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WORLD HEALTH ORGANIZATION



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**PROGRESS REPORTS
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A: STATUS OF IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Introduction

1. The 27th Pan American Sanitary Conference, held in September 2007, mandated the Pan American Health Organization (PAHO) to adopt the International Public Sector Accounting Standards (IPSAS) effective 1 January 2010 (Resolution CSP27.R18). This decision enabled the Organization to conform its financial reporting and accounting standards to those designed by independent experts and to harmonize them with those of the United Nations (UN) and its specialized agencies.

2. IPSAS standards provide for:

- (a) comparability of PAHO's financial performance and position with other international organizations and governments;
- (b) greater transparency in financial information, which contributes to better governance and internal financial management;
- (c) harmonization of financial accounting and reporting within the United Nations system, as well as higher-quality financial reports in the United Nations and its agencies; and
- (d) consistency in the reporting of financial information.

Background

3. The previous United Nations System Accounting Standards (UNSAS) were designed by the UN in the 1990s and applied only to its specialized agencies. They were considered to lack transparency and offer limited comparability with the financial information of other international organizations. Therefore, the United Nations and its specialized agencies recognized that an independent accounting standard needed to be adopted that would ensure that best practices would be followed in financial statement reporting and accrual accounting. The new standard would also contribute to harmonized accounting principles across the United Nations system.

4. The United Nations considered:

- (a) continuing to utilize the UNSAS standards;
- (b) using the International Financial Reporting Standards (IFRS), internationally recognized financial standards used mainly by for-profit entities; or

(c) adopting the International Public Sector Accounting Standards (IPSAS), internationally recognized accounting standards based directly on IFRS but applicable to public-sector entities and nonprofit organizations.

5. In 2006, the United Nations General Assembly selected IPSAS because these standards are specifically geared to public sector entities. These new standards were slated for implementation by the United Nations and its specialized agencies on 1 January 2010.

6. The World Food Programme (WFP) implemented IPSAS in January 2008. Seven United Nations agencies and PAHO implemented them in 2010. The United Nations Secretariat and other UN agencies will implement them over the next four years.

Situation Analysis

7. The Pan American Sanitary Bureau (PASB) worked diligently over the four-year period to meet the 1 January 2010 implementation date and provided overviews of IPSAS and its implementation status to PAHO's Governing Bodies. Furthermore, the Bureau has worked closely with the United Nations IPSAS Task Force regarding the interpretation and application of the standards. The ramifications of the transition to these new accounting standards and challenges posed may not have been fully understood when the January 2010 date was selected and, as a result, the majority of the United Nations and its specialized agencies will implement IPSAS in 2011, 2012, and 2014.

8. The IPSAS standards ensure that best practices will be used in preparing financial statements. The significant changes that IPSAS requires are:

- (a) annual audited financial statements;
- (b) accrual of revenue, expense, assets, and liabilities; and
- (c) capitalization and depreciation of property, plant, and equipment.

9. In 2010, the Pan American Health Organization began providing *annual* audited financial statements.

10. Effective 1 January 2010, the PASB transitioned the Organization's accounting from cash basis and modified cash basis accounting to accrual basis accounting. Under cash basis accounting, PAHO's revenue and expenses were recognized only when the cash was received and when the disbursements or payments were made to suppliers or vendors. Under accrual accounting, PAHO's revenue is recognized when contributions are confirmed in writing by donors and the PASB, and expenses are recognized on the delivery of goods or provision of services.

11. One of the critical early requirements for IPSAS implementation was determination of the 1 January 2010 opening balances for the accounts reflected in the Statement of Financial Position. Included in these critical opening balances were the accounts for:

- (a) The valuation of the Organization's assets and liabilities:
 - land parcels and buildings were recognized on the basis of their fair market value, as determined by professional valuation experts;
 - financial instruments were recognized on the basis on their market value;
 - terminal entitlements and after-service health insurance liabilities were recognized on the basis of an analysis by professional actuaries.
- (b) In addition, the PASB established accounts receivable for pending assessed contributions (quotas) and formal (i.e., "signed") commitments and recognized revenue and deferred revenue, respectively.
- (c) Furthermore, the PASB recognized the financial resources provided for the procurement of vaccines and medical supplies as deferred revenue until the vaccines and medical supplies were delivered to the respective Member State. After delivery of the vaccines and medical supplies, the financial resources were transferred to revenue for the financial period.

12. The PASB is capitalizing all property, plant, and equipment exceeding the \$20,000 threshold that has been procured by the Organization's regular budget funding, as of 1 January 2010. The Bureau has implemented straight-line, full-year depreciation for the various categories of assets, utilizing the useful-life categories established by the United Nations IPSAS Task Force.

13. Under accrual accounting, PAHO must recognize its financial commitments to its staff members and retirees for terminal payments (i.e., annual leave, repatriation, etc.) and after-service health insurance. Recognizing these financial commitments in the Organization's financial statements resulted in the reporting of significant unfunded liabilities.

14. According to PAHO's actuaries, the liability for PAHO's Termination and Repatriation Entitlements Plan was \$10.21 million and the Fund had Plan assets of \$9.98 million. Therefore, the unfunded liability was \$236,000. The PASB will periodically review the status of this liability to establish the monthly payroll deduction at a level that will maintain the strong financial position of this Plan.

15. Furthermore, according to the PAHO actuaries, the liability for the after-service health insurance (ASHI) was \$257.75 million, with Plan assets of \$24.57 million, resulting in a net unfunded liability of \$233.18 million. With the adjustment of \$46.66 million, which is assigned to the actuarial gain/loss “corridor,” the net defined benefit obligation that was recognized in PAHO’s account as of 31 December 2010 was \$186.52 million.

16. This liability represents the anticipated long-term after-service health insurance costs for active staff and retirees in the future; therefore, it will need to be funded over the next 30 to 40 years. Potential funding sources that may be considered could include combinations of the following:

- (a) a monthly percentage of payroll deduction;
- (b) a portion of the funds available in the PAHO Holding Account;
- (c) a portion of the funds credited to the “surplus account” for the payment of prior biennia’s assessed contributions, etc. during the recognition of assets with the IPSAS implementation;
- (d) the targeting of a percentage of any end-of-biennium excess of revenue over expense for the ASHI liability; and
- (e) a “line item” in the PAHO Biennial Program and Budget.

17. The PASB altered its corporate financial systems in order to support accrual accounting and the capitalization and depreciation of property, plant, and equipment.

18. The PASB established its IPSAS-compliant accounting policies in discussions with a technical expert, the current Chair of the IPSAS Board, and then presented them to the External Auditor’s team for consideration. The PASB regularly dialogued with the External Auditor’s team to ensure that the Bureau’s understanding and application of the IPSAS standards were in agreement with the views of the External Auditor’s team.

19. In order to ensure that the IPSAS standards were accurately applied to the Organization’s accounts, the PASB provided position papers on all the topics related to the changes in accounting treatment to the External Auditor’s team. The PASB also provided pro forma financial statements as of 30 June 2010 and 30 September 2010 for the team’s consideration. The incorporation of the External Auditor’s comments from these pro forma statements into the 31 December 2010 financial statements allowed the PASB to finalize these statements in a timely manner.

20. Every opening balance category in the Statement of Financial Position of the Organization was audited by the External Auditor’s team in October 2010.

21. Support, including funding by the Governing Bodies, has been critical to IPSAS implementation.

Conclusion

22. With the implementation of the International Public Sector Accounting Standards, effective 1 January 2010, the Pan American Health Organization's financial statements will provide:

- (a) a comprehensive reporting of assets and liabilities;
- (b) a full representation of the Organization's consolidated financial status; and
- (c) an accurate basis for comparison with other international organizations and governments.

23. The additional information in the IPSAS-compliant financial statements may contribute to better governance and enhanced strategic planning by the Organization's Governing Bodies, Director, and Executive Management. Furthermore, the readers of the Organization's financial statements will have a more comprehensive understanding of its financial position and performance.

Action by the Directing Council:

24. The Directing Council is requested to take note of this report on the status of IPSAS implementation by the Pan American Sanitary Bureau and to provide comments.

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B: MASTER CAPITAL INVESTMENT PLAN

Periodic Report on the Implementation of the Master Capital Investment Plan

Introduction

25. This document summarizes the Master Capital Investment Plan (MCIP) activities and projects for the current 2010–2011 biennium, for those proposed for the 2012–2013 biennium, and for those requested for the remainder of the ten-year plan 2014–2019 that may be funded by the Master Capital Investment Fund (MCIF) and by the PAHO Holding Account (HA).

Master Capital Investment Plan

26. The Master Capital Investment Plan reflects the Organization’s increasing efforts to systematically maintain and improve the building infrastructure, equipment, and information technology at its installations throughout the Region. In an effort to improve transparency and show the coordination between related activities and projects in the Master Capital Investment Plan that are funded by the MCIF and the HA, in this document and in the attached annexes, the Secretariat has included references to both MCIF and HA activities and projects.

27. The Holding Account was created as a result of excess budget availability from the 2006–2007 biennium. One-time, major infrastructure projects in the administrative and technical areas were authorized by the 48th Directing Council in Resolution CD48.R1 (October 2008). These included the creation of the Emergency Operations Center/Knowledge Center and repairs to the roof of the Washington Headquarters building. Specific descriptions for HA projects are found in Document CE146/27 (June 2010). Details on the MCIF are outlined below.

Master Capital Investment Fund, 2010–2011 Biennium Funding

28. The Master Capital Investment Fund for the 2008–2009 biennium was initially funded in January 2008, with US\$ 2 million¹ for the Real Estate and Equipment Subfund and \$6 million for the Information Technology Subfund. In accordance with Resolution CSP27.R19 (October 2007), the Director notified the Executive Committee in June 2010 of the transfer of \$2 million of excess income over expenditure from the 2008–2009 Regular Program Budget to the MCIF for the 2010–2011 biennium.

¹ Unless otherwise specified, all monetary values in this document are expressed in United States dollars.

29. As stipulated in that same resolution, the Director received the approval of the Executive Committee in June 2010 to transfer an additional \$2 million of excess income over expenditure from the 2008–2009 Regular Program Budget funds to the 2010–2011 MCIF. The new funding was divided between the Real Estate and Equipment Subfund (\$1 million) and the Information Technology Subfund (\$3 million).

30. At the close of the biennium 2010–2011 (31 December 2010), there was a balance of \$2,987,687 in the Information Technology Subfund, \$1,588,000 of which ITS expects to receive in 2011, leaving a balance of \$1,399,687 in the subfund. The available amount in the Real Estate and Equipment Subfund for 2011 is \$1,589,502.

31. The Real Estate and Equipment Subfund may receive additional funding from the WHO Capital Plan, which was reactivated in the 2010–2011 biennium. The distribution of funds from this program has not yet been finalized.

Real Estate and Equipment Subfund

Projects at Headquarters in 2010–2011

32. The rehabilitation of the four elevators at the Headquarters building, previously approved in the 2008–2009 biennium, should proceed in this biennium. The General Services Area at Headquarters has received \$30,000 to conduct a study of the major building systems and renovation projects at the Headquarters building. A variety of repairs are planned. These include: (a) a recaulking project to stop rain infiltration from gaps in exterior stonework (completed in July 2011), (b) an assessment/repair of the main electrical switch room in the basement conducted every five years, and (c) preparation of the specifications for the elevator replacement project for which several potential consultants have been located.

Projects in PAHO/WHO Representatives' Offices in 2010–2011

33. A total of \$495,600 has been provided to date to six PAHO/WHO Representative Offices (PWR)² for projects in 2010–2011. See Annex B-1 for further details. This annex also describes a number of projects that are being considered for funding in 2011 at various PWRs and Headquarters. One of the largest efforts will be the rebuilding of the PWR office in Haiti. The MCIF will be used to reimburse some of the costs incurred from the country program budget and charged to its regular budget and also start work on some projects, such as the leaky fuel tanks, in advance of the rebuilding of the main wing. The rebuilding costs will have to be spread into the next biennium. The PWR Jamaica received funds in July 2011 for various contracts for its relocation to the CFNI

² Also referred to as “country offices.”

building on the UWI campus (University of West Indies). PWRs are developing their own 10-year plan to assess the condition of facilities throughout the Region and assist in long range planning efforts.

Projects Planned for 2012–2013 and 2014–2019

34. Given the limited funds available, the proposed Real Estate and Buildings projects planned for the 2012–2013 will be reviewed by the Project Infrastructure Investment Committee, which was created by the Director in September 2009, to analyze the Master Capital Investment Plan projects in both subfunds and issue recommendations regarding their feasibility and priority. The distribution of projects for 2012–2013 and the subsequent biennia in the remaining ten-year plan will depend on the results of the aforementioned study at the Headquarters building, as well as the completion of similar studies in the different locations of Representative Offices and Centers.

Information Technology Subfund

Projects in 2010–2011

35. A total of \$1,773,000 was expended in 2010 on various Master Capital Investment Plan information technology projects (Annex B-4), including:

- the procurement of desktop computers, laptops, and peripherals (printers and other equipment);
- the procurement and installation of servers and hosting infrastructure;
- the upgrading and renewal of existing software and procurement of new software; and
- information security.

36. Expenditures during the biennium's second year (Annex B-4) are expected to amount to \$1,588,000 to cover:

- procurement of desktop computers and memory upgrades to allow for the migration to Windows 7;
- procurement of essential peripherals and printers;
- continued investment in servers and data storage to strengthen the Organization's "private cloud" capacity and to strengthen the capability for business continuity;
- continued investments in information security;
- continuation of software licenses for network and network hardware; and
- continued investment in software licenses.

Projects in 2012–2013 and 2014–2019

37. The projects planned for the 2012–2013 biennium (Annex B-4) include:

- software licenses;
- network infrastructure;
- licenses and replacement systems for telephone systems, primarily at the country level;
- information security hardware and software;
- servers and hosting infrastructure at Headquarters and Representative Offices;
and
- replacement of desktops, notebooks, and peripherals, including printers and scanners.

38. It is anticipated that from 2012 onwards there will be a significant shift to a server-centric computing model that emphasizes cloud computing. Consequently, the investment in desktops will shift toward notebooks replacing desktops in cases where high mobility is required.

39. The chart which outlines the 2012–2013 investment program (included in Annex B-4) also outlines the program for the final years of the current ten-year program ending in 2019. Because the currently anticipated costs from 2014 onwards are likely to be affected by the deployment of the PAHO Management Information System (PMIS), significant changes in the projected costs are likely from that point on. At this time, these projects are included as information only.

Next Steps

40. The Organization is committed to monitor and reassess essential projects and their estimated costs on an ongoing basis and regularly provide Member States with the most accurate updated information.

Action by the Directing Council

41. The Directing Council is invited to take note of this report and provide comments and recommendations.

Annex B-1
Master Capital Investment Fund
(Real Estate and Equipment Subfund)
Completed & Proposed Projects – 2010-2011

Location	Project (completed or in progress)	2010 Costs	2011 Estimates
PWR Chile	Internal renovations at new office site after relocation in February 2010 following earthquake	\$32,997	
PWR Trinidad and Tobago	Internal renovations at new office site after relocation to office space provided by the Member State	\$288,775	
PWR Panama	Partial costs for rental of replacement air conditioning system at PWR office	\$12,000	
PWR Suriname	Final renovation costs at PWR office building provided by the Member State	\$65,000	
PWR Guyana	Expenditures for repair/renovation of a building provided by the Member State	\$50,800	
PWR Haiti	Legal fees to complete purchase of parking lot adjacent to PWR office (\$6,048) and initial repairs to PWR office (\$40,000)	\$46,048	
HQ Washington	Recaulk stone work		\$82,175
PWR Jamaica	Expenditures for relocation to CFNI building		\$104,260
HQ Washington	Rehabilitation of four elevators – Architect/Engineer study (A/E)		\$35,000
HQ Washington	Rehabilitation of four elevators - construction		\$850,000
HQ Washington	Condition assessment/development of rehabilitation program		\$30,000
HQ Washington	Electrical assessment in HQ basement		\$35,000
Barbados ECC	Interior repainting		\$52,000
Barbados ECC	Tiling and carpet replacement		\$48,000
Barbados ECC	Air conditioning assessment and replacement		\$61,000
PWR Haiti	Various repairs paid from Haiti budget		\$178,611
PWR Haiti	Replacement of leaking fuel tanks for emergency generators		\$41,145
TOTAL		\$495,600	\$1,517,191

Annex B-2
Current 2010 and Planned 2011 Expenditures for GSO Projects
Funded by the Holding Account as of 30 June 2011
(in US\$)

Location	Project Description	2010 Final Expenditures	2011 Planned Expenditures
Regional	Emergency Operations Center (EOC) and Knowledge Center (KC) (Holding Account Profile 1A)—first funding source	241,264	2,184,499
Country Offices	Improvements to facilities: Minimum Operating Security Standards (MOSS) Upgrades and security measures (Holding Account Profile 4A)	82,560	115,646
Headquarters (WDC)	Improvements to facilities: energy-saving measures (Holding Account Profile 4B)	6,000	1,409,000
Headquarters (WDC)	Improvements to facilities: the plaza drainage system repairs (Holding Account Profile 4C)	0	350,000
Headquarters (WDC)	Improvements to facilities: security and sanitary measures (Holding Account Profile 4D)	0	100,000
Headquarters (WDC)	Improvements to facilities: HQ office tower roof repairs (Holding Account Profile 4E)	247,923	0
Headquarters (WDC)	Improvements to facilities: renovation of Headquarters buildings (Holding Account Profile 4F)—first funding source	0	575,000

Annex B-3
Current 2010 and Planned 2011 Expenditures for ICT Projects
Funded by the Holding Account as of 30 June 2011
(in US\$)

Project Description	Amount Approved	2010-11 Allotted Planned Expenditures
2C. Modernization of the Service Model for the Delivery of IT and KM Services	\$1,500,000	\$700,000*
3B. Strengthening Communications through Improved Country Office Connectivity	\$2,000,000	\$1,385,000

*\$300,000 allotted to the Area of Knowledge Management and Communication

Annex B-4
Projected Costs for Projects in the Information Technology Subfund,
as of 30 June 2011
(in US\$)

Project	2010–2011	2012–2013	2014–2015	2016–2017	2018–2019	Total
Desktops and laptops	486,200	450,000	400,000	400,000	400,000	2,136,200
Other peripherals including printers	206,900	250,000	250,000	250,000	250,000	1,206,900
Servers and hosting infrastructure	800,000	1,000,000	1,200,000	1,200,000	1,200,000	5,400,000
Information security	412,650	200,000	230,000	250,000	280,000	1,372,650
Telephony	216,800	200,000	200,000	200,000	200,000	1,016,800
Network infrastructure	110,500	200,000	200,000	200,000	200,000	910,500
Software	1,128,500	1,125,000	1,125,000	1,125,000	1,125,000	5,628,500
Totals	3,361,550	3,425,000	3,605,000	3,625,000	3,655,000	17,671,550
