

Report of the External Auditor

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TRIBUNAL DE CUENTAS
DE ESPAÑA

The Pan American Health Organization

Long Form Report on the 2014 Financial
Statements audit

The aim of the audit is to collaborate with the audited organization in order to reach its objectives, while supporting compliance with principles of transparency, legality and sound financial management.

The Spanish Court of Audit (SCA), headed by its President, provides external audit services to international organizations, working independently of its role as the Supreme Audit Institution of Spain. The President and the SCA are independent of the Spanish Government and ensure the proper and efficient spending of public funds and accountability to the Spanish Parliament. The SCA audits the accounts of all public sector bodies as well as political parties, collaborates in works related to its role as an active member of INTOSAI and EUROSAI and takes part in audit works within European Union projects and beyond.

Contents

1. Executive Summary	102
2. Financial Review	105
3. Country Offices	108
4. Governance Matters	112
5. Follow-up of Prior Year Recommendations	117
Annex A – Summary of Audit Recommendations	118
Annex B – Implementation of Prior Year Recommendations	120

1. Executive Summary

1.1. Introduction

- 1 We have provided an unmodified audit opinion on the 2014 consolidated financial statements of the Pan American Health Organization (hereinafter PAHO) which present fairly, in all material respects, the financial position and the results of operations and cash flows for the financial period ended December 31, 2014; and we confirm that this audit revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and validity of the consolidated financial statements.

1.2. Overall Results of the Audit

- 2 We have audited the consolidated financial statements of PAHO in accordance with the International Standards on Auditing of the International Federation of Accountants (IFAC), the Audit Standards and Guidelines formulated by the United Nations Board of Auditors and the International Standards of Supreme Audit Institutions (ISSAIs).
- 3 The audit opinion confirms that these financial statements: present fairly, in all material respects, the financial position as at December 31, 2014 and the results for the year then ended; have been properly prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and the stated accounting policies; and, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended either by the Pan American Sanitary Conference or the Directing Council.
- 4 Our audit procedures are designed primarily for the purpose of forming an audit opinion. They included a review of the internal controls and accounting systems and procedures, only to the extent considered necessary for the effective performance of the audit. The audit work did not involve a detailed review of all aspects of PAHO's budgetary and financial information systems. Our findings

therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

- 5 The main observations and recommendations from our audit are set out below. Our recommendations are summarized in Annex A. Follow up of actions taken by management in response to the recommendations included in the 2013 Long Form Report are set out in Annex B.
- 6 The 2014 financial statements correspond to the third year of the Spanish Court of Audit's appointment as the external auditor of PAHO.
- 7 We would like to thank PAHO for their professional and constructive approach to the external audit relationship. We trust that PAHO's management keep consistently engaged with the audit process and seek to improve processes and procedures in response to our audit recommendations.

1.3. Summary of Main Findings

- 8 In this report we have commented upon the Organization's financial position and presented our findings with respect to Country Offices and governance matters.
- 9 Regarding Country Offices, we recognize the improvement in the management of Letters of Agreement compared to year 2013. We also noted the improvement in understanding IPSAS concepts.
- 10 In the Brazilian Country Office we have specifically analyzed the management of the *Mais Médicos* project during 2014, in particular regarding to its internal control framework. We conclude that this framework remains strong. However, some aspects of the management of this project should be improved, for instance, capacities of the on Cuban doctors' database and the management of unexpended balances of this project (BRS funds).
- 11 In regard to constitutionality lawsuits against the *Mais Médicos* project, we noted that the lawsuit against the *Medida Provisoria* was closed. However, there are still legal contingencies which may affect the project, since there are pending decisions from either the Brazilian Federal Supreme Court or other Brazilian Courts.

- 12 The PMIS project is being developed according to the estimated scheduled. Phase 1 was completed on time and phase 2 is ongoing. In this scenario, the project will be fully implemented on 1 January 2016. Nevertheless, there are potential risks which PAHO must take into account in order to achieve it. Those risks are related, among others, to the transfer of data between new and old systems, the launch of the Treasury workstation at the same time as the main functionalities of the ERP system, and the year-end and the 2014-2015 biennium closure.
- 13 Since PMIS is a critical project for the organization, we encourage PAHO to maintain institutional effort to respect the PMIS project timetable implementation.
- 14 As regards the staff management, we noticed that a relevant portion of key staff members is expected to reach its retirement age. One quarter of PAHO staff whose grade is P4 and above is reaching its retirement age in the next three years. This rate is even higher in the Country Offices, where this group represents 29% of staff whose grade is P4 and above.
- 15 Finally, we noticed that PAHO has difficulties with a knowledge transfer from the retirees. We also noted that the recruitment process of key staff usually takes a long period of time. As a consequence key staff posts remain vacant or with temporary *ad interim* appointment for a long time.

2. Financial review

16 The Director's Comments on the Financial Statements provide a comprehensive analysis of the financial performance of the Organization for 2014. We have reviewed the financial information provided and checked its consistency with the information contained in the Consolidated Financial Statements, and we present some further analysis to enhance the understanding of the users.

17 Based on our audit of the Consolidated Financial Statements we have identified several matters that we consider worth highlighting in this report:

- In the financial year 2014, the first year of the budgetary biennium, PAHO had a net surplus of 23.7 USD million. That represented a major reversal of the downward trend compared with the previous year. The main causes of this change are detailed below.
- Total revenue increased from 1,139.4 USD million in 2013 to 1,727.1 USD million, which is an increase of 51.5%.
- Revenues generated by Voluntary Contributions increased by 146% compared to the prior year, up to 877.7 USD million in 2014. As a result, this type of revenue became the largest source of revenue in the year 2014. This represents over 51% of total 2014 revenue. The primary reason of this increase was the implementation of *Mais Médicos* project, which contributed 706,923 USD million as revenue in 2014.
- During 2014, the total revenue from the Procurement of Public Health Supplies increased by 13%, to 676.3 USD million compared to 596.9 USD million in 2013. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment on behalf of Member States and international institutions at affordable prices. These revenues are the second largest relevant source of income, which represents 39% of the overall balance of revenues. The relative importance of this revenue source presents significant change compared to the previous year 2013 (52%).
- Miscellaneous Revenues increased in 2014 from negative 1.2 USD million at the end of 2013 to negative 0.7 USD million at 31 December 2014.

- PAHO's expenses increased by 49.1% from 1,142.1 USD million in 2013 to 1,703.4 million as at 31 December 2014.
- Staff and other personnel costs have decreased by 9%, from 186 USD million in 2013 to 169 USD million in 2014.
- Procurement expenses (supplies, materials and commodities) have increased by 12%. However, this increase is smaller than the percentage of total increase in expenditure. For instance, courses, seminars and travel costs have increased by 19.4%, from 97.8 USD million in 2013 to 116.8 USD million in 2014. Contract services have decreased from 100 USD million in 2013 to 86.3 USD million in 2014 (13.7%), and the value of non-current assets in Equipment, Vehicles, Furniture and Intangible Assets has also decreased from 2.1 USD million in 2013 to negative 0.4 USD million in 2014.
- The disbursements in grants and transfers to counterparts have increased by 349.7%, from 144 USD million in 2013 to 647 USD million in 2014, due to the implementation of the *Mais Médicos* Project in Brazil.
- PAHO's total current assets have increased by 305.7 USD million, from 520.9 USD million to 826.6 USD million.
- PAHO's cash balances decreased by 16.9% from 165.7 USD million in 2013 to 137.6 USD million in 2014. This partially offset a rise in short term investments (143 USD million), and an increase in the balance of Accounts Receivables - Current (190.7 USD million).
- There has been a general increase of the Account Receivable from Voluntary Contribution Funds. The current voluntary contributions grew by 157% and the non-current by 59%.
- PAHO has sufficient financial resources to meet its current obligations (216 USD million in Fund Balances and Reserves, 21.1% more than in 2013).
- The Long Term Investments balance stands at 267.8 USD million, which should be adequate to meet PAHO needs disclosed as long term liabilities.
- Employee benefits, current and non-current liabilities have increased by 4.1%. Thus, the amount of 203.2 USD million shown in 2013 has grown to a 211.6 USD million of liability.

- In a short-term perspective PAHO has enough resources to fund the employee benefits of the staff. However, future funding of this liability may be a financial challenge for PAHO. For that reason, we encourage progressing with planned steps to address this challenge.

3. Country Offices

3.1. Introduction

- 18 PAHO is present in more than 30 countries throughout the Region of the Americas. PAHO operations and project implementation at a country level is managed by its network of Country Offices and Centers and it funds its operations using regular budget allocations as well as specific project funds. The cumulative disbursements by these Offices in 2014 (including the impact of *Mais Médicos* project) were of about 846.6 USD million (2013: 351.7 USD million), which was a significant component of PAHO's reported activity. Therefore we carried out on-the-spot visits to obtain an assurance that locally managed operations, incurred expenditure and established control mechanisms are performed correctly.
- 19 Our selection of Country Offices was determined by a risk assessment which took into consideration the level of expenditure, the length of time since our previous audit visit and interviews with Headquarters' staff. We also took into consideration the recommendations of the Audit Committee and the results of control visits performed by the Office of Internal Oversight and Evaluation Services.
- 20 During 2014 we visited Brazil, Colombia and Cuba Country Offices. At the end of each visit, we provided our findings and recommendations to the PWR (PAHO-WHO representative) in those Country Offices. Management has been requested to respond and prepare a clear action plan to be implemented or followed up addressing the points that we have raised. It was the fifth consecutive year that external auditors have visited the Brazil Country Office. This Office is accountable for the largest proportion of PAHO's expenditure.
- 21 In addition, in the course of the audit fieldwork carried out in Headquarters (HQ) we have reviewed relevant documentation regarding the activity of all Country Offices.

3.2. *Mais Médicos* Project

- 22 The participation of PAHO in the *Mais Médicos* project derives from the *Termo de Cooperacao 80*, which was signed in April 2013 between PAHO and the Brazilian Department of Health. The aim of this project is to expand the Brazilian population's access to primary health care. In order to implement that agreement PAHO and the Cuban Government agreed on the participation of Cuban doctors in the Project. The implementation of the project, in terms of financial resources, amounted to at least 867,746,114 USD in December 2014, out of which at least 707,875,592 USD were disbursed in 2014.
- 23 We have analyzed the management of the *Mais Médicos* project during 2014, in particular regarding to its internal control framework. We conclude that this framework remains strong. However, some aspects of the management of this project should be improved.
- 24 One of the key elements of the current internal control framework of the project is a database used by the PWR/BRA to track and monitor the operational activity of Cuban doctors participating in the program. However, this database present some weak points:
- It was not able to provide historical data about the Cuban doctors' situation (e.g. is not possible to obtain a list of doctors' payroll information for any previous month). It was only able to inform about their situation at the moment of the consultation.
 - It contained personal and confidential information about Cuban doctors. Although PWR/BRA has designed a system of permissions and access rights to the database, a security protocol enabling remote access to the database (for instance from HQ) was lacking, which hampered the database's control and limited its usefulness.
 - The different incidents that may arise regarding Cuban doctors (e.g. replacement, sick leave, casualty, reassignments, etc.) were recorded in a spreadsheet (off system), as an incidents module had not yet been implemented.

- Successive adaptations and developments of this database were not reflected in the user’s manual.
 - There was no mechanism to cross check the accuracy of information included in this database with information deriving from other external sources about the Cuban doctors’ activity (e.g. data obtained from other entities, local authorities, government departments).
- 25 In regard to a constitutionality lawsuit against the project, we noted that the lawsuit against the *Medida Provisoria* was closed. However, new lawsuits have been filed against the Government. Thus, there are still legal contingencies for the project, since there are pending decisions from either the Brazilian Federal Supreme Court or other Brazilian Courts. Notwithstanding, PAHO has designed a contingency plan to face prospective judgments against the project.
- 26 PAHO has still not reached an agreement with any bank as regards opening of a banking mechanism which would enable fully meeting the needs of the Organization to manage the funds denominated in BRS. At present, the Organization struggles to obtain, on the one hand, flexible short term cash management instruments and on the other, a mechanism which would ensure a satisfactory return on investments, taking into account the especial conditions in Brazilian economy (high inflation rates).
- 27 Some expenses from *Mais Médicos* project (at least 1,141,558 USD), were funded by *Termos de Cooperação* other than TC 80, despite the fact that they were incurred for the implementation of the project. This fact limits the knowledge of the total amount of resources actually used in the project implementation.

In addition, we found some minor procedural findings in the management of some transactions of the project.

Recommendation 1: We recommend that PAHO continues monitoring closely this project, in particular the compliance of its internal control procedures with established rules. PAHO should also monitor any lawsuits which may put the project at risk.

Recommendation 2: We recommend funding all expenses within the scope of the *Mais Médicos* project with specific obligations, thus avoiding the exceptions and the use of other *Termos de Cooperação* to fund activities of the project.

Recommendation 3: We recommend improving the Cuban doctors' data base by enabling access to historical data on the Cuban doctors and developing an incidents module (e.g. replacements, sick leaves, casualties). Also, PAHO should update the user's manual for this application and its successive developments.

Recommendation 4: We recommend designing a security protocol for the access rights to the database (including remote access), defining the different permission levels and categories of users (both PWR/BRA and HQ). In any case, security and privacy of the Cuban doctors' data must be guaranteed.

Recommendation 5: We recommend periodical data confirmation exercises. The data included in the database on Cuban doctors' activity managed by PAHO should be periodically corroborated with data obtained from third parties (e.g. local authorities, government departments) to ensure its integrity.

Recommendation 6: We recommend exploring new options regarding the mechanism for managing of funds denominated in BRS. This mechanism should ensure an adequate equilibrium between liquidity requirements and the rate of return, at the lowest possible exposure risk.

4. Governance Matters

28 There are mechanisms on which the Governing Bodies of every international organization rely to supervise the effectiveness of its activity. We have analyzed these mechanisms as part of our audit.

4.1. Pan American Sanitary Bureau (PASB) Management Information System (PMIS)

4.1.1. Background

29 The key dates in the process of modernizing the Pan American Sanitary Bureau (PASB) Corporate Management System have been the following:

- In 2008, the 48th Directing Council authorized performing an analysis for modernizing the Pan American Sanitary Bureau (PASB), named Management Information System (PMIS) Modernization Project.
- In 2010, the 50th Directing Council approved an implementation of the Enterprise Resource Planning System (ERP). The estimated budget for this project was 20.3 USD million.
- On 8th June 2011, the Director formally announced the launching of the PASB Management Information System (PMIS) implementation.
- In 2014 the Directing Council approved a 2.2 USD million increase in the project's budget. The current budget is 22.5 USD million. At the same time, the PMIS Core Team was established.
- From February 2014 to February 2015 phase 1 was developed: planning, architecture, configuration and prototype, testing, deployment and moving the Human Resources and Payroll areas into live production.
- Currently, phase 2 (July 2014 – December 2015) is being developed: planning, architecture, configuration and prototype. Testing and deployment of the

Finance, Procurement, Planning and Budgeting areas will be developed during 2015.

In this scenario, the Project is set to be ready by January 1st, 2016.

4.1.2. Source of Funding

- 30 The original PMIS project budget was 20.3 USD million. This amount was presented to the 2010 Directing Council and consisted of:
- 10.0 USD million from the Holding Account, which contained surplus funds from the 2006-2007 biennium;
 - 10.3 USD million from the Post Occupancy Charge (POC) mechanism.
- 31 After the budget increase the current project cost forecast reaches 22.5 USD million, resulting in a difference of 2.2 USD million. This additional funding was obtained from the unappropriated balance of IPSAS Surplus (2.1 USD million) and from the unspent balance of approved projects from the Holding Account (0.1 USD million).
- 32 Main items that increased the foreseen budget by 2.2 USD million were: change orders for unanticipated requirements resulting in a more costly ERP implementation process (1.9 USD million) and custom reports and interfaces associated with those change orders (0.3 USD million). On the other hand, the increase needed for backfill (assuming one staff per functional area: 1.7 USD million) was partially offset by the cost reductions in other areas, like the change management contract and project manager contract (1.2 USD million) along with planning software (0.4 USD million).
- 33 At the end of February 2015, the cost already incurred has been 14.5 USD million. The main part of this amount was spent on ERP implementation and integration (7.1 USD million), project management and training (2.8 USD million) and additional staffing (backfill) (1.5 USD million). The available budget to be disbursed in 2015 is 8.0 USD million.

4.1.3. Audit Review

- 34 Phase 1 was completed on time according to the estimated timetable. However, until the launch of the PMIS system in its full functionality, the payroll management will be performed combining the use of the new (calculations) and old (payments, accounting) payroll IT systems. The transfer of data between the new and the old system should be considered as a potential high risk area.
- 35 Phase 2 is being developed according to the estimated timetable. Nevertheless, since the Treasury workstation was selected late and the purchase contract still awaits final approval, PAHO has planned to configure the phase 2 so that this module can be launched at a later date compared to main functionalities of the phase 2 ERP system.
- 36 However, there are still unresolved issues (e.g. functionalities of the travel agency, some interfaces with external applications, final data transfer from the FAMIS to PMIS, among others) which need to be addressed.
- 37 PAHO established a PMIS Core Team which is composed of experts from each operational PAHO areas corresponding to PMIS modules. In order to mitigate the negative effects of staff transfers to PMIS Core Team, the PMIS project budget included an amount (backfill) for hiring additional staff to replace key staff in operational units.
- 38 The staff involved in the development of phase 2 will bear a high pressure given the tight schedule, the number and importance of the issues to be addressed and the regular operations, taking also into account the year-end and 2014-2015 biennium closure.
- 39 We consider that a compliance with the PMIS project implementation schedule is a critical issue for the Organization. As we described in our last report, some of the current software applications used by the Organization are outdated and unable to provide in an efficient way the management information that is required for the purpose of producing financial statements based on IPSAS. This results in a complex and difficult process of preparing the financial statements, which engages manual operations and off system adjustments (e.g. depreciation of assets, accruals identification and write-offs, capitalization of tangible and intangible assets, etc.).

40 Related to the above mentioned, an additional risk to the project implementation exists and it is related to the contract with the system integrator. This contract expires on December 31, 2015, which means that PAHO would have to rely only on its own IT services at the critical moment of launching the PMIS system, unless the extension of the contract or conclusion of a follow-on contract is negotiated. During 2014, PAHO concluded a separate follow-on contract with the system integrator to provide support services for the phase 1 solution.

41 Any delay in the PMIS system implementation could increase the budget, which has already been increased.

Recommendation 7: We recommend integrating the Treasury workstation in the PMIS project timeline. Besides, it would be necessary to plan the integration in phase 2 of the unresolved issues, mainly the final data transfer and the accounting closure at the end of 2015.

Recommendation 8: We recommend further reinforcing relevant operational units involved in phase 2 deployment with additional staff.

Recommendation 9: We recommend establishing a plan in order to ensure sufficient financial resources, in case of delays in the PMIS implementation. This may require a contract renewal or follow-on contract with the system integrator or hiring of additional staff to support units involved in the project implementation.

Recommendation 10: We recommend that PAHO focus its efforts in order to comply with the estimated deadlines as defined in the project schedule.

4.2. Retiring staff: Replacement and transfer of knowledge

42 The average age of PAHO Staff Members has increased over the years. As a consequence, a relevant portion of key staff members are expected to reach retirement age in the near future.

43 Focusing on the higher categories staff, which usually supports the leadership and core activities of the Organization, we found that at the end of 2014, 25% of PAHO

staff whose grade is P4 and above will be reaching retirement age in the next three years (2015, 2016 and 2017). The rate is even higher in the Country Offices, where this proportion is 29% of staff whose grade is P4 and above.

- 44 At the moment, retiring staff members are only required to prepare a report to their supervisors before leaving the Organization. This report is not always standardized so its usefulness may vary.
- 45 We raised a number of observations and recommendations in our previous PAHO audit reports regarding the difficulties of the Organization transferring knowledge from the retirees. We also noted that the recruitment process of key staff usually takes a long period of time. As a consequence, key staff posts remain vacant, or with another staff member appointed *ad interim*, for a long time. This circumstance causes a high level of workload for the staff and entails a risk of losing strategic information about the Organization's operations.
- 46 A report of the development of the PASB (Pan-American Sanitary Bureau) Human Resources Strategy has been submitted to Subcommittee on Program, Budget and Administration. This document has 9 lines of action. In the 7th line, the document refers to steps to "*ensure continuity and succession*" by the implementation of "*succession management*".

Recommendation 11: We recommend further developing the action line referring to "*succession management*", considering the possibility of preparing the replacement before the retiring staff leaves the Organization.

Recommendation 12: We recommend setting up a standard procedure for transferring the retiring staff's knowledge, including a template of the report to be prepared by the retiree.

Recommendation 13: We recommend improving the recruitment process of staff members, by shortening its maximum duration, especially in the administrative tasks, without harm to the transparency or openness of the competition.

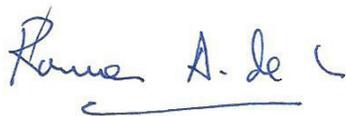
5. Follow up of prior year recommendations

- 47 In our report for 2013, we made a number of recommendations about PAHO's management. As part of our work we have followed up the progress that PAHO has made in their implementation. The detailed follow up, including both the response from PAHO and our comments thereon, is set out in Annex B.
- 48 Overall, we are of the opinion that PAHO has responded appropriately to our previous recommendations and is taking steps to address the issues raised. We conclude that PAHO has responded very positively to our recommendations, since all of them have been closed or are in progress. We also took note of the implementation of our recommendations on PMIS and *Mais Médicos* since both projects are critical to the Organization.

Acknowledgement

- 49 We wish to record our appreciation for the co-operation and assistance provided by the Director and the staff of the Organization over the course of our audit.

Madrid, April 9, 2015



Ramón Álvarez de Miranda García

President of the Spanish Court of Audit

Annex A. - Summary of Audit Recommendations

Recommendation 1: We recommend that PAHO continues monitoring closely this project, in particular the compliance of its internal control procedures with established rules. PAHO should also monitor any lawsuits which may put the project at risk.

Recommendation 2: We recommend funding all expenses within the scope of the *Mais Médicos* project with specific obligations, thus avoiding the exceptions and the use of other *Termos de Cooperaçao* to fund activities of the project.

Recommendation 3: We recommend improving the Cuban doctors' data base by enabling access to historical data on the Cuban doctors and developing an incidents module (e.g. replacements, sick leaves, casualties). Also, PAHO should update the user's manual for this application and its successive developments.

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Recommendation 6: We recommend exploring new options regarding the mechanism for managing of funds denominated in BRS. This mechanism should ensure an adequate equilibrium between liquidity requirements and the rate of return, at the lowest possible exposure risk.

Recommendation 7: We recommend integrating the Treasury workstation in the PMIS project timeline. Besides, it would be necessary to plan the integration in phase 2 of the unresolved issues, mainly the final data transfer and the accounting closure at the end of 2015.

Recommendation 8: We recommend further reinforcing relevant operational units involved in phase 2 deployment with additional staff.

Recommendation 9: We recommend establishing a plan in order to ensure sufficient financial resources, in case of delays in the PMIS implementation. This may require a contract renewal or follow-on contract with the system integrator or hiring of additional staff to support units involved in the project implementation.

Recommendation 10: We recommend that PAHO focus its efforts in order to comply with the estimated deadlines as defined in the project schedule.

Recommendation 11: We recommend further developing the action line referring to "*succession management*", considering the possibility of preparing the replacement before the retiring staff leaves the Organization.

Recommendation 12: We recommend setting up a standard procedure for transferring the retiring staff's knowledge, including a template of the report to be prepared by the retiree.

Recommendation 13: We recommend improving the recruitment process of staff members, by shortening its maximum duration, especially in the administrative tasks, without harm to the transparency or openness of the competition.

Annex B. - Implementation of Prior Year Recommendations

We reviewed management's implementation of recommendations made in our 2013 long form report. We have summarized the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls.

RECOMMENDATION	MANAGEMENT RESPONSE	SCA COMMENT
<p>Recommendation 1</p> <p>We recommend that PAHO design a contingency plan for the Mais Médicos Project to face possible negative statements of both the Brazilian Federal Supreme Court, on the constitutionality of the project, and the Brazilian Labor Court, on the recognition of labor rights in Brazil for Cuban doctors. This contingency plan should include provisions to cope with the risks deriving from such negative statements (doctors' transportation, extraordinary expenses funding, liabilities, etc.).</p>	<p>The risk of negative decisions from Brazilian national courts is an essential consideration of the Working Group responsible for identifying, monitoring and mitigating risks related to the Mais Medicos Project. This Group meets quarterly. Additionally, there is close collaboration and monitoring between PAHO and the Brazilian Ministry of Health of all legal risks and pending cases. Finally, the respective legal Agreements signed with the Governments of Brazil and Cuba both contain clauses regarding termination and the closing of the projects in compliance with all legally binding obligations (including contracts, liabilities, etc.).</p>	<p>CLOSED</p>
<p>Recommendation 2</p> <p>We recommend that PAHO regularly check the compliance of the critical points of internal control framework of Mais Médicos Project</p>	<p>The critical points of the internal control framework for the Mais Medicos Project are guided by the Administrative Management Model of Mais Medicos (see attached), which is a dynamic document, updated based on the new TAs and the identified control needs of the Project. As part of the Model, a database has been created to track and monitor the doctors participating in the Program. This database is populated with data provided by the Ministry of Health of Brazil, as well as the information provided by the Embassy of Cuba with regard to personal information and status within the project (doctors arriving in country, location of participating doctors, leave status). PAHO will be reconciling this data periodically to ensure that the information from the various sources is accurate and complete. As part of the reconciliation process, reports from the International PAHO Consultants responsible for monitoring the activities of the doctors in the municipalities will also serve as</p>	<p>CLOSED</p>

RECOMMENDATION	MANAGEMENT RESPONSE	SCA COMMENT
	<p>a control against which this database will be reconciled.</p> <p>In addition, there is a working group responsible for identifying and monitoring the specific risks associated with the Project. This Group is scheduled to meet quarterly to assess any changes in the risk profile and mitigation measures. Furthermore, Project-specific management posts have been developed, including a dedicated internal audit post that will be responsible for the internal oversight of the Mais Medicos Project. In order to optimize the functioning of the critical control points, a Coordinator at the Regional Office is dedicated to ensuring that all officials responsible for the management and oversight of the Mais Medicos Project are working in a coordinated fashion and kept fully informed of the progress of the Project and can provide inputs into its improvement.</p>	
<p>Recommendation 3</p> <p>We recommend that PAHO continue reinforcing the training on IPSAS concepts and keep a close oversight of those units with a higher risk.</p>	<p>The FRM Country Accounting Services team (CAS) will continue to provide training to the country offices in expense recognition and calculations of accrued expenses. As noted by the SCA, significant improvements have been made in this area however continuous training is required due to changes in personnel in the country offices as well as other operational demands.</p> <p>Furthermore, CAS will implement a process to monitor the inclusion of fixed assets in the AMPES/OMIS registry and easily identify items to be capitalized and depreciated. A training session on this topic was scheduled for July 2014. The training covered the appropriate way to record assets in the registry, the use of the attached form, the importance of strong controls in this area and their impact on the financial statements.</p>	CLOSED
<p>Recommendation 4</p> <p>We recommend deciding the software modules that need to be purchased and their integration in the PMIS Project timeline</p>	<p>PAHO has contracts in place with all software modules that are part of the PMIS overall solution with the exception of the Treasury Workstation.</p> <p>The Treasury Software has been selected and the contract negotiations are under way.</p>	CLOSED
<p>Recommendation 5</p> <p>We recommend beginning the backfill process and hiring staff in the areas which have temporarily lent their key staff to the PMIS Project.</p>	<p>Funding has been provided for 2014 & 2015 for the requested backfill of PAHO staff temporarily assigned to work as part of the PMIS team.</p>	CLOSED
<p>Recommendation 6</p> <p>We recommend that PAHO focus its efforts in order to comply with the estimated deadline.</p>	<p>PAHO successfully went live with phase I of the PMIS in late January 2015. PAHO has a detailed project plan phase II. The plan is constantly monitored and updated.</p>	CLOSED

RECOMMENDATION	MANAGEMENT RESPONSE	SCA COMMENT
<p>Recommendation 7</p> <p>In order to ensure success when the system to be fully operational, we recommend that PAHO create a Risk Management Unit to develop the management risk functions and to review the resources devoted to the fully development and maintenance of the Enterprise Risk Management.</p>	<p>The senior ERM position has been filled and the staff member assumed responsibilities in March 2015. Additionally a P3 position has been assigned to support the AM team with policy matters related to ERM, PMIS and audit recommendations.</p>	<p>CLOSED</p>
<p>Recommendation 8</p> <p>We recommend that PAHO review all LOAs still open with ending dates older than a year. After this review PAHO should determine the status of each LOA and should close LOAs totally implemented and request from the beneficiaries the final reports or the outstanding amounts to be returned to PAHO, when necessary.</p>	<p>The following actions were taken by the Department of Planning and Budget (PBU) in coordination with the Department of Financial Resources Management(FRM):</p> <ol style="list-style-type: none"> PBU mapped all the LOAs that are still open in the system (total of 1,104 from 2002-2013). A report was prepared for the Director's consideration. FRM and PBU defined a course of action and timetable to close those LOAs. A message to all the PWRs has been sent for them to provide the reasons and status of the LOAs opened by 30 June 2014. PBU coordinated with ITS to establish a procedure to open the system in a controlled environment to close old LOAs. Based on the answers from PWRs, PBU will proceed with step (e). PBU and FRM will make a recommendation about those cases that cannot comply with the closing process for lack of any of the requirements defined in the current policy. <p>PBU estimates that by September 2014 those LOAs that complied with all the requirements will be ready to be closed.</p> <p>For LOAs with special situations to resolve, the estimated date is 31 December 2014.</p> <p>Among the potential situations to resolve include: lack of technical report, lack of financial report, lack of reimbursement of resources, and the beneficiary institution no longer exists.</p>	<p>CLOSED</p>
<p>Recommendation 9</p> <p>We recommend that PAHO set deadlines for closing LOAs after their ending date.</p>	<p>The updated LOA policy has been submitted for the E-Manual Standing Committee approval.</p>	<p>CLOSED</p>
<p>Recommendation 10</p> <p>We recommend that the E-Manual and the new policy to be approved define the exclusions for the use of LOAs in a clearer way in order to avoid the misuse and the misunderstanding of this valuable cooperation instrument. We suggest the limits and differences between service contracts and LOAs be clarified.</p>	<p>An updated Letter of Agreement (LOA) Policy has been drafted and reviewed. However, in light of the recent determination to prepare an abbreviated process for LOA funds transferred to governmental entities for training and capacity building activities up to \$5,000.00, LEG, PBU and AM have been working extensively to ensure that the policy and any affected policies, as well as the FRM Handbook are appropriately modified.</p>	<p>IN PROGRESS</p>

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<p>Recommendation 11</p> <p>We recommend setting an incentive to the allottees who reach their programmatic aims with the highest level of efficiency, allowing them to reuse a portion of the saved funds in the following biennium.</p>	<p>Incentives could be defined and set on the basis of performance and efficiency savings but not necessarily on the reuse of funds from savings. Funds such as RB expire at the end of the biennium and savings from one part of the Organization are used to bridge the funding gaps in another during the biennium in which the funds were allotted. This recommendation may not be feasible due to Financial Regulations and Rules of the Organization.</p>	<p>CLOSED</p>
<p>Recommendation 12</p> <p>We recommend improving the monitoring and the planning of the projects funded with regular budget in both financial and programmatic side to avoid the accumulation of expenses at the end of the biennium.</p>	<p>PBU will continue to work closely with entities to monitor the level of RB implementation on a regular basis and bring to the attention of the entity managers and report to EXM in the monthly budget implementation reports. During the six monthly performance review, special attention will be given to entities and projects with low implementation to ensure optimal implementation of funds and technical programs.</p>	<p>CLOSED</p>