
ECA	Europe and Central Asia Region, World Bank	MOT	Ministry of Transport
ECSIE	Infrastructure Department, Europe and Central Asia Region, World Bank	PCN	Project Concept Note
ECSPS	Operations Services and Policy Department, Europe and Central Asia Region, World Bank	PFM	Public Finance Management
EIB	European Investment Bank	PIFCA	Public Internal Financial Control Agency
EU	European Union	PPA	Public Procurement Act
FY	Fiscal/Financial Year	PPAg	Public Procurement Agency
IAU	Internal Audit Unit	REA	Road Executive Agency
IBRD	International Bank for Reconstruction and Development (or the World Bank)	SIGMA	Support for Improvement in Governance and Management in Central and Eastern Europe
IFIs	International Financial Institutions	TA	Technical Assistance
IFRs	Interim Un-audited Financial Reports	WB	World Bank
IS	Information Systems		

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REPUBLIC OF BULGARIA
INSTITUTIONAL FIDUCIARY ASSESSMENT OF ROAD EXECUTIVE
AGENCY

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EXECUTIVE SUMMARY

Background and objectives of Institutional Fiduciary Assessment

Governments use public resources, including borrowings from international financial institutions, to implement programs and reforms. Therefore, the government is accountable to its citizens and taxpayers for the economic and efficient use of public funds. Sound public financial management is central to fulfilling fiduciary responsibilities.

This Institutional Fiduciary¹ Assessment (IFA) of the Road Executive Agency (REA) was commissioned by the World Bank (WB) country and infrastructure sector management in connection with the government's request to provide the World Bank financing for a new Road Infrastructure Project (project). The IFA was used as a tool to assess the performance of the REA in regard to the financial management and procurement systems in order identify the areas in REA's public finance management that can be further strengthened to improve utilization of public funds irrespective of the source of financing. The Government wants to improve the condition of Class II and III roads so as to enhance the population's access to markets and enterprises in small towns and rural areas and enhance business opportunities in rural areas expected after the EU accession. Second, REA wants to improve its road management system in order to be able to prepare multiyear road maintenance programs under a constrained budget environment. Third, the Government wants REA to strengthen its technical and managerial capacity to efficiently implement ongoing and future road projects, especially those to be partly financed with EU grants.

The World Bank fiduciary team worked in Sofia from mid May to early June 2006. The IFA report prepared following the mission presents recommendations to improve REA's policies and practices in the area of public finance management. These recommendations are based on good practice and internationally acceptable standards, and are applicable irrespective of the source of financing (state budget, internal and external borrowing, including the loans from the World Bank or EU post-accession grants). The World Bank team intends to share this report with the counterparts in the country (Ministry of Finance, Ministry of Transport, Ministry of Public Works and Regional Development and REA).

Summary of Findings and Recommendations

This section presents a summary table of fiduciary issues and risks attached to the financial management and procurement arrangements in connection with REA's re-organization into an extra-budgetary fund responsible for the national road network, including new construction and maintenance. The list of issues identified by the World Bank fiduciary team during field work from May to early June 2006 is by no means considered exhaustive. The team was not provided full access to all the required

¹ For the purpose of this report "fiduciary" includes financial management and procurement

information and documents, thus, only enabling the team to assess REA's internal control framework at a very general level without the possibility of checking the application of the control in practice. Therefore, the IFA report presents only limited observations, findings and recommendations based on interviews and meetings both at REA and other relevant institutions listed in Annex 4. The report does not provide a detailed action plan but identifies the areas to be looked at more closely, including with the help of additional technical assistance.

The first part of the table includes issues and recommendations that are directly attributable to the country's general fiduciary systems and, therefore, do not fall within the direct influence of REA. These need to be addressed through different channels by initiating a dialogue with the Government at the marco-level. The second part of the table deals with the areas that are under REA's direct responsibility, thus, representing basic recommendations to improve the public finance management system overall that would have a direct effect on the use of any funds, irrespective of the source of financing (EU post-accession funds, state budget, loans from international financial organizations like EIB or IBRD).

Table 1: Summary of Findings and Recommendations

Area	Findings /Issue	Recommendations for Capacity-building Measures, including through implementation of Road Infrastructure Project
PART I: COUNTRY LEVEL		
Budget planning, formulation and execution	<p>Multiple sources of financing for roads rehabilitation and maintenance managed by more than one entity.</p> <p>Budget lacks key performance indicators.</p>	<p>The Government may consider consolidating management of funding sources for roads maintenance and rehabilitation by one entity.</p> <p>Introduction of key performance indicators in the budgeting exercise will be consistent with the Government's efforts to move towards programmatic based budgeting. In the case of REA, the Government may consider adding key performance indicators to accompany the budget to measure REA's (including regional branches) annual performance and report on the use of budget funds.</p>
Transparency and Financial Accountability to the Taxpayers	Limited public disclosure of audit reports	State audit institution (Court of Accounts) may consider following an example of Supreme Audit Institutions in other countries (including the EU) in making the completed audit reports of budget entities publicly available in full version following official approval.
Procurement legislative and regulatory framework	Following adoption of the new public procurement law in 2006 (effective as of July 1, 2006), Bulgaria has completed, national legislation alignment with	Development of implementation regulations, model tender documents and national procurement cadre training are required to facilitate implementation of the new law. Revision and further development of regulations governing public procurement below threshold set up in the new public procurement law is advisable.

Area	Findings /Issue	Recommendations for Capacity-building Measures, including through implementation of Road Infrastructure Project
	the respective EU directives. Lack of implementation regulations imposes a risk of misinterpretation of the law when applied by different procuring entities.	Introduction of benchmarking to measure public procurement system capacity and performance can be recommended to the government and, if there is an interest, the World Bank's assistance can be provided by sharing OECD/WB developed set of indicators and methodology to assess and monitor performance of the public procurement system and the main procuring entities that are the major spenders of public funds.
PART II: INSTITUTIONAL (REA) LEVEL		
Legislative and corporate governance framework	REA's fragmented organizational structure: various departments have parallel fiduciary arrangements and lines of reporting.	To take an advantage of REA's current re-organization it is advisable to commission a functional review of the main business processes to enable REA to efficiently manage increased volume of activities and transactions once EU post-accession funds become available.
	No decision on the implementing unit in charge of structural and cohesion funds yet. Need to define institutional mandate and a long term strategy following REA's	REA may want to consider developing an institutional strategy and action plan to prepare for changes needed to efficiently utilize EU structural and cohesion funds. Best practices and procedures already in place in REA can be expanded throughout the agency (for example, in regard to the financial management REA's department dealing with ISPA funds, i.e. the ISPA Implementing Agency). Procedures and control systems set up within this department can be used as an example for adopting the appropriate part(s) of it for the use throughout REA). Following REA's re-organization and amendment to the Road Act it is advisable to develop an institutional mandate defining the role and division of responsibilities of REA's headquarters and its regional

Area	Findings /Issue	Recommendations for Capacity-building Measures, including through implementation of Road Infrastructure Project
	re-organization.	branches. Moreover, exchange of experience with, and benchmarking against, road agencies in other countries considered best practice, especially those utilizing EU funds, is recommended. Road Infrastructure project can be used to establish twinning arrangements with another national road agency as well as finance exchange programs and study tours.
Budgeting	Budget contains financial information only and is not linked to performance/outputs.	REA's annual budget can include targeted performance outputs (physical measures) or performance indicators consistent with the country's programmatic based budgeting approach. Piloting use of performance indicators in the budget process can be done at the institutional level without waiting for respective changes at the country level.
Financial Transparency and Accountability	Lack of publicly available information related to REA's performance, budget and execution.	REA's approved annual budget, including targeted performance outputs and annual achievements/performance progress can be made publicly available online. Publication of annual entity's report, including <i>inter alia</i> descriptions of activities and projects completed during the budget year, financial statements, audit opinion, plans for future years, in addition to posting REA's annual audit report on its website would be consistent with best international practice; Moreover, once Bulgaria becomes an EU member, REA would need to comply with EU requirements on disclosure of public information.
Procurement Procedures	Different sections of REA are using different procurement procedures	Following EU membership public procurement law would apply to procurement contracts financed from the state budget and EU funds. Harmonization of procurement procedures throughout REA would

Area	Findings /Issue	Recommendations for Capacity-building Measures, including through implementation of Road Infrastructure Project
	depending on the rules and requirements of the financier.	empower it to negotiate the use of the country systems, irrespective of funding source. (Contracts financed by ISPA and PHARE funds would be an exception as these have to follow the EU regulations, in particular the Practical Guide)
Procurement documentation (standard bidding documents)	Different units of REA following public procurement law are using different formats/models of procurement documentation.	It is advisable to develop standard/model documents for works, goods and consulting services (design and technical supervision) to be used in accordance with the new public procurement law (effective July 1, 2006) throughout REA, including regional branches. Such model documents/templates can be posted on internal website for easy access by REA experts. It will have a direct impact on the effectiveness of the procurement function
Records Management (Procurement filing system)	Procurement records are kept in hard copies in different units responsible for respective procurement.	The anticipated increase in volume and number of procurement actions when EU structural and cohesion funds become available in 2007 necessitates developing an electronic procurement filing system, or, at a minimum, to utilize <i>Ivestor</i> software module which allows electronic storing of signed contracts, variation orders and amendments. Access to and sharing of electronic files will increase time efficiency of staff dealing with procurement, contracting and payments.
Cash Management and Flow of funds	Increased importance of accurate cash flow planning for first level spending units.	Following re-organization, REA will become a first level budget spending unit directly under the MOF. Such change will have direct impact on volume of transactions, payments and the importance of accurate cash flow forecast. REA will need to strengthen the consolidated cash flow planning for its entire operation, including regional branches.
Accounting and financial reporting	Insufficient control over the data input in the accounting system.	The same accountants who make journal entries should not have the right to make changes once the day is closed. If changes in the journal entries are needed, only the chief accountant or assigned supervisor should have this authority. Upgrading the existing accounting software is recommended, to be able to

Area	Findings /Issue	Recommendations for Capacity-building Measures, including through implementation of Road Infrastructure Project
		close each month without possibility of changing the data. If errors are found corrections should be undertaken the following month by adjusting the journal entry.
Information systems (IS)	Various information systems are not integrated; ISPA program funds and expenditures are not included in REA's accounting records.	REA may want to consider development of a long term IT strategy, including the possibility of integrating existing and new IT systems for the main business processes, including technical, financial, and physical outputs into an integrated Management Information System; Once REA becomes an extra-budgetary fund, MOF is recommended to consolidate all records related to funds managed within REA (including still on-going ISPA and PHARE programs) in one accounting system.
Internal Audit and Control	Internal audit function is in early stage of development.	To facilitate speedy development of internal audit function within REA to the following is recommended to: (a) increase the number of internal audit staff according with the approved scheme; (b) develop a training plan for internal audit staff in order to obtain certified internal auditors status; (c) develop a consolidated operational manual containing internal control, budgeting, accounting, procurement, reporting policies and procedures.
External Audit	No regular audit of REA has been done on an annual basis with the exception of annual audit of budget execution.	Annual financial and performance audit to be performed (it is understood that national Court of Accounts has already planned for it).

1. PREFACE

The work was carried out by a joint financial management and procurement task team of the Operations Services and Policy Department of Europe and Central Asia Region of the World Bank comprising Maria Vannari (Sr. Procurement Specialist and Team Leader), Mirela Mart (Financial Management Specialist), Iwona Warzecha (Sr. Financial Management Specialist), Blaga Djourdjini and Antonia Viyachka (Procurement Analysts), Valeria Nikolaeva and Ilyas Butt (Team Assistants). The fiduciary team would like to express its appreciation to the experts of the Ministries and REA who participated in the meetings and interviews².

The IFA is limited to the assessment of REA that is responsible for implementation of the government road rehabilitation and maintenance investment program and does not cover the entire road sector. The IFA is not an audit nor it intended to provide assurance on the specific uses to which World Bank or public funds have been or may be applied.

² Annex 4

2. BACKGROUND AND SCOPE

2.1 Bulgaria Road Sector

Bulgaria is about to become a member of the European Union (EU) in January 2007. This EU accession process is the major influence in Bulgaria's economic and social reforms now underway. The experiences of other states that have successfully completed the EU accession process clearly show the importance of structural reforms in public finance management to ensure effective use of public funds and absorption of substantial amounts of EU grants that will be coming to the country following the accession.

For this reason, the Ministry of Finance (MOF) and Ministry of Regional Development and Public Works (MRDPW) have requested the World Bank (WB) to assist in preparation of the national roads maintenance program that would be supported by the two subsequent investment operations (of EUR90 mil and EUR120 mil respectively) co-financed by the World Bank targeting improvements in the national road network. Supporting Government's efforts to improve the national road network will allow Bulgaria to quick-start the improvement in the condition of Class II and III roads, and in road safety, thereby improving the quality of life in rural areas. Secondly, such support would assist the Road Executive Agency (REA) to improve its management capacity, including public finance management to be properly prepared for its new role starting from 2007 onwards.

Responsibility for the main road network (19,000 km) is entrusted with the Road Executive Agency (REA), until recently subordinate to the MRDPW, and now being restructured as a semi-autonomous Government agency to be governed by a Board representing the Ministry of Finance (MOF), the Ministry of Transport (MOT) and the MRDPW. Despite a strong engineering tradition, REA has not strengthened its capacity as much as road agencies in other EU accession countries. In particular, modern road management systems and road works implementation methods have only partially been introduced in Bulgaria, and as a result, public funds are not used as efficiently as they should be, and there are concerns that this might affect the efficient absorption of EU funds available for the road sector from the date of the membership.

The proposed project would include two main components:

2.2 Institutional Fiduciary Assessment (IFA)

Fiduciary Assessment Framework

Scope of work to assess the capacity of REA was based on the materiality of specific revenue cycles and expenditure categories concentrating on the following three areas:

- Current status and strategic directions of the REA
- Legislative and corporate governance framework
- Legislative scrutiny of the management of public funds (oversight mechanism)
- Planning and Budgeting

- Procurement arrangements and management
- REA procurement practices (including identification of differences between the entity's procurement practices and documents and those acceptable to the Bank with the purpose of finding the ways of removing these differences)
- Asset management
- Records management
- Accounting and financial reporting
- Contract management (including handling complaints from contractors and/or public)
- Cash management and flow of funds
- Information systems (IS)
- Internal control systems and internal audit
- Auditing (financial, performance, procurement)
- Transparency, public access to information (including upcoming contract opportunities and award of contracts).

The IFA was not an audit nor it intended to provide assurance on the specific uses to which World Bank, public funds or EU funds have been or may be, applied.

The information and data were primarily collected during the meetings and interviews without having an opportunity to conduct random walk-through test to follow the processes and flows of documents and information throughout the complete business cycle of REA. The following chapter outlines the findings and recommendations of the IFA to the extent it was possible in the circumstances.

3. INSTITUTIONAL FIDUCIARY ASSESSMENT OF THE ROAD EXECUTIVE AGENCY (REA)

3.1 Current status and strategic directions of the REA

The Ministry of Regional Development and Public Works (MRDPW) is responsible for state planning and development policy of road infrastructure³. The Ministry of Transport supports and develops international activities on the trans-European transportation Corridors. Responsibility for class I, II and III roads (19,000 km) is entrusted with the Road Executive Agency (REA) which, until recently, was a second level budget spender within the administration of the MRDPW. Municipal roads are managed by the mayors of their respective municipalities and private roads are managed by their owners. Municipalities and owners should coordinate with REA on the construction design and the linking of their roads with the national roads.

In April 2006 the government has announced the plan to amend the Road Act and restructure REA into a “semi-autonomous” government agency – Road Investment Fund (Fund) to be governed by a Board representing the Ministry of Finance, the Ministry of Transport, and the MRDPW. The new entity will be funded from several sources such as designated income from vignette, loans, other road user charges, and contributions from the state budget and will be responsible for new construction, rehabilitation and maintenance of the national road network.

Despite a strong engineering tradition going back more than 100 years, REA is not as strong as road agencies in other EU accession countries. In particular, modern road management systems and road works implementation methods have only partially been adopted, and as a result, public funds are not used efficiently, and there are concerns that this might affect the efficient absorption of EU grant funds available for the road sector. The Government is aware of this situation but needs support to design and implement an institutional development program for REA. Other IFIs finance construction and rehabilitation of Class I roads but rarely assist with institutional development. Their projects, for efficiency reasons, are also implemented by “enclave” units, often requiring hiring additional staff and consultants, and can only have limited spillover effects on REA’s capability. In the long run, existence of several parallel systems and procedures reduces efficiency of an overall management and increases administrative apparatus and overhead costs.

The proposed changes in the Roads Act will also be prerequisites for optimal planning and implementation of the Operational Programs Transport and the Regional Development Program as well as for the European structural funds absorption. The Transport Program will finance construction, rehabilitation and modernization of existing highways, first class roads of national, European and transnational importance. The

³ Road Act, 2000 with further amendments in 2000, 2002-2006. A new draft amendment is being discussed by the Government and will reflect REA’s restructuring.

Regional Development Program will finance the remaining second- and third-class roads. The newly established Fund will take over the assets and liabilities, rights and obligations of REA.

3.2 Legislative and corporate governance framework

As of the date of this report REA is a legal entity financed from the state budget and revenues from its own activities. REA is headed by an Executive Director who is appointed by the Minister of Regional Development and Public Works. The operation, structure, organization and composition of the Executive Agency are established by Decree Nr. 143/2000 of Cabinet of Ministers (Road Act). The Executive Director implements the policy in respect to the roads and is responsible for general road activities in the country: research, analyses and forecast for roads transport, development of programs for development and improvement of the road network, prepares proposals for changes to the list of national roads, carries out public procurement procedures for construction, rehabilitation, repair and maintenance of the national road network, and coordinates investment projects amongst other things⁴. The Expert Technical and Economic Body is an auxiliary body of the REA that examines, approves and recommends for approval by the Executive Director, all feasibility studies and designs for the construction, repair and maintenance of the national roads.

REA operates through its Central Management headquarters (HQ), 27 regional Road Authorities (regional branches), the Central Roads and Bridges Laboratory (CRBL) and the Fees and Permits Authority. REA is organized in directorates, directorates are organized in departments, and departments are organized in sectors. The organizational structure of REA is included in Annex 1 to this report.

The existing organizational structure of REA is the result of parallel implementation arrangements set up for various projects financed from different sources, including EU and international financial institutions that require different fiduciary and reporting arrangements. Such arrangements proved to work for REA in the past but would need to be changed once Bulgaria becomes a member of the EU and has access to post-accession EU grants, would have to follow national public procurement law and international standards for public finance management. Following the accession, REA becomes the final beneficiary for both structural and cohesion EU funds. Cohesion funds provided to the Ministry of Transport under Operational Priority “Transport“ will co-finance construction of highways and Class I roads projects implemented by REA. Structural funds provided to the MRDPW under Operational Priority “Regional Development“ will finance Class II and III roads also implemented by REA. Therefore, it is apparent that there will be significant increase in volume of activities and transactions that REA’s existing structure and capacity may not be able to handle. Thus, internal organizational alignment, integration of functions and harmonization of procedures and documents would increase administrative and management efficiency in managing public and EU funds.

⁴ Article 21, Road Act

There are islands of excellence within REA which can be used as a best practice and expanded throughout the agency. For example, the directorate in charge of ISPA program (ISPA Implementing Agency) has exemplary financial management and internal control procedures developed following the EU requirements for management of pre-accession funds. However, it is not clear whether ISPA unit that has also applied for EDIS accreditation will be charged with implementation of the projects funded from EU post-accession funds. If it is not, EDIS accreditation can not be count towards REA's preparedness for absorption of EU funds.

Fragmentation of fiduciary functions within REA, consolidation of decision making authority in the hands of a top executive of the agency represents a potential risk to undermine transparency of the business process and use of funds. Fiduciary functions and procedures can and should be streamlined. REA may want to consider commissioning a functional review of the main business processes in order to make a decision on the most effective organizational structure to respond to the changing needs and new mandate of the agency as well as providing concrete recommendation on segregation of authoritative power within the agency. Moreover, the role of regional branches that are currently responsible primarily for routine seasonal maintenance may need to be re-defined and their capacities strengthened to start taking over implementation of rehabilitation projects (funded primarily from structural funds) while REA's headquarters can concentrate on large infrastructure projects funded from cohesion funds. This is one of the options that will increase the absorption capacity in a relatively short period of time.

Summary of Recommendations:

- To take advantage of REA's current re-organization it is advisable to commission a functional review of the main business process with the purpose of setting up an efficient organizational structure and segregation of duties and decision making authorities to enable REA to efficiently manage increased volume of activities and transactions once EU post-accession funds become available.
- REA may want to consider development of an institutional strategy and an action plan to prepare for the changes needed to efficiently utilize EU structural and cohesion funds. Best practices and procedures already in place in REA can be expanded throughout the agency. (For example, in regard to the financial management REA's department dealing with ISPA funds, i.e. ISPA Implementing Agency, represents a best practice. Procedures and control systems set up within this department can be adopted for the use throughout REA).
- Following re-organization of REA and amendment to the Road Act it is advisable to develop an institutional mandate defining the role and division of responsibilities of REA's headquarters and its regional branches;
- REA can benefit from practical experience of other national road agencies, including "new" EU member countries or "old" EU member countries that successfully utilized EU funds (e.g. Spain). REA can contact these road agencies

directly. Alternatively, the World Bank can assist in establishing contacts with the road agencies in countries of REA's choice. Moreover, exchange of experience with and benchmarking against road agencies in other countries that are considered best practice, especially those using EU funds, is recommended. The proposed Road Rehabilitation project can be used to finance twinning partnerships with other national road agency(es) in addition to finance exchange programs and study tours.

3.3 Budget Planning, Formulation and Execution

REA is currently a second level budget spending unit within the MRDPW. Therefore, REA's annual budget is included in the MRDPW's budget. Also, the budget execution is monitored by the MRDPW on a monthly basis through review of REA's aggregate financial reports, including a separate report on the use of the foreign funds.

The budget planning process works as follows: the MRDPW prepares a preliminary budget, including input from REA, and submits it to the MOF for further analysis and preparation of the final version.

Following the government's efforts to move towards multi-year programmatic budget planning, REA's budget is prepared for a three-year period and includes a detailed annual budget. It is then approved (as part of the MRDPW's overall budget) during the annual state budget approval process. The budgeting process is a balancing act between a top-down approach (as REA receives a target amount from the MRDPW) and a bottom-up approach (when REA's technical departments come up with their proposals that look like a "wish-list" at times).

The budget is prepared in conformity with the budget classification following the Law for the Structure of the State Budget. There is little flexibility to move the funds from one budget line to another and it can be done only with prior approval by the MOF. The budget includes only financial information. There is no requirement by law to include physical target information. There is also phasing by month available but it is used only by the accounting department for cash forecasting purposes.

Investment projects co-financed by foreign sources and corresponding co-financing requirements receive a priority during budget planning exercises. The remaining amounts are allocated to the departments based on the management decision on the work program priorities. In addition, past years information is taken into account when preparing the budget for the following year.

In summary, REA's budget cycle timeframe follows the following pattern:

- (a) *June-July*: proposals from technical departments are collected by the Economic Analysis and Planning department of REA;
- (b) *September*: detailed annual budget draft is submitted to the MRDPW for discussions with REA management and the MOF;

- (c) *November- December*: state budget is discussed and approved by the Parliament;
- (d) *January*: the approved budget is sent to REA through the MRDPW by the MOF;
- (e) *January- February*: REA makes adjustments to the budget taking into account the activities that have already taken place;
- (f) *June*: the proposal for budget revisions is submitted by REA to the MRDPW and the MOF.

Once the Roads Act is amended and REA becomes a new Republican Roads Infrastructure fund, it will no longer function as a secondary budget user under the MRDPW. The draft amendment to the Law which the Bank team reviewed in July 2006 states that the new fund will be an extra-budgetary fund and it will fall under the provisions and regulations of the State Budget Act, being consolidated with the total State Budget. The sources of financing for the new entity include: state budget subsidies and transfers allocated annually under the State Budget Law, road fees, interest payments, donations, aids and other attracted resources from local and foreign sources, other funds allocated by law or by act of the Council of Ministers.

Therefore, the new fund will function as a first level budget spender in terms of budget planning, formulation and execution, but will be a separate legal entity, managed by a Managing Board, following the Rules of procedures to be set forth by the Council of Ministers. The provisions of the Law for Administration will not be applicable for the new Fund.

Compare to what is considered a true first level budget spender, the difference in case of REA will be treatment of excess of income versus expenditures at the end of the budget year. In case of REA it will be treated as a transitional balance that is allowed to be carried over to be used for the intended purpose during the following budget year.

Currently, there are several “self-independent” units within REA responsible for implementation of investment projects for roads construction and rehabilitation funded by the EIB, ISPA, PHARE, and, in the past, the EBRD. As a result, the budget for the national road network is fragmented by the source of funding which dilutes the overall responsibility for budget management and duplicates administrative, fiduciary and reporting functions.

The budget is perceived as an administrative requirement and it not used by the management for decision making purposes, except for basic monitoring of actual expenditure versus planned ones. Introducing performance indicators will increase the budget role as an active tool in monitoring and measuring performance, increase staff ownership over the processes they are measured against. Introduction of a scorecard with key indicators for REA’s activity can be a first step in measuring the performance in a simple way. It is advisable for the scorecard to contain both physical and financial indicators.

As a next, REA can think of a process of regular management summarized presentation of main achievements/ issues encountered/ status of the works, allowing the management to take better informed decisions and to suggest corrective measures if needed.

The World Bank fiduciary mission did not receive requested information on REA's annual budget and annual financial statements. Therefore, the IFA could not analyze the structure of the revenues and expenditures of the REA. Neither it was possible to assess the actual process of budgeting from preparation through execution to analyze budget outcomes.

Summary of Recommendations:

- REA's may consider including targeted performance outputs (physical measures) or performance indicators in the budget to complement financial information and to be consistent with the programmatic based budgeting approach that is being adopted in the country. Piloting performance indicators use in the budget process can be done at the institutional level without waiting for respective changes at the country level. Introduction of key performance indicators in the budgeting exercise will be consistent with the Government's efforts to move towards programmatic based budgeting.
- The approved annual budget, including targeted performance outputs as well as REA's annual achievements/performance progress can be made publicly available and disclosed on REA's website. Publication of annual entity's report, including *inter alia* descriptions of activities and projects completed during the budget year, financial statements, audit opinion, plans for future years, as well as posting REA's annual audit report on its website would be consistent with the best international practice.

Moreover, once Bulgaria becomes an EU member, REA would need to comply with the EU requirements on disclosure of public information.

3.4 Procurement arrangements and management

Procurement function and responsibilities are organized according to the source of funding and several units administer procurement throughout the REA using different procedures and model documents.

Procurement of contracts financed from the state budget and Public Investment Projects Ltd (PIP Ltd.)⁵ follows the public procurement law procedures and are administered by several departments in REA depending on the type of investment project and expenditures (for example, new construction of highways and Class I roads, major repairs

⁵ Public Investment Projects Ltd (PIP Ltd.) is a financial intermediary that provides financing to REA for rehabilitation of agreed sections of the national road network as approved by the Council of Ministers annually. Under a cooperation financing agreement signed between REA and the PIP Ltd., REA acts as a procuring entity and contracting authority on behalf of the PIP.

or rehabilitation, maintenance rehabilitation, design, technical supervision on site, IT and computer equipment, and goods). Each department/section uses its tender documents developed by that department/section. Therefore, there are variations in application of the public procurement law throughout REA. For example, the public procurement law provides use of the merit point system in the evaluation of the bids as an option. Depending on which department/section of REA is doing procurement, merit point systems may or may not be used.

REA procurement staff primarily has engineering background. They have access to training in public procurement provided by the Ministry of Finance (MOF) and the Public Procurement Agency (PPAg) on an ad hoc basis (mainly following the changes in the law and applicable regulations). The last training with an overview of the changes in the new public procurement law was offered by the PPAg on May 30 and 31, 2006 and was attended by several REA staff.

Procurement of contracts financed from EU funds under ISPA and PHARE programs follow the EU procurement procedures for pre-accession funds (i.e. Practical Guide) and are administered by separate sections within PHARE and ISPA departments. Tender documents are prepared following the EU model/templates of the Practical Guide.

Procurement of contracts financed by the EIB (and also by the EBRD in the past) is administered by the Construction Financed by IFI Department and is using tender documents developed by an international consulting firm (Project Manager and Procurement Consultant). Bidding (tender) documents prepared for the EIB projects are using FIDIC based works contracts and are non contradictory to the provisions of the public procurement law. The merit point system is not used. Contracts above EUR5 million are conducted on the basis of an open tender with participation of foreign bidders. Bidding (tender) documents are issued in the English language.

REA has significant experience in conducting open tenders with participation of foreign bidders and use the advertisement and bidding documents in English in such cases. While the IFA was not able to review the statistical data, the interviews and advertisements of results of the contract awards found on the website of REA and the PPAg show that contract award to foreign contractors is not a rare occurrence.

The area of main concern is contract implementation and administration. While no statistics were provided to the Bank team, the interviews indicated that all awarded contracts for civil works were completed with substantial budget over-runs. The practice of having cost estimates prepared by the design firm as part of the Bill of Quantities no longer is practiced in Bulgaria. Thus, REA does not have in-house expertise to estimate the costs of planned construction or rehabilitation works. It is left to the bidders to offer the price (with no base line comparison to cross check if there are bid rigging or contractors collusion cases) and to the technical supervision firm to approve increases and cost overruns during contract administration phase. In case of the EIB financed contracts, the project management consulting firm that prepares bidding documents also prepares cost estimates on the basis of the Bill of Quantities prepared by the design firm.

The same consulting firm then assists REA in the bidding process and selection of a contractor and, then, in approving increases in the budget and submitted payment claims. It is advisable to either develop in-house expertise to estimate the costs of planned works (even though this is no longer mandatory by law) or include it in the terms of references of outsourced firms preparing the design and bill of quantities.

Procurement carried out by regional branches

Limited number of expenditures is procured by the regional branches. These are primarily limited to goods and works required for the roads seasonal maintenance (e.g. sand and salt for winter maintenance, routine maintenance service contracts, etc.). Tender documents are prepared by the regional branches and submitted to the Legal Support section in the Legislative Attendance (Support), Registry and Human Resources department for review and clearance. The lawyer from the Legal Support section and an engineer from a respective technical department who is assigned to oversee this particular region review the tender documentation, including technical specifications, bills of quantities, etc. and approve it. Once the tender process is completed, the evaluation report and the draft contract are submitted again to REA's headquarters for another round of similar review and clearances. This is done for all contracts irrespective of the amounts.

Summary of Recommendations:

- Following EU membership public procurement law would apply to both, procurement carried out under financing from the state budget and EU funds. Harmonization of procurement procedures throughout REA would empower the agency to have a stronger negotiating basis with the international financial institutions to allow the use of the country systems irrespective of the source of funding. (Contracts financed by ISPA that would continue till 2011 and PHARE funds would be an exception as these have to follow the EU regulations, in particular Practical Guide).
- It is advisable to develop standard/model documents for works, goods and consulting services (design and technical supervision) to be used in accordance with the new public procurement law (effective July 1, 2006) throughout REA, including regional branches. Such model documents/templates can be posted on the internal website for easy access by REA experts. It will have a direct impact on effectiveness of procurement function.
- It is advisable to either develop in-house expertise to estimate the costs of planned works or include it in the terms of references of outsourced firms preparing the design and bill of quantities.

3.5 REA procurement practices under Public Procurement Law

Procurement practices and procurement documents described below are subject to changes following effectiveness of the new public procurement law in July 2006. REA staff is currently undergoing training organized by the PPAg to familiarize themselves

with the changes brought in by the new law and respective EU directives that the law was aligned with⁶.

Tender documents. Tender documents developed by respective sectors of REA dealing with particular procurement that is subject to the public procurement law include application terms, technical requirements, technical specifications, methodology for comprehensive evaluation of tenders form, sample forms (guarantees, etc), bid form and sample contract form. The application form (*similar to the Bank's Instructions to Bidders*) includes terms and conditions for tendering. It elaborates on qualification requirements for participation such as number of years of experience in construction of roads, experience in implementing contracts of similar nature and scope, etc. Minimum experience requirements, technical and financial requirements are announced in advance in the tender documents. There is no restriction in terms of the bidders' nationality. However, there is a requirement for experience in similar works contracts in Bulgaria. Foreign companies may participate on their own or in a joint venture with the local firms (there are no restrictions). Tender documents for goods, works technical and consultant services are sold to interested bidders for a nominal fee that covers production of copies. Tender documents must be purchased from REA to be accepted for the evaluation.

Securities. The amount of the participation security (*bid security*) required (for goods, works, technical and consultant services) is up to 1% of the estimated contract value. The participation security may be forfeited if a bidder decides to withdraw the offer after the submission deadline during the validity period of the offer. The validity of bid security is equal to the bid validity period.

The performance security is maximum 5 % of the actual contract value excluding the VAT. In case of consulting contracts performance security is calculated on the basis of the contract amount without VAT and it is indicated that it is valid up to the expiration of the term of the contract. A sample contract form is not attached to the tender documents. At the same time the contract form indicates that the performance security will be released within 10 days after expiration of the contract term, which contradicts the information in the instructions to the consultants.

Prequalification is usually carried out for large works contracts (new construction or major rehabilitation of highways and Class I roads) on the basis of an open tender procedures (i.e. there is also no restriction on number of companies to be invited for prequalification). Following pre-qualification, a restricted procedure is used. REA is not limiting the number of pre-qualified firms to participate in the second phase (though it is allowed to under the public procurement law).

⁶ (i) Directive 2004/18/EC of the European Parliament and the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts; (ii) Directive 2004/17/EC of the European Parliament and the Council of 31 March 2004 on the coordination of procedures of entities operating in the water, energy, transport and postal services sectors.

Joint ventures, sub-contractors and Eligibility. There are no restrictions or specific requirements for the number or nationality of partners of the joint ventures, including those comprising only foreign partners. All partners in the joint ventures are jointly and severally liable. There are no para-statal or state owned construction companies in Bulgaria. Sub-contractors are not allowed to submit the bids. Subcontractors should meet the requirements for the main bidder/contractor.

Extension of bid submission deadline is possible. The contracting authority makes a formal decision accompanied by justification for the need of the extension. The decision to extend the submission deadline and the new/revised submission date are announced in the State Gazette and on the website of the Public Procurement Agency.

Submission of tenders (bids). All tenders are submitted to the Registry Office (General Administration of REA). The date, time of submission and all other information relevant for the process is registered in a public procurement ledger kept in this office.

Public opening of tenders normally takes place within half an hour following the submission deadline. Tenders submitted after the submission deadline are not accepted and are immediately returned unopened. The public opening is attended by the bidder's authorized representatives and media. The bids are submitted in two envelopes (one with the technical and one with the financial offers) sealed in one outer envelope. The outer envelopes are opened in the order of submission. A check-list is used for the information to be read out during the public opening. Three members of the Opening Committee sign every page of the technical offer. Financial offers are opened following the evaluation (described below) and bidders whose technical offers are found technically responsive are notified on the time of the financial offers opening.

Evaluation. The evaluation committee established for each tender examines the bids to determine whether they are complete, all required documents are enclosed and properly signed, and the bids are generally in order. Incomplete bids (documents missing, etc) are rejected and not considered for further evaluation. Bids that have passed preliminary examination are considered acceptable and evaluated in line with the evaluation criteria announced in the tender documents. The criteria of economically most beneficial tender is applied. If only one bidder offered a price which is 30% lower than the next lowest bid, the evaluation committee has the right to request justification for such a low price. The evaluation committee has the right to accept or reject such justification and, subsequently, the bid. In the case of selection of consultants, the evaluation committee has the right to reject the proposals with the prices on the highest and the lowest margins.

Evaluation of works bids (offers). Merit point system is used. The criteria and relative weights for combined evaluation of technical and financial offers are as follows: (i) price – 50% - according to a formula based to the average tender price; (ii) advance payment request – 5%; (iii) technical capacity to implement the contract – 20% - formula; (iv) experience – 10%; (v) qualification of bidder – 5%; (vi) effective quality control system – 10%. For the purposes of the final evaluation each bidder receives bonus points added to the combined score if he offers an interest free financing for carrying out the works under

the contract up to 6 months from the commencement date of the contract. The points added are as follows: 6 months – 10 points, 5 months – 8 points, 4 months – 6 points, 3 months - 4 points. Such offers are not entitled to an advance payment.

Evaluation of consulting firms' proposals. The formula with relative weights used for combined evaluation is the sum of the scores of separate financial and technical evaluation: $FE = FP + TP$ (the weights given for financial and technical are 35 and 65 respectively)⁷.

The criteria used for technical evaluation include (a) qualification of the key personnel (80 points), and (b) organization, methodology and work plan (10 points).

Contract award. Once the evaluation process is completed, the evaluation committee prepares minutes signed by all committee members making a recommendation on contract award. The final decision is made by the Executive Director of REA. The contract is signed after the winning bidder submits a performance security. The bid security is released within 3 days following submission of performance security.

Publication of awards takes place on REA's website following the contract signing with the selected bidders. Only information on the winning contract is published.

Key provisions in the civil works contracts. (a) There is a provision on price adjustment irrespective of contract duration and is applied when inflation exceeds 5% per annum; (b) contract amendments are not allowed which is a major problem in civil works contracts; (c) liquidated damages are normally set at 0.2% per day and up to 20% of the contract value.

3.6 Cash Management and Flow of Funds

Cash management function in REA (in terms of obtaining the funds from the State Treasury) lies within the office of the Chief Accountant of the Financial and Book-keeping Department. Monthly requests based on the budget phasing are sent to the Treasury through the MRDPW.

Cash management function is important because monthly limits are strictly established for the first level budget spenders, for example MRDPW, based on the cash forecast submitted to the State Treasury. This limit cannot be exceeded during the month. Since REA is the second level budget spender it can appeal to the MRDPW to find a possibility to allocate extra funds in excess of the approved monthly ceiling if needed. The MRDPW plays a sort of a cautionary role in this case.

⁷ Financial evaluation formula: $FP = \frac{P_{min}}{P} \times 35$
 P of the evaluated proposal/offer
 Technical evaluation formula: $TP = \frac{A}{B} \times 65$

Once REA is transformed into a Road fund and becomes a first level spending unit, it will have to request budget allocations directly from the single treasury account via SEBRA. Therefore, there will be no possibility of exceeding the monthly limits. Moreover, REA will need to introduce regular analysis of revenue collection and full control over the expenditures irrespective of the source of funding in order to minimize the risk of ending up without sufficient liquidities to ensure uninterrupted operations.

REA is currently implementing the EIB project disbursing the loan funds through the Special Account to which it has direct access. Special Account was opened with permission of the MOF and the MRDPW in the Bulgarian National Bank (BNB). REA's experience with and use of the Special Account is viewed as very positive.

REA has clearly expressed interest in using similar arrangements for the proposed Road Rehabilitation project. A single Designated Account can be opened in the Bulgaria National Bank (BNB) on the request of the MRDPW approved by the MOF. REA will have access to the Designated Account to make the payments for eligible expenditures. The co-financing from the budget will be accessed by REA in line with the existing budgetary procedure.

The cash management procedures appear to be sufficient for a budgetary unit working within the annual state budget framework. However, the IFA has not been able to review an actual application of cash processes in REA.

Summary of Recommendations:

- Following re-organization REA into an extra-budgetary unit the agency will become an equivalent to the first level budget spending unit. Such change will have direct implication for the volume of transactions and payments as well as importance of accurate cash flow forecast. REA will need to strengthen the consolidated cash flow planning for its entire operation, including regional branches.

3.7 Accounting and financial reporting

Accounting is done by the "Financial and Book-keeping" Department headed by the Chief Accountant. Currently, the department has 16 staff positions (6 are vacant) assigned to deal with all REA's accounting transactions production of financial statements, reporting to the MRDPW and the MOF. The Department has two units (sectors). The "Book-keeping" Sector with 6-8 staff carries out all activities related to the book-keeping of invoices, payments and related journal entries. The "Budget" Sector is in charge of processing payment orders and petty cash transactions. Each accountant is responsible for making journal entries related to the assigned accounts.

Regional branches have no accounting responsibilities as all transactions are recorded (booked) centrally at REA headquarters⁸.

Accounting is done on a cash basis in accordance with the Accounting Law with the modifications applicable to the budget funded organizations.

All invoices and payments are booked in the accounting system only on the basis of completed and signed "Controller's checklist". Controller's checklist is signed by all responsible persons, including technical sections and departments managers, Chief Accountant and the Finance Surveyor (Controller)⁹ before it goes for the final approval and signature of the Executive Director or his authorized representative who reviews the checklist and all supporting documents attached to the payment order/ invoice. A schematic chart on flow of payments is provided in Annex 2 to this report. At the time of conducting the field work for this report, there was no clear indication on how the change of the REA will impact on the approval/ payment process.

In case where payments are greater than 5,000 BGN there is also a statistical form for the BNB to be filled in to attach to the payment.

Each accountant has the right to go back and alter journal entries if errors were made and discovered. However, the accounting software has tracking facilities and a log report can be printed out to monitor if any changes were made during the day and who made them.

Even at the end of each month when the books are closed in the system, there is the possibility to go back and alter the data. The only time when the books are really closed and no alteration is possible to the accounting data is at the end of the budget year. When there is a need to make changes in the previous months, a special report documenting and justifying such changes is required. Once it is approved, changes in the past months are made.

The Chief Accountant reviews the payments daily and the trial balance at least monthly (in a specific accounting report showing a detailed list of accounts used by the entity, including: opening balance, movements during the period, closing balance. Based on this review, the financial statements are prepared).

Accounting transactions are done using the accounting software which was installed following recommendations by former PIFCA in 1997. The detailed trial balance is printed from the system. Financial statements are prepared in Excel spreadsheets and submitted to the MRDPW and the MOF.

The reports submitted to the MOF and the MRDPW include:

⁸ This information is based on the interviews with the Chief Accountant and was not cross-checked with the regional branches

⁹ See REA's Organizational Chart provided in Annex 1

- (a) monthly budget execution account which includes both income and sources of income and detailed expenditures;
- (b) quarterly trial balance and balance sheet;
- (c) annual budget execution account, trial balance and balance sheet.

As the new fund will operate following provisions of the State Budget law, it is assumed that will have the same rights and obligations as a first level budget spender in terms of reporting to the MOF. Reporting requirements for the second level budget spenders are the same. Moreover, the Managing Board of the new fund will be responsible for submission of an annual report on the fund's Performance to the Council of Ministers.

Besides the budget funds the EIB loan funds are also recorded in the accounting system that shows both the EIB funds and co-financing contribution. REA would like to use the same procedure for the proposed Road Rehabilitation project.

ISPA funds are treated as extra-budgetary and are not required to be reported under REA's accounting system. The co-financing contribution for the ISPA program is received directly from the MOF and use of ISPA funds are reporting back directly to the MOF. ISPA is using the SAP system which is fully independent from REA's accounting.

Summary of Recommendations

- The same individuals (accountants) who make journal entries should not have the right to alter them once the day is closed. If changes in the journal entries are needed, only the chief accountant or an assigned supervisor should have the authority to do so. As there is the possibility for the accountants to perform alterations of the journal entries without prior approval during the month and even after the month closure, the accounting system is perceived to have insufficient control and there is a significant risk of data manipulation.
- It is recommended to upgrade the existing accounting software to be able to close each month without possibility of going back to change the data. If errors are found, corrections should be done in the following month by an adjusting journal entry.

3.8 Information systems (IS)

Management Information System is supposed to be integrated and support the entire business cycle from budget and planning to procurement and accounting.

REA uses several software systems which are not integrated. This means that data recorded in several systems needs to be reconciled on a regular basis in order to ensure consistency of data throughout the entire management system. Consolidation is done manually and leaves significant room for a human error, not to mention excessive use of staff time to perform such an exercise.

For accounting purposes REA is using *AL-JUREL* software which was introduced in 1997 following former PIFCA's recommendations. The software has a DOS interface and is quite outdated. The access is password protected and each user has specific rights assigned. There is no plan to purchase new accounting software in the near future.

The software accommodates the chronological recording of accounting transactions, including an integrated fixed assets module. In terms of reporting capabilities, the system can produce detailed journal listing, screen reports, trial balance, a chronological payments list, and balance of the accounts. Also, there is the possibility to record different divisions and to create analytical accounts if needed in order to reflect detailed transactions.

The reports produced by the software are only in printed format. All other required reports are prepared manually in Excel using the data from the accounting system.

The budget department uses the MOF's *Investor* software in order to report on the capital expenditures on a quarterly basis. The *Investor* software is web based and the main database is stored on the MOF's server. REA can only input the details related to payments under capital expenditures contracts. The reports that can be extracted are pre-set with no possibility of making other queries based on the information existent in the software.

The MOF requires that all the capital expenditures to be recorded on each project. Currently there are 10 projects in *Investor* with the possibility to add another five. The software allows for accruals of the expenditures. This is used only at the beginning of the year before the final budget for the year is received. Since REA prepares the financial statements on a cash basis, the accrual option is not used throughout the year.

REA is planning to introduce new *contract management software*, as *Investor* does not include details at the contract level. The software developer has provided REA with a test version. The software will allow detailed recording of contracts (reference number of each contract, supplier's details, payments, annexes, amendments, short description of the contract), and the start and completion dates. The system will send an automatic notification when there is one month left prior to the completion date of the contract. The software will also allow for scanning the signed contracts and attaching them to the respective contract's file in the system.

Besides the contract details there is a possibility of capturing details pertaining to advances, payments and invoices related to each contracts. There will be no physical progress and completion indicators – only written comments.

The reports will be printed directly from the system. There is no link envisaged with the accounting system which means double work in terms of recording accounting details and regular reconciliations between the two systems.

The reports extracted from the system are intended for the technical departments and REA's management who will have unlimited on-line access to the software¹⁰.

The ISPA Implementing Agency in REA is using a SAP system. This is common for all ISPA implementing agencies and they have direct link to the national SAP system for ISPA funds at the National ISPA Coordination Unit (NIC).

Recommendations:

- REA may want to consider developing a long term IT strategy, including the integration of new and existing IT systems for the main business processes, including technical, financial, physical outputs (e.g. road network condition, action on national road, traffic volumes, accounting, budget planning, contract management, reporting) to produce an integrated Management Information System. As this is a complex task, REA should start with the identification of existing systems and technical possibilities of their integration by an IT specialist. The main benefits of consolidation of different IT systems can be as follows: avoiding duplication of work (data is entered into the system only once which saves time when the volumes of transactions increase), better access to information/reports for management and control purposes, and fewer possibilities for errors during manual entering of data and manual preparation of reports. For example, REA may want to consider the following options in favor of integrated MIS (Management Information System):
 - change the DOS accounting system to a new one on the same platform with the contract monitoring system;
 - assess the possibility of creating a link between the two systems to reduce duplication of work and the need for reconciliation of data;
 - integrate a budget module into the accounting software in order to produce automatic reports of actual expenditures versus planned budget;
 - include the possibility of excel reports for both accounting and contract monitoring systems in the software technical specifications, in order to reduce the manual altering of data.

3.9 Internal control systems and internal audit

The internal control framework in REA has the following aspects:

- 1) ex-ante control, exercised by the financial controller¹¹;
- 2) ex-post control, exercised by the internal audit department;
- 3) in addition, there is an internal control department following on performance of regional branches.

¹⁰ The IFA mission has requested to see the test software but request was declined due to “confidentiality reasons”. Description of software is based only on interviews with REA financial staff.

¹¹ Financial controller is called “Finance Surveyor” on the organizational chart of REA provided in Annex 1

Internal control framework:

(a) Although there are some written policies in REA relating to internal financial control, procedures and flow of documents, there is no centralized document¹². Based on the interviews with REA staff it seems that there are indications on segregation of duties in the accounting function, for instance payments are separated from book-keeping, the persons who approve payments and invoices are different from the ones who authorize the payments, and the chief accountant reviews all accounting entries and signs the Controller's checklist.

The risk of not having clear written procedures available for all REA staff increases the possibility of errors and duplication of work in case of errors' identification and correction. Also, there is a risk that the rules can be subject to different interpretation or being applied only partially.

Having a clear set of procedures, properly documented and endorsed by senior management contributes to straightforward documents and processes flow, reducing the uncertainties and exceptions from the internal rules. This, in turn, contributes to the institutional history in case of staff turnover, and the newly recruited staff will have a clear and complete picture on what their responsibilities are. The internal audit department will be able to observe the applicability of policies and procedures in practice, identify deficiencies and correct them.

Best practice in the area of internal control system already exists within REA's department "ISPA Implementing Agency". REA can get inspired from the set of procedures and controls already in place in ISPA Agency and adopt them for the use throughout REA following necessary tailoring and adjustments.

(b) The control over expenditures approval is mainly based on the controller's checklist signed by all responsible staff, including technical sections and department managers, Chief Accountant and the Finance Surveyor (Controller)¹³ before it goes for the final approval and signature of the Executive Director or his authorized representative. The multiple layers of control and six-seven signatures give a false sense of financial control as people signing the checklist are inclined to rely on all the others much more than on verifying all the details prior to the signing.

The main risk arising from having too many persons signing on the documents to be approved is the dilution of the responsibility over approval of financial documents (contract, invoices, and payments). This impacts the internal process prevention and detection of fraud/ misprocurement. Also, loading the executive director or his deputy with every single payment approval does not guarantee that he will be able to properly exercise his supervisory control over the approval process. It is recommended in practice

¹² As the IFA was not given access to the documents, it could not make a judgment on the content and comprehensiveness of existing written policies.

¹³ See REA's Organizational Chart provided in Annex 1

to set different levels of authority, depending on the materiality of the payments, with less responsible persons to sign on the controller checklist.

(c) In regard to internal control framework of the accounting system described above in the accounting section of this report, the controls can be strengthened to restrict access to altering journal entries and defining a clear procedure for closing the books at the end of the month. The main risk arising for this deficiency is the possibility of altering the accounting data without proper approval either intentionally (in case of fraud) or unintentionally (i.e. human error).

(d) There are daily bank reconciliations and frequent reconciliations (several during the month) between the data produced by *AJUR-EL* accounting software and *Investor* data, as well as ex-ante checks against the budget allocations before each payment. If payments exceed budget allocation for a particular contract or project, the budgeting department sends a notification to the management who then takes the final decision on whether to delay the project or re-allocate the funds from other projects.

1. *Financial controller*

Based on the requirements of the Public Internal Financial Control Act the first level spending units under the central government budget and municipal budgets, the European Union funded program spending funds and the heads of auditable entities have the obligation to appoint financial controllers whose main role is to exercise an ex-ante control.

The ex-ante control is a control focused on the legality of all documents and activities related to financial operations. It is performed through checks before making a decision to assume a liability and incur an expense. The financial controller has the responsibility to clear contracts, commitments, payment orders and invoices as well as the right to approve or reject a proposed commitment or expenditure, and to ask for further clarifications and/or supporting documents. His responsibilities, though, only include legal compliance checks and not financial related checks, which remains the responsibility of the accounting and internal audit departments.

The structure for financial controlling function in REA is composed of:

- one person at headquarters with a back-up person assigned in each case by the Executive Director;
- one person in each regional branch.

The financial controller of REA reports directly to the Executive director and puts the last signature on the accounting checklist before the Executive Director's signature. He has the right to perform physical inspection on the roads but due to lack of resources, REA out-sources this task to certified independent local consultants.

2. *Internal audit department*

The internal audit department was been created in REA in October 2005, at the same time as in other budget spending units as a result of former PIFCA's¹⁴ decentralization following the requirements of the changes in the Public Internal Financial Control Act, amended via SG no.105/29.12.2005, with effectiveness from 01.01.2006.

Currently, the department only has two auditors: the head and another auditor in charge of ISPA funds. In the scheme approved for REA there are 10 approved positions. REA is planning to start the recruitment process in the near future.

The internal audit department is fully embedded in REA. The head of the department reports directly to the Executive Director. Previously, she was an employee of the former PIFCA (now State Financial Inspectorate) and has the required qualifications and experience.

All internal audit activities are conducted based on an internal audit plan. The department has prepared its first 3-year strategic plan. It also prepares an annual operational plan. Both are endorsed by REA's management. For example, there are two audits for ISPA funds and three audits for REA with a focus on the use of emergency funds for floods, infrastructure funds, and foreign business trips expenditures included in the 2006 operational plan.

The projects under the EIB and World Bank funding will be part of the annual operational plans starting 2007.

The department has also developed a risk analysis. The highest risks identified by the team are in (a) capital investments due to the materiality of the funds spent; (b) repairs & maintenance, including roads rehabilitation; (c) public procurement mainly due to the number of contracts prepared each year by REA with different procurement rules and procedures applied depending on the source of funding.

The scope of the internal audit work includes (a) legality of collection, storage, managing, spending and reporting of the REA's patrimony; (b) organization, legality and accuracy of its accounting; (c) failure to meet obligations for the state budget, municipal budgets and extra- budgetary accounts and funds.

The outcome of the audit work is a report with findings and conclusions supported by documented evidence. The report is shared with the audited departments and REA staff and presented to the Executive Director in order to issue the final opinion and the final recommendations. The final report is shared with the State Financial Inspectorate.

The internal audit department has no right to impose administrative sanctions. This can only be done by the State Financial Inspectorate. All deviations and violations found during the audit work are reported both to the State Financial Inspectorate and

¹⁴ PIFCA- Public Internal Financial Control Agency

to REA's management. If such deviations are material, the internal auditor is obliged to inform in writing both the management of REA and the State Financial Inspectorate.

As the internal audit department is still in its infancy stage and it is unrealistic to expect that it would be fully developed and functional earlier than 3-5 years from now.

3. Internal control department

REA organizational structure also includes an internal control department which has no relationship with the financial department. The only interaction this department has with the internal audit department is sharing the reports and results of the work done. The main role of the internal control department is to inspect the activities performed by the regional branches. The control is focused on compliance with applicable laws and by-laws, checking whether the orders of REA's Executive Director have been fully implemented, and following up on how the public procurement law has been properly applied when procurement is done by the regional branches.

Also, this department receives complaints and appeals from the clients and has the right to perform investigation when there is a suspicion of fraud or misuse of funds.

The internal control department functions on the basis of bi-annual plans which mainly include inspecting one regional branch per month and dealing with claims/complaints, signals and appeals that had been sent to REA.

The department has five employees. The head of the department reports directly to the Executive Director.

The report with the results of regional branches' inspections describing the facts found and attaching the supporting documentation is submitted to REA's Executive Director. After studying the report and the facts presented the Executive Director takes the final decision and issues his recommendations.

The types of deficiencies are poor assets management, use of lower quantities of materials than required by the design, improper recording of the material used (recording larger than actual quantities used in road maintenance contracts). However, the IFA team was told that there were no major cases of misconduct discovered in the past few years.

Summary of Recommendations:

To facilitate this speedy development of internal control and audit function within REA the following is recommended:

- (a) Develop a consolidated operational manual containing internal control, budgeting, accounting, procurement, reporting policies and procedures.
- (b) Increase the number of internal audit staff according to the approved scheme;
- (c) Develop a training plan for the internal auditors in order to obtain the qualification of certified internal auditor;

3.10 Assets management

There is a fixed asset register integrated into the accounting system which feeds the trail balance accounts. Besides regular fixed assets (like buildings, cars, office equipment, computers), the roads are also included in the fixed assets list.

The fixed assets are tagged and subject to regular inventory once a year or every other year depending on legal requirements. Roads are subject to re-evaluation and adjustments. There is no depreciation calculated on the fixed assets which is consistent with the accounting rules for budget funded organizations.

The asset inventory is performed by an inventory committee that goes out and physically counts them. If there are differences, follow up actions are different: for unrecorded “surplus” discovered during the inventory inspection, such extra items are recorded in the accounting system based on the inventory inspection report without any prior approval. In case when any inventory assets are missing, the Executive Director appoints another committee to carry out the second counting. The final result is approved by the chairperson of the committee. Based on the approved report, the changes in the fixed assets register are performed.

3.11 Complaints resolution system

REA follows provisions of the public procurement law in case of complaints. All complaints against a decision of a contracting authority are filed with the regional courts within seven days following the announcement of an award decision. The decision of the regional court may be appealed in the first appeal instance before the district court. The new public procurement law that became effective July 1, 2006, changes the current practices quite substantially by assigning an independent Commission for Protection of Competition to handle procurement complaints. Complaints will need to be submitted to the Commission within 10 days following notification of award. If no notification is issued, then the period is counted from the date when the complaining bidder first came to know of the award or from the date on which the deadline for the particular action expires. The claim can not be submitted after the contract is signed and it does not suspend the contract award process unless the Commission imposes a suspension. Awarded contract can be announced null and void if the Commission determines that it was concluded in a violation of the law should the fact of violation be proved. Complaints submitted to the Commission are copied to the contracting authority. The complaining bidder shall pay a fee to file the complaint with the Commission. The decision of the Commission can be appealed and reviewed by a 3-member committee of the Supreme Administrative Court (within a 14 day period from the communication of

the decision of the Commission to the parties). The decision of the Supreme Administrative Court is final. In cases when the contract includes provision on arbitration, an agreement which the bidder sign and submits together with the bid (offer), it designates an arbitration court. Once these disputes arrive in arbitration court they would follow the rules of the Law on International Commercial Arbitration or the Rules of procedure of respective arbitration court.

3.12 Records management (procurement filing)

Procurement files are kept by respective departments and sections that administer particular procurement. For example, documentation related to selection of design firms are prepared and kept by the Planning, Design and Technical Norms Directorate. Bidding documents for civil works contracts are kept by either the Ex-ante Control and Procurement Department which is in charge of procurement under the public procurement law, or by the Construction Financed by IFT Department which is in charge of procurement with financing from the EIB. Both ISPA and PHARE departments kept their own procurement filing.

Files are kept in hard copies (the mission was not being able to access the completeness and reliability of the records management as it was denied access to the REA's files). There is no electronic filing system.

Summary of Recommendations:

With the increased volume and number of procurement actions starting 2007 when EU structural and cohesion funds become available, it can be recommended to either develop an electronic procurement filing system, or, at a minimum, to utilize "Ivestor" software module that allows electronic storing of signed contracts, variation orders and amendments. This will allow for an electronic sharing of the files and increase staff time efficiency dealing with procurement, contracting and payments.

3.13 Auditing (financial, performance, procurement)

In its role as the Bulgarian Supreme Audit Institution, the National Court of Accounts (COA) performs annual audits of the state budget, which includes the funds used by the MRDPW as the first level spending unit and also the expenditures of REA that is a second level spending unit under the MRDPW.

So far, REA has not been subject to a regular external audit performed by the COA. However, given the volume of the funds managed by the company, the COA includes an audit of REA in their work program. As a result, the most recent audit reports have focused on (a) performance audit in 2003, with focus on ISPA funds; and (b) financial audit issued in 2005, related to FY 2004. Currently, the COA is in the process of conducting another financial and compliance audit related to the financial management system and internal controls covering the period of full FY 2005 and first half of FY 2006.

During the IFA mission meeting with the COA, it expressed an overall positive opinion on REA's performance in the past. The areas identified by the COA for improvements were not critical or of major significance. The COA has provided the IFA mission with the audit report issued in 2003 relating to the ISPA funds. The report relating to financial audit of 2005 is not yet finally approved, and thus, not yet available. *Therefore, the IFA mission did not have an opportunity to review sample of financial compliance audit reports prepared by the COA and can not form an opinion on whether such an audit would be acceptable for the purpose of the audit of financial statements for the proposed Road Rehabilitation Project.*

As REA becomes the first level budget spender, the COA will have to focus on all of REA's activities as it currently does for any ministry. Therefore, all projects financed by the IFIs, including the World Bank will be included in audit scope.

The COA was provided with a sample TORs for project audit. The decision whether the project audit can be performed by the COA is subject to the COA's Board decision. At the same time, the World Bank needs to make a decision as to whether the project audit by the COA will be acceptable.

3.14 REA's role in use of post-accession funds

There is no clear information as to whether the ISPA IAs will be used to implement structural and cohesion funds. If they obtain EDIS accreditation, they will have a competitive advantage in terms of capacity to manage programs using post accession funds. The reason for this is that the financial management requirements for the implementation of post accession funds are similar to the ones for pre-accession funds. The main difference is in terms of procurement rules to be applied (pre-accession uses PRAG, while post-accession uses national procurement law aligned with the *acquis communautaire*).

3.15 REA ISPA Implementing Agency

In REA there is the second ISPA IA related to transport sector. The other one is in the MRDPW. All ISPA IAs are in the process of receiving EDIS accreditation. All the recommendations in the 2005 ISPA report have been addressed and the IAs submitted the request to be EDIS accredited in May 2006. The European Commission will undertake another audit to see the application of policies and procedures described in the operational manual in practice. The European Commission is expected produce a reply in August- September 2006. Nevertheless, it should be clear that EDIS accreditation will not count towards REA's readiness to utilize EU post-accession funds if management of these funds is made a responsibility of any other department within REA. EDIS accreditation would not automatically apply to the entire REA, but to the ISPA department only.

The ISPA IAs has recently completed the two internal manuals required under ISPA:

(a) PIM- Program Implementation Manual, which contains: legal documents, national legislative acts, major documents, EU regulations for ISPA program, agreements between Republic of Bulgaria and EU, strategic documents;

(b) POM- Program Operational Manual, which contains policies and procedures regulating IA activity; internal control and risk assessment, tendering and contracting, progress monitoring, including instructions on how to prepare reports, financial management, disbursement, reporting, irregularities solving procedure, administrative issues and IT systems.

There is little interaction between REA ISPA IA and other REA departments in terms of internal audit and control. The REA internal audit department designated one person to be in charge of the internal audit for ISPA funds while contracts, payments, invoices made under ISPA are also subject to the same clearance procedure by the financial controller, as with REAs other usual activities.

4. RELATED COUNTRY AND SECTOR ISSUES

4.1 Budgeting

The budget is prepared based on the budget economic classification, in line with the Law for the Structure of the State Budget. There is the possibility of moving allocation of funds from one budget line to another, but this can be done only with prior approval from the MOF. There is no specific time frame for this and it is not linked with the budget rectification process. There is also the possibility of transferring funds to the following year's budget due to a delay in works, especially for investment programs. This can be integrated in the following year's budget, but it needs solid justification. Although there is this possibility, it is not desirable due to the competition between the ministries.

In terms of expenditures budgeted from foreign loans, only the MOF can transfer some allocations from projects that under-spend to projects that need more funds. This can only be done during the budget rectification process.

The Law for the Structure of the State Budget defines the deadline for submission of the draft state budget to the National Assembly as being the end of October of the preceding year.

Although the Road Act gives direct responsibility for management of all national roads to REA, the budget for road rehabilitation and maintenance is split between different entities, including the National Road Infrastructure Fund (art 44 a – Roads Act) which is led by the Minister of Regional Development and Public Works. The National Roads Infrastructure Fund is a second level spending unit which finances the maintenance, repair and reconstructions of the national roads subject to sticker tolls. The funding for these purposes are earmarked revenues collected from sticker tolls registered as part of the budget of the National Roads Infrastructure Fund.

As a result, it seems that the budget for the national roads is divided between the source of funding and separate entities, which leads to the budget fragmentation with the following possible implications: diluting overall management responsibility for the national roads and the effective use of the entire budget available for national roads, difficult capital rationing and prioritizing of expenditures using economic analysis, and overlapping organizational structures and processes in various entities.

Sector level Implication:

- The Government should take advantage of changes of the Roads Act and create a legal basis for consolidating all the various funding sources into one unit which would be responsible for management of the national roads, without creating separate budgets for similar types of expenditures (programs). At the same time Government should note that creating a new Fund in the form of an extra-budgetary fund can diminish past efforts to consolidate the overall state budget and eliminate extra-budgetary funds (see Bulgaria Country Accountability

Assessment September 2003). Creating a new Fund registered as an enterprise is not recommended due to the fact that such entities, although dependent on budget subsidies, are not even recognized as extra-budgetary funds, and their annual budgets are not approved by the National Assembly or audited by the CAO.

- Government should agree with REA, or its successor, that the annual budgets also include performance agreement for REA and its branches.

4.2 Cash management

The Budget and Treasury Directorate within the Ministry of Finance is responsible for cash management, which includes setting cash limits for the first-level spending units (for example in line ministries or Extra Budgetary Funds (e.g. Agricultural Fund, Privatization Fund, EU National Funds – which however still falls under the Ministry of Finance. Extra Budgetary Funds are also consolidated within the fiscal budget. The budgetary funds are maintained in a Treasury Single Account in Bulgarian National Bank (BNB). The first spending unit allocates its aggregate limits through SEBRA (web based control tool System for Electronic Budget Transaction) to lower-level spending units under their supervision. REA, as second spending unit, reports its request to the MRDPW for cash on a monthly basis (in line with the annual budget), and on this basis REA can access the funds through a network of commercial banks. First level spending units approve, through SEBRA, payments requests made by subordinated unit. The MRDPW provides reports to the MOF on a monthly, quarterly, and annual basis, also including REA's financial statements. The Ministry of Finance is planning to introduce additional facilities including home banking and SEBRA II.

For foreign loans the special accounts in BNB are opened at the permission of MOF at the request of the line ministry. The Special Account can be opened in the currency of the loan and it can be used for payments. Ministry of Finance shall be informed about the closure of such special account. The transactions of the special accounts are included in the budget cash reports. The national audit office (CAO) certifies the cash report on annual basis.

4.3 Accounting

There is an update in the accounting law, which became effective starting with January 2005. The same accounting law applies to both the private and public sectors, the differences being in terms of the chart of accounts, methodology and standards applied. The accounting law updates were envisaged to harmonize the law with the *acqui communautaire* requirements.

4.4 Internal audit – country updates

Based on the changes in the Public Internal Financial Control Act, amended via SG no.105/29.12.2005, with effectiveness from 01.01.2006, the public internal financial control will be managed and exercised by the State Financial Inspectorate (former PIFCA), henceforth, called the Agency.

The principles based on which the public internal financial control is organized are:

- (a) *Legitimacy*: performing control activities on the basis of the Constitution, the laws and international treaties to which the Republic of Bulgaria is a party
- (b) *Independence*: in planning, assigning, performing and reporting the control activity, from institutions, authorities and persons, whose activities are controlled
- (c) *Objectivity and the ex-officio principle*: establishing, objectively and upon the initiative of the control authorities, all the facts and circumstances regarding the activities controlled;
- (d) *Confidentiality with respect to official secrets*: refraining from disclosure and from provision of any information obtained in the course of conducting their official duties unless otherwise provided for by the law.

Under the scope of the amended Public Internal Financial Control Act fall the following: budgetary spending units, authorities administrating revenues for central government budget, spenders of extra- budgetary accounts, units spending funds under international agreements, contracts, conventions and other international funds, and if they have been assigned authority to manage those funds, the activities of entities financed with funds from the central government budget and municipal budgets, and under the European Union programs.

The Agency is under the administration of the MOF, is a legal entity funded by the public budget and has the following multiple roles:

1. Standard setting body, responsible for the integrated policy in public internal control, defining the functions of the internal auditors, setting the standards and methodology to be used for internal audit work, making sure that the consistent standards are applied, and providing guidelines and recommendations for setting up the internal audit departments in the entities required by the above law to do so.
2. To centralize all internal audit reports from the field and report annually to the Council of Ministers on the findings.
3. To audit the functional units responsible for the expenditure of funds and programs of the European Union, summarize and report to the European Commission the results of such audits.
4. To exercise control over public procurement procedures and privatization proceeds.
5. To cooperate with the Court of Accounts (CAO) and other MOF agencies.
6. To perform ad hoc audits as assigned by the MOF and/or Council of Ministers.

The Internal Financial Control Act specifies that the internal audit should be performed by qualified staff who have the requisite knowledge of internal and external audit procedures. Currently, there are no provisions in the law regarding the accreditation rules

for public internal auditors. This year, the MOF is planning to regulate auditors' certification procedures and carry out testing of certified auditors. Who would be subjects of these requirements are being developed.

Each internal auditor will be required to obtain the internal auditor certification within a two year time frame.

The MOF plans to further decentralize State Financial Inspectorate' tasks and responsibilities so that it is left with setting of the standards mandate. There is no indication on the proposed timing of such changes.

4.5 Public Procurement System

Bulgaria has adopted a new public procurement law (effective as of July 1, 2006) that claims to be fully aligned with the EU *acquis*. Development of implementation regulations, model tender documents and training of procurement national cadre are required to facilitate implementation of the new law into practice. Revision and further development of regulations governing public procurement law below thresholds established in the new public procurement law are recommended.

4.6 Public Procurement in the Road Sector

The public procurement tenders carried out in the road sector could be grouped as follows:

1. Works planned in advance and included in the construction plan, backed up with necessary funds, corresponding to the approved budget. The Sector is involved from the planning of the procurement procedure through to contract award. Usually, the procurement of works and technical supervision contracts are undertaken in parallel. The procurement process follows the provisions of the PPA. The time between the announcement of the tender and the tender submission is 20 days.
2. Unforeseen works. This process takes longer as a justification for the works is needed. In general, the time between the announcement of the tender and the tender submission is 52 days.
3. Emergency works – deadlines are usually very tight for such works and the contracts are procured through negotiated procedure without announcement.

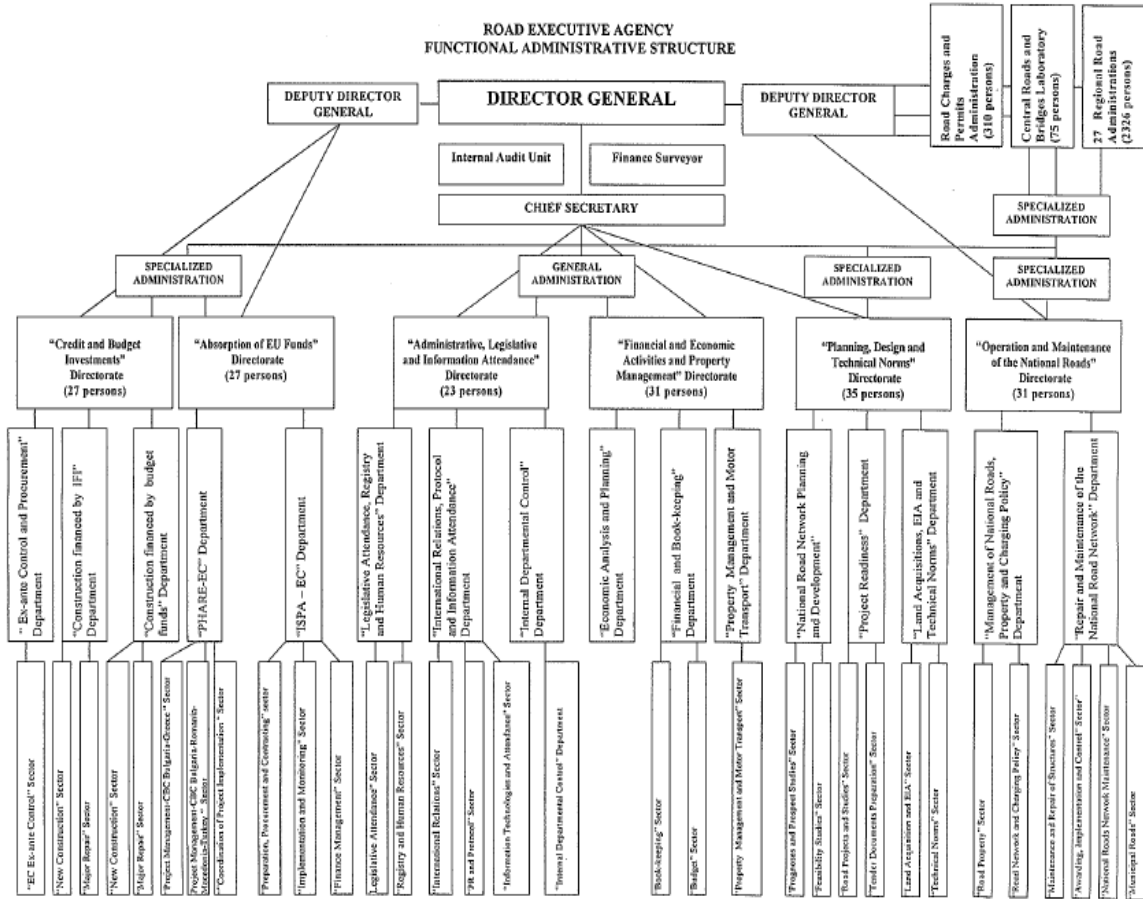
During the Y06 no new construction works were envisaged due to lack of funds. However, there is a plan for new construction in Y07. The works planned for Y06 are mainly reconstruction. The funds are secured through the National Roads Network Fund and the state budget. The total amount planned for major rehabilitation for Y06 is BGN57 mln.

Public access to information - (including upcoming contract opportunities and award of contracts)

During the IFA we noticed that CAO only discloses abridged versions of the audit reports on its website, including a mere audit opinion. The complete report is not posted on the website. The CAO may want to disclose the results of its audit in a fully transparent manner in accordance with its mandate to verify the use of public funds. This could help to motivate audited units to maintain or improve performance and provide possibility for public oversight.

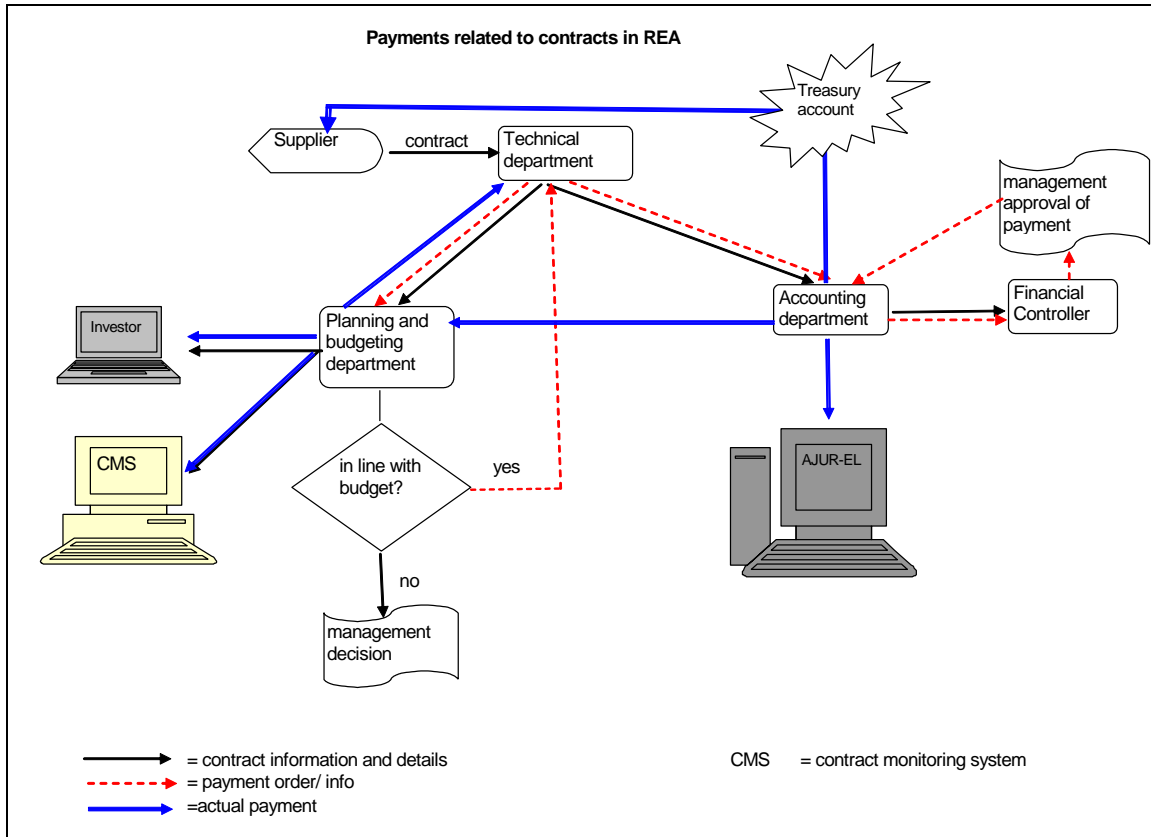
- CAO is advised to make the final and completed audit reports publicly available in full from performed audits – preferably using its website – as is done by Supreme Audit Institutions in other countries.

Annex 1: Organizational Structure of the Road Executive Agency (as of the date of the IFA report)



Annex 2: Payments Flow in REA (prior to restructuring)

The draft amendment to the Road Act (as of July 2006) implies that the restructuring of REA into a new fund will have no impact on the payments flow. However, final flow can be prepared only following an approval of the Road Act amendment.



ANNEX 3: List of Reference Documents Used for the IFA

- ❖ Public Procurement Act, 2004, as amended, SG No.105/29.12.2005 (effective January 1, 2006)
- ❖ Regulations for Application of the Public Procurement Act (effective 19.07.2005)
- ❖ Public Internal Financial Control Act, SG no.105/29.12.2005,
- ❖ Country Procurement Assessment Report, Operations Policy and Services Department, Europe and Central Asia Region, World Bank, December 2004
- ❖ Country Financial Accountability Assessment (CFAA) Report, Operations Policy and Services Department, Europe and Central Asia Region, World Bank , September 2003
- ❖ Bulgaria: May 2006 Monitoring Report , Commission Staff Working Document, Commission of the European Communities, Brussels, 16/05/2006;
- ❖ On the even of EU Accession: Anti-Corruption Reforms in Bulgaria. Center for the Study of Democracy, 2006;
- ❖ Annual Report, Section 9 of Annex III.4 on ISPA Financing Memorandum, Ministry of Finance, Republic of Bulgaria, June 2005;
- ❖ National road infrastructure development program. Journal “Roads” published by the Road Executive Agency, Bulgaria. Issue 2/2006.
- ❖ *Fiduciary Arrangements for Sector-wide Approaches (SWAs): Guidelines to Staff* (November 22, 2002) issued by the Financial Management and Procurement Sector Boards of the World Bank

Annex 4: List of Key Persons and Institutions Consulted

Road Executive Agency

Mr. Vesselin Georgiev, *Executive Director*

Mr. Pirin Penchev, *Deputy Executive Director*

Mr. Stefan Karchev, *Director “Investment and Construction Programmes” Department*

Ms. Nina Taneva, *Director “Planning, Design and Normative Set-Up” Directorate*

Ms. Maria Dimitrova, *Director, “Finance and Asset Management Department”*

Ms. Boryana Dolapchieva, *Head of “Credit Investments” Department*

Mr. Christo Durev, *Head of “Economic Analyses and Planning” Department*

Mr. Georgi Georgiev, *Head of “Internal Control” Department*

Mr. Kiril Philipov, *Financial Controller*

Ms. Nadka Hristova, *Head of Internal Audit Department*

Ms. Vanina Stefanova, *Head of Procurement unit*

Ms. Emilia Petrova, *Chief Accountant*

Ms. Vassilka Kostadinova, *Head of ISPA IA*

Mr. Stefan Popov, *Head of “International Relations, European Integration and Information Attendance” Department*

Ministry of Regional Development and Public Works

Mr. Dimcho Mihalevski, *Deputy Minister*

Ms. Maria Sapundjieva, *Director, Financial Policy, Accounting and Management of Property*

Mr. Vladimir Penevsky, *Unit Head for Programming and partnership, Directorate General “Programming of Regional Development”*

National Audit Office

Prof. Valeri Dimitrov, *President*

Mr. Kosta Kostov, *Member*

Mott MacDonald (Bulgaria) EOOD

Mr. Ulian Tufektchiev, *Executive Director*

EU Delegation in Sofia

Ms. Paulina Stanoeva, *EC Delegation in Sofia*

Ministry of Finance

Ms. Boryana Pencheva, *Director of Management of EU Funds Directorate*

Mr. Stefan Katsarov, *Head of “Public-private partnership” unit, Management of EU Funds Directorate*

Ms. Iana Paliova, *Director of Treasury Directorate*

Public Investment Projects Ltd.

Mr. Nasko Mihov, *Executive Director*

Mr. Boyan Terziev, *Chief Legal Advisor*

Annex 5: List of Requested Information and Documents

Supporting documents requested on April 20, 2006 prior to the World Bank Institutional Fiduciary Assessment mission arrival to start the fiduciary assessment of the Road Executive (REA) on May 8, 2006:

GENERAL INFORMATION

1. Documents confirming its legal status - court registration document, statute, law if it was legal basis for creation of the REA, history of REA (if available for example from annual report). *Status on the date of this report:* information is available **partially** by **downloading part of it from REA's web site (court registration document and statute not received)**;
2. Legal Framework – Laws and regulation applicable for REA, other information. Information concerning the sector, economic environment, and legislative environment within which the entity operates. *Status on the date of this report:* **information received during interviews with REA and MRDPW staff, Road Act and other applicable legal regulations were found on Internet.**
3. Organizational structures of REA - organizational chart including branches and departments with positions and names of the head of the departments, internal regulations related to the organization of REA. *Status on the date of this report:* organizational chart was provided, internal regulations were not.
4. Address of the web page- **obtained.**

FINANCIAL MANAGEMENT

1. **Financial Management Questionnaire (attached)** – if possible please fill in. The World Bank staff can also fill the questionnaire on the basis of the interview. *Status:* partially completed on the basis of interviews only;
2. **Financial regulations, standards or pronouncements used by the REA** – internal instructions relating to the flow of documents, internal control procedures related to the entire investment projects (including also planning, technical and accounting units), accounting policy, financial accounting manual, conflict of interest policy, etc. *Status:* **no copy of internal documents have been provided, on the basis that it is confidential. Partial information was collected during the meetings with REA staff**
3. **Finance Function** – position and name of the key finance function, structure of the finance department (attach detailed organizational chart of the department), what are the other departments responsible for the various elements of the finance function (eg. Planning and budgeting, technical unit, accounting, etc). *Status:* **information was partially collected during interviews. Detailed organizational chart at the department level was provided for ISPA Implementing Agency department only.**
4. **Internal Audit** – please provide procedures of internal audit in REA. List/summary of internal audits done in 2004 and 2005 and plan of audits for 2006. *Status:* **no copy of the internal audit reports were provided on the explanation**

- of their confidentiality; discussions regarding internal audit plan, risk matrix and internal organization was obtained during interviews.**
5. **Financial Reporting** - financial statements produced by the REA for 2004 and 2005 including inter alai balance sheet, cash flow/position, revenue and expenditures reports, other budgetary reports, budget for 2006 including information on the planned maintenance and rehabilitation program. Cash flow projections for 2006 in breakdown by months for maintenance and rehabilitation program – *Status:* no reports have been made available to the World Bank mission. Blank formants of the standard reports to the MoF were shared with the mission during the meetings.
 6. **Other reporting** –a copy of the annual report or other report describing the activities of REA if available. *Status:* not provided. It seams, there is no annual report
 7. **Chart of Accounts** –chart of accounts used by the REA indicating whether chart of accounts follows only the budget classification or it allows for other classification of expenditures. *Status:* no information on this subject has been provided.
 8. **External Audits** - Copy of most recent audit reports (for the last three years and management letters) issued by Supreme Audit Institution or by private auditors for the entire REA or for specific projects (eg, EU projects, ISPA, EDIS accreditation etc). Please provide an action plan for REA related to EU accreditation. *Status:* only one audit report on use of ISPA funds was received from the Chamber of Accounts.
 9. **Staffing** - Please provide detailed organizational chart of all divisions involved in the road rehabilitation & maintenance program, number of staff responsible in each department, CV of the key staff in each department, and their job description. *Status:* not provided (confidential).
 10. **IT function - Information Systems** –key IT positions, structure of the IT department, number of staff, scope of responsibilities of IT department,;a list of significant business applications (IT systems) e.g. accounting general ledger, payroll system , fixed asset register, bank transfers modules, creditors, contract monitoring, management information system etc.; diagram of IT systems is available. *Status:* partial information was obtained during the meetings; the mission was not provided with the draft contract for monitoring system on an explanation of confidentiality.
 11. **Flow of funds** - the diagram showing the flow of budgetary funds for the rehabilitation and maintenance program, or related laws and regulations. *Status:* information was obtained from the interviews with REA staff and management. Verification of this information was not done as a walkthrough was not allowed to be performed.

PROCUREMENT

1. **Procurement function-** names, positions and brief responsibilities of staff involved in procurement (a) for the internal/administrative needs of REA (IT equipment, furniture, office building repairs, stationeries, hiring of staff,

- consultants), and (b) for the needs of the sector (roads construction, maintenance, else.). *Status:* not provided. Partial information on selected departments was obtained during meetings with REA staff and management leaving information on procurement function of REA as an organization incomplete.
2. **Procurement procedures** – is there a written set of rules how procurement shall be done (i.e. instructions how provisions of the public procurement law shall be applied in REA)? *Status:* partial information was collected (Internet search, Websites of REA and MRDPW, meetings with REA staff and management)
 3. **Procurement documents-** sample forms, templates used in REA for procurement of large value contracts (civil works, equipment)? If these do not exist and these are developed for each case – a sample of recent cases (advertisements, call for tenders, tender dossier, and contract form).*Status:* partially (for civil works contracts financed by EIB and rehabilitation contracts financed from the budget). No information regarding documents used for procurement of goods and consultants.