

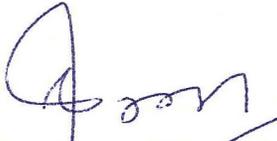
**Certification of Financial Statements**

**The Financial Statements and supporting Notes are approved:**

  
\_\_\_\_\_  
Sharon G. Frahler

**Manager**

**Area of Financial Resources Management**

  
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Mirta Roses Periago

**Director**

**Pan American Health Organization**

**02 April 2012**

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# **Statement on Internal Control**

## **Scope of Responsibility**

### **Scope of Responsibility**

As the Director of the Pan American Health Organization (PAHO), I have responsibility for maintaining a sound system of internal control that supports the achievement of PAHO's mandate and objectives while safeguarding the funds and assets administered by PAHO, for which I am responsible, in accordance with the responsibilities entrusted to me in the PAHO Constitution, by the Governing Bodies and in the Financial Regulations of the Organization.

Accountability is an integral component of PAHO's Results Based Management (RBM) framework and, as such, empowers managers to take the necessary steps to achieve their expected results, while requiring the exercise of due diligence in actions and decisions, and compliance with applicable regulations and rules. Delegation of Authority is a prerequisite for the successful implementation of RBM. Good governance is enabled by the appropriate delegation of authority and, as Director, I have approved a Delegation of Authority framework that delineates clear lines of authority over all available resources, both human and financial, and includes the responsibility and accountability of personnel across the Organization.

Accountability at PAHO carries with it the obligation to report on the discharge of one's delegated responsibilities through established mechanisms, including the annual certification of financial information and the evaluation of the status of implementation of the biennial workplan.

### **The Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve expected results and strategic objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritize the risks to the achievement of the Organization's mandate and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized, and to manage them efficiently, effectively, and economically. The system of internal control has been in place at PAHO for the financial reporting period 1 January 2011 through 31 December 2011, and up to the date of the approval of the Financial Report of the Director.

The foundation for the system of internal control at PAHO lies in the Constitution of the Pan American Health Organization and the Financial Regulations. From this, the Organization has developed and employed additional tools to further inform and guide the control framework, such as the Country Cooperation Strategy (CCS), Personnel Rules, the E-Manual and the Manual for Country Office Operations, Personnel Performance and Evaluation System (PPES), Performance Monitoring and Assessment (PMA), and the Financial Accountability Framework.

### **Capacity to Handle Risk**

As the Director of PAHO, I have created a system of core and cross-functional teams which have overall responsibility for identifying and assessing risks associated with the implementation of the Program of Work and the overall operations of the Organization. Core teams include the Office of Internal Oversight and Evaluation Services, the Ethics Office, the Office of Legal Counsel, the Country Focus Support Office, the Area of Planning, Budget and Resource Coordination, the Area of Human Resources Management, and the Area of Financial Resources Management. These core teams are responsible for establishing the control environment, and providing the discipline and structure for the achievement of the primary objectives of the system of internal control.

Some examples of key cross-functional teams include the Integrity and Conflict Management System (ICMS), the Asset Protection and Loss Prevention Committee (APLPC), the PAHO Infrastructure Investment Projects Committee (PIIP), the Investment Committee, the Disaster Task Force, and the Epidemic Alert and Response Task Force.

### **Risk and Control Framework**

The risk and control framework is developed and implemented by the Governing Bodies and the Pan American Sanitary Bureau (PASB), the Secretariat of the Organization. These organs, as stipulated in Article 3 of the Constitution of PAHO,

determine the Organization's general policies, including financial policy, and review and approve the multi-year strategy and biennial program and budget of the Organization.

The Secretariat provides regular reporting to the Governing Bodies on the financial and budgetary status of the Organization, including an annual report by the External Auditors of PAHO. Furthermore, the Office of Internal Oversight and Evaluation issues an annual report of its activities, with a status of outstanding audit recommendations. The Auditor General also provides the Director with an overall opinion on PAHO's internal control environment. For the financial reporting period 1 January 2011 through 31 December 2011, the Auditor General has concluded the following:

*“Based on the findings of its oversight activities in 2011 and in previous years, IES’s overall opinion is that PAHO’s internal control environment is adequate to provide reasonable assurance that transactions and activities are authorized and properly recorded. Absolute assurance is, of course, impossible, as internal controls have inherent limitations...The justification for every internal control should be the risk (or risks) to institutional objectives that the internal control purports to address. At present, the connections between the Organization’s objectives, risks, and internal controls are not as clearly articulated as they should be.”*

The Areas of Financial Resources Management and Planning, Budget and Resource Coordination submit monthly reports to Executive Management covering the Organization's current financial position, the likelihood that financial and budgetary plans will be achieved, and the risks attached. These reports are discussed in detail in order that the members of Executive Management have appropriate and comprehensive information necessary to the decision-making process.

A fully functional Enterprise Risk Management (ERM) system is critical to control the pace and manner of change in the Organization resulting from the adoption of new technology, the expansion of technical cooperation requirements of Member States, the growth in resources under administration, and adapting to UN transformation.

The Director of Administration initiated the deployment of a conceptual framework to implement an Enterprise Risk Management program for PAHO in 2011. PAHO's approach to risk management is an integral and systematic process not represented by a static risk register, but by a process that is continuously identifying, mitigating, monitoring, and communicating top risk events to the Organization. This type of process requires a risk management framework, a risk governance policy, a risk assessment methodology, and Organization-wide training before comprehensive risk assessments can be performed. The completion of the comprehensive risk assessments will then form the foundation of a factual and accurate risk register.

In April 2011, PAHO's Executive Management team approved the conceptual framework of the ERM, which is based upon ISO31000. Subsequently, the Office of Administration (AM) conducted two risk assessments in the Procurement and the Revolving Fund for Vaccine Procurement teams to test the methodology designed to ensure it was appropriate for the Organization. As a result of these exercises, the Director of Administration (AM) has approved the methodology to be employed and has scheduled risk assessments for the Areas of Financial Resources Management, Procurement and Supply Management, Information Technology Services, General Services Operations, and Human Resources Management to be completed in the spring of 2012. The focus of these risk assessments is at the strategic and operational levels of these Areas. A preliminary risk register will be published in the second quarter of 2012.

AM has also taken action to purchase and implement a Risk Management Information System that will be used to support the overall ERM effort in the Organization. This system was implemented in December 2011 and is fully functional. Furthermore, as part of the governance structure of ERM in PAHO, a senior risk committee has been established, comprised of officials from those Areas with primary risk identification and mitigation responsibilities. The committee will convene for its initial meeting subsequent to the publication of the initial risk register.

### **Review of Effectiveness**

As the Director of the Pan American Health Organization, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Office of Internal Oversight and Evaluation, by the senior managers within the Organization who have responsibility for the development and maintenance of the internal control framework, and by the comments made by the External Auditors in their management letters and audit reports. I have been advised on the implications of the result of my review of the effectiveness of the system of

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internal control by the Auditor General and the Audit Committee. A plan to address identified weaknesses and ensure continuous improvement of the system is in place.

The Auditor General of the Office of Internal Oversight and Evaluation Services (IES) reports directly to me. IES undertakes independent and objective assurance and advisory activities, which are designed to improve and add value to the Organization’s operations. Using a systematic, risk-based approach, IES seeks to assist the Organization to achieve its objectives by auditing and evaluating the effectiveness and efficiency of organizational governance, internal controls, operations, and processes. IES undertakes internal audit and evaluation assignments, for which very precise objectives are established through an assessment of the relevant risks. On the conclusion of an oversight assignment, IES prepares a detailed report addressed to me, and copied to concerned individuals in the Secretariat. The assignment reports include findings and recommendations to help management address risks, maintain or enhance internal controls, and encourage effective governance. IES systematically follows up on all the recommendations it makes.

As Regional Office of the Americas for the World Health Organization (WHO), PAHO is also subject to audit and evaluation by the WHO’s Office of Internal Oversight Services (WHO-IOS). The WHO-IOS develops its annual plan based on a risk assessment of the projects and programs administered by PAHO. The WHO-IOS employs an integrated audit approach which reviews the totality of the entity, whether country office, technical unit, or program, including financial and human resource management, program planning and budgeting, and collaboration with external partners and stakeholders. In 2011, the WHO- IOS has relied entirely on the audit and evaluation work of PAHO’s Office of Internal Oversight and Evaluation Services, and it is anticipated that the WHO-IOS will continue this practice in 2012.

The PAHO Audit Committee, which was established pursuant to Resolution CD49.R2, serves in an independent expert advisory capacity to assist the Director and PAHO’s Member States. It provides independent assessment and advice on the operation of the Organization’s financial control and reporting structures, risk management processes, and the adequacy of the Organization’s systems of internal and external controls. The Audit Committee meets twice each year, and met in March and November of 2011.

The system of internal control has been in place for the year ending 31 December 2011 and up to the date of the approval of the Financial Report of the Director. However, with the significant growth in the Organization, a number of weaknesses in the system of internal control were identified that have necessitated additional work to be undertaken in order that adequate internal control assurances could be provided.

<b>Significant Internal Control Issues</b>	<b>Action Taken to Address Issue</b>
<p><b>1. Corporate Administrative Systems -</b> The implementation of International Public Sector Accounting Standards (IPSAS) has further highlighted the weaknesses in the collection of legacy systems, which required significant modification and manual “work arounds” to meet the requirements of accrual accounting, asset capitalization and depreciation, and annual financial reporting. Furthermore, the systems cannot easily provide the range of integrated management reporting required of a dynamic and growing Organization.</p> <p>The implementation of an Enterprise Resource Planning (ERP) system, which would integrate Program Planning, Budget, Finance and Human Resource administration, will result in more accurate and comprehensive real-time information. However, it will also require an increased level of interaction with the ERP by all staff, providing accurate data and extracting necessary information in a decentralized environment. Given that the current systems are not fully integrated, much of this work is centralized at the Regional</p>	<p>The PAHO Management Information System (PMIS) team is in the process of selecting the ERP software and systems integrators. It is anticipated that modules for Finance, Procurement, Budget and Program Planning, and Management will be implemented in the next biennium. This would be followed by Human Resources and Payroll. Change Management and Communications strategies for the PMIS project will be coordinated with the systems integrators.</p> <p>The Financial Accountability Framework as implemented by the Area of Financial Resources Management monitors the basic controls in the country offices to ensure compliance with Financial Regulations and financial policies. The risk-based planning approach employed by the Office of Internal Oversight and Evaluation Services also provides feedback regarding the operations of the various offices. Training on specific finance topics (e.g. accrual accounting) is continuously provided for the country office staff. Included in the implementation plan for the ERP will be a Change Management and Communication Plan which will help to identify and</p>

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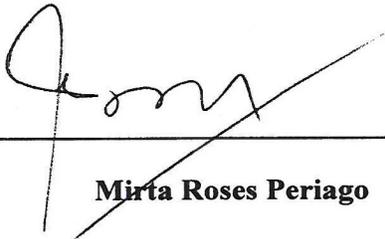
<p>Headquarters. Therefore, the required competencies to fully realize the effectiveness of an ERP do not exist throughout the Organization.</p>	<p>communicate the technical updating requirements of the various categories of staff throughout the Organization. A comprehensive Training Plan will be developed that combines training regarding the ERP requirements and capabilities, as well as technical competencies needed to meet the control requirements, whether financial, budgetary or administrative.</p>
<p><b>2. Project Implementation -</b>        Effective implementation of the Program and Budget is critical to the reputation and sustained growth of the Organization. The balance of Voluntary Contributions commitments that remain unimplemented, as well as the funds returned to donors, has continued to be a concern. A balance of project acceptance and design, rational business practices, policies and procedures, and absorptive capacity of beneficiaries is required to reach optimal project implementation goals.</p>	<p>The Organization continues a systematic, coordinated review of voluntary contributions proposals, which includes corresponding inputs from country-based colleagues, as well as regional technical and administrative personnel. Processes are underway to implement an ERP which will facilitate improved monitoring of Voluntary Contributions' implementation. During 2011, the Area of Planning, Budget, and Resource Coordination implemented an online tool to identify Voluntary Contributions' coordinators with a view toward increasing accountability and coordination. Through improved clarity on this coordination function, it is anticipated that this should also result in greater accountability for Voluntary Contributions implementation.</p> <p>The Area of Financial Resources Management issues the Project Implementation Review report three times per year. This report illustrates the financial implementation status for those Voluntary Contributions agreements that will be expiring in the short-term. This provides the project coordinators with the opportunity to negotiate with the donors should an extension or reprogramming be required. In 2011, the review and confirmation of the Project Implementation Review reports formed an integral mandatory part of the annual certification process performed by all Allottees.</p>
<p><b>3. Succession Planning -</b>        The imminent retirement of a significant proportion of senior managers has the potential to result in a loss of institutional knowledge.</p>	<p>The Organization is actively engaged in succession planning through the Human Resources Management biennial HR Plan for each PAHO entity, which requires the managers to plan for retirements and other staffing requirements. Furthermore, all senior managers are required to submit an "end of mission" report prior to changing roles, transferring to another United Nations organization, or retiring.</p>
<p><b>4. Emergency Response -</b>        PAHO, as the preeminent health agency in the Region of the Americas, must take a leadership role in addressing emergencies. The impact and severity of recent emergencies in the Region, including the H1N1 crisis and the disaster in Haiti, have highlighted the need to have a strong, centralized team of specialists to analyze and coordinate response requirements and information.</p>	<p>PAHO instituted the Emergency Operations Center (EOC), which functions as a centralized location through which organizational coordination and control of health-related response activities by PAHO's Disaster Task Force and the Epidemic Alert and Response Task Force (EARTF) during emergencies and disasters in the Region can be accomplished. In order to meet the longer-term needs of the EOC, plans have been made to establish a permanent state-of-the-art "situation room" that will have the technology required to address the dynamic situations faced by the EOC. The new EOC site will be operational 1 June 2012.</p>
<p><b>5. International Economic Environment -</b>        The prolonged challenging global economic environment presents several risks to the Organization's ability to fund the Regular Budget:</p>	<p>The Organization has a very conservative Investment Policy overseen by the Investment Committee. The Investment Committee meets in person at least twice each year, but has been meeting more frequently to address various challenges. The Investment Committee regularly invites experts to these</p>

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<ul style="list-style-type: none"> <li>• Member States have continued to espouse a policy of zero to minimal nominal growth to the Regular Budget as a result of their own fiscal challenges.</li> <li>• The low interest rate environment has reduced the investment income earned and available to supplement the Member States' Assessed Contributions.</li> <li>• Exchange rates in some primary countries have fluctuated significantly during the year, resulting in additional uncertainties regarding the value of the Regular Budget resources locally.</li> </ul>	<p>meetings to discuss the various risks in the portfolio, as well as their forecast of the economic environment. The Investment Committee selected two additional external portfolio managers to invest intermediate duration funds. The incremental earnings on these portfolios far exceed the associated investment fees, as well as the yield available on internally managed funds.</p> <p>The Organization continues to monitor exchange rates in the country offices, and manages the local currency bank balances accordingly. Exchange rate gains and losses are allocated based on the source of the funds. However, as the Regular Budget is denominated in US dollars, fluctuations in local exchange rates will still impact the country office's "buying power". Country Offices work closely with the Area of Planning, Budget and Resource Coordination to address these issues.</p>
<p><b>6. Funding of Long-Term Employee Liabilities -</b> With the implementation of IPSAS in 2010, the Organization recognized the assets and liabilities of the Organization, resulting in a more transparent picture of the true financial status of the Organization. The long-term liabilities associated with After-Service Health Insurance (ASHI) and Termination and Repatriation Entitlements Plan (TAREP) were recorded on the Statement of Financial Position in 2010, and irrevocable trusts were established for the financial resources available to fund these liabilities (plan assets). While several initiatives have been implemented to provide some funding on both an annual and ad hoc basis, the Organization does not have a comprehensive plan to fully fund the ASHI liability over a determined period of time.</p>	<p>The Director has approved a payroll surcharge to begin the funding of the significant liability attributable to After-Service Health Insurance benefits for current and future retirees of the Organization. In 2011, this surcharge provided \$1.8 million in revenue to the ASHI Trust. Investment income contributed another \$0.4 million to the ASHI Trust. The Director is also proposing to fund this liability with a portion of the surplus generated from the implementation of IPSAS. Furthermore, WHO and PAHO have agreed to increase the staff health insurance contribution rate by 10% in 2012, and by 4% in each subsequent year. However, in order to fund the liability over the next 30 to 40 years, additional consistent funding sources must be identified. The Organization will be contracting with an actuarial firm in 2012 to provide an analysis of the various options to meet this funding requirement. This comprehensive plan will be presented to the PAHO Governing Bodies for consideration in 2013.</p>

**Conclusion**

I am confident that as a result of the actions taken to address the significant issues noted above, the system of internal control will continue to be strengthened. Therefore, in my opinion, the Organization's system of internal control was effective throughout the financial reporting period 1 January 2011 through 31 December 2011, and remains so on the date I sign this statement.


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**Mirta Roses Periago**  
**Director**  
**Pan American Health Organization**