

Report of the External Auditor

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TRIBUNAL DE CUENTAS
DE ESPAÑA

The Pan American Health Organization

Long Form Report on the 2015 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.

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1. Executive Summary

1.1. Introduction

- 1 We have provided an unmodified audit opinion on the 2015 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, 2015; 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, 2015 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 were 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 2014 Long Form Report are set out in Annex B.
- 6 The 2015 financial statements correspond to the fourth 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.

In the Brazilian Country Office we have specifically analyzed the management of the *Mais Medicos* project during 2015, in particular regarding to its internal control framework. We conclude that this framework remains strong, all the posts created to support of the Project were in place, new tools have been implemented, and most of our recommendations were in progress of implementation or had already been addressed. However, some aspects of the management of this Project should be improved, for instance, the delays in some payments to the Cuban Embassy, the capacity of the Cuban doctors' database, as well as the classification of the expenses.

- 9 In regard to lawsuits against the *Mais Medicos* project, the main lawsuit still remains unresolved. However, other lawsuits at the Brazilian Labor Court ended without any impact to the project. Apparently, the level of risk has decreased.

However, PAHO will have to continue following these contingencies and keeping the contingency plan updated.

- 10 We noted improvements in the management of Letter of Agreements within the Organization. However, we could still identify a number of findings regarding the service contracts, specifically with individuals, as regards to the competitiveness of selection procedure. PAHO continues the process of developing e-tendering systems to address these types of issues.
- 11 The PMIS was launched on time (January 2016). We consider necessary to highlight the effort made by the Organization. Nevertheless, there are potential risks which PAHO should take into account in order to achieve the complete PMIS implementation. Those risks are related, among others, to the transfer of data between new and old systems, to the establishment of standardized procedures of checking the integrity of data within the system, to the deployment of the large number of amendments and improvements and to the definition of roles and security rules of the users. Lastly, the approval of a Business Continuity Plan is needed.
- 12 Since PMIS is a critical project for the Organization, we strongly encourage PAHO to maintain institutional effort to fully complete the implementation of the PMIS project.
- 13 Under the PASB Staff Rules and Regulations, the Organization funds employee benefits and entitlements for current employees and for retirees. At the end of 2015, the net value of current and non-current liability reached 220.58 USD million for the Staff Health Insurance. This obligation resulted from an actuarial calculation of the current value of the present and future obligations related to the Staff Health Insurance of the staff members and retirees. PAHO, in coordination with the WHO, has assessed some alternative methods to gradually decrease the value of the unfunded liability, which require further analysis of the external auditor.
- 14 As regards the staff management, we noticed that a relevant portion of key staff members is expected to reach its retirement age in short term. Focusing on the higher categories staff, which usually supports the leadership and core activities of the Organization, we found that at the end of 2015, 77 of 301, 26% of PAHO staff whose grade is P4 and above, will reach a retirement age in the next three years (2016, 2017 and 2018).

- 15 We observed that the organization still have difficulties with the knowledge transfer from the senior staff close to its retirement. 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 appointments for a long time.
- 16 Finally, we detected a significant increase in the level of disbursements in the last months of 2015, which was the end of the budgetary biennium. We consider that the implementation of a relevant portion of the activities at the very end of the period involves a risk of non-compliance with sound financial management principles. Similar observation was reported in our 2013 Long Form Report.

2. Financial review

17 The Director's Comments on the Financial Statements provide a comprehensive analysis of the financial performance of the Organization for 2015. We have reviewed the financial information provided and checked its consistency with the information contained in the Consolidated Financial Statements, and hereby we present some further analysis to enhance its understanding.

18 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 2015, the last year of the budgetary biennium, PAHO had a deficit of 8.8 USD million. That represented a major change with the previous year that presented a net surplus of 23.7 USD million. The main causes of this change are detailed below.
- Total revenue decreased from 1,727.2 USD million in 2014 to 1,460 USD million in 2015, which was a 15.5% decrease.
- During 2015, the total revenue from the Procurement of Public Health Supplies decreased by 4.5%, to 646.2 USD million compared to 676.4 USD million in 2014. Through extensive international bidding, PAHO is able to purchase, at affordable prices, vaccines, public health supplies and equipment on behalf of Member States and international institutions. These revenues are the first source of income, which represents 44.3% of the overall balance of revenues.
- Revenue generated by Voluntary Contributions decreased by 29.7% compared to the prior year, down to 620 USD million in 2015. The primary reason of this decrease was the *Mais Medicos* project's revenue, which declined from 676.5 USD million in 2014 to 473.5 USD million in 2015, eliminating indirect costs. It needs to be noted that the operations of the *Mais Medicos* project expressed in Brazilian currency did not decrease compared to the previous year. However, due to the exchange rate difference, their value reported in USD in the financial statements significantly decreased during 2015.

This type of revenue was the second source of revenue in the year 2014, which represented over 42.3% of total 2015 revenue.

- Miscellaneous Revenues decreased in 2015 from negative 0.7 USD million at the end of 2014 to negative 8.8 USD million at 31 December 2015. Miscellaneous revenues mainly include foreign currency revaluations, interest earned, exchange rate gains and losses. The principal explanation of this fall of revenues was the result of a decrease in the value of non-USD investments and available liquid funds of 15.8 USD million.
- PAHO's expenses decreased by 13.8% from 1,703.5 USD million in 2014 to 1,468.9 million as at 31 December 2015.
- Procurement expenses (supplies, materials and commodities) have decreased by 4.2% from 672.9 USD million 2014 to 644.8 USD in 2015. These expenses were the first source of expenditure, which represented 43.9% of the overall balance of expenses.
- The disbursements in grants and transfers to counterparts have decreased by 13.8%, from 647 USD million in 2014 to 480.9 USD million in 2015. The 95.2% of this amount corresponds to *Mais Medicos* project (455.9 USD million expenditures in 2015 in these types of payments). The level of operations did not decrease, but as they were reported in USD and disbursed in Brazilian currency due to the exchange rate difference its reporting value in USD was lower.
- Staff and other personnel costs have increased by 9.4%, from 169.6 USD million in 2014 to 185.5 USD million in 2015.
- The cost deriving from depreciation and amortization has reached the amount of 7.1 USD million in 2015. This amount represented the amortization of the period as well as the result of a negative revaluation of land and buildings carried out at the end of the current accounting period, which had to be recognized as a deficit according to IPSAS 17.
- Courses, seminars and travel costs have decreased by 41.9%, from 116.8 USD million in 2014 to 68 USD million in 2015. Contract services have decreased from 86.4 USD million in 2014 to 72.1 USD million in 2015 (by 16.5%).
- PAHO's total current assets have decreased by 60.6 USD million, from 826.6 USD million to 766 USD million.

- Short term investments decreased from 268.2 USD million in 2014 to 256.8 in 2015. Current Account Receivables have decreased from 412.9 USD million in 2014 to 358.2 in 2015.
- The current account of receivables from voluntary contributions fell by 38.6% from 295.3 million USD in 2014 to 181.4 in 2015. In particular, account receivables from *Mais Medicos* project descended from 177.5 USD million in 2014 to 111.9 in 2015, for the same reason as described above
- The Long Term Investments balance stands at 223.1 USD million, which is expected to be adequate to meet PAHO needs disclosed as the long term liabilities.
- Mainly due to 2015 assets revaluation, the value of Property, Plant and Equipment has decreased from 120.2 USD million in 2014 to the current 110.3 USD million.
- PAHO's current liabilities have decreased from 664.2 USD million in 2014 to 576.1 in 2015. However, the accrued liabilities have increased by 119.4% from 42.6 USD million in 2014 to 93.7 in 2015.
- Employee benefits, current and non-current liabilities have increased by 5.8%. Thus, the amount of 211.6 USD million shown in 2014 has grown to a 223.9 USD million of liability at the end of 2015.
- 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.
- PAHO has sufficient financial resources to meet its obligations (229.6 USD million in Fund Balances and Reserves, 6.3% more than in 2014).

3. Country Offices

3.1. Introduction

- 19 PAHO operates in more than 30 countries throughout the Region of the Americas. Its operations and projects implementation at a country level are managed by its network of Country Offices (CO) and Centers. PAHO funds its activity using regular budget allocations as well as specific project funds. The cumulative disbursements of these offices in 2015 (including the *Mais Medicos* project) were around 613 USD million (2014: 847 USD million), which constituted a significant part 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 were performed correctly.
- 20 Our selection of Country Offices was determined by a risk assessment which took into consideration the level of expenditure and the date of our previous audit visit (if any), among other considerations (e.g. interviews with Headquarters' staff and managers). 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.
- 21 During 2015 we visited Country Offices in Brazil, Haiti and Dominican Republic. At the end of each visit we produced a report stating our findings and recommendations. The reports were presented to the respective PAHO-WHO representative in those Country Offices. Subsequently, Country Office Management has been requested to respond and prepare an action plan to be implemented, addressing detected weaknesses. It was the sixth consecutive year that external auditors have visited the Country Office in Brazil. This Office was accountable for the largest part of PAHO's expenditure.
- 22 In addition, in the course of the audit procedures carried out in Headquarters (HQ) we have reviewed relevant documentation regarding the activity of the Country Offices.

3.2. *Mais Medicos* Project

- 23 The participation of PAHO in the *Mais Medicos* project was established by 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 access to the primary health care for the Brazilian population. In order to implement that agreement PAHO and the Cuban Government agreed on the participation of Cuban doctors in the Project. Currently the Project is expected to continue, at least, until 2018. The total implementation of the Project, since its beginning, in terms of financial resources, amounted to 1,363 USD million (3,621 BRL million) as of December 2015, out of which at least 497.1 USD million were disbursed in 2015 (1,552 BRL million). The size of the Project remained stable in 2015 compared to 2014. However, in the financial statements the figures are lower due to the fact that all the expenditures and incomes are in Brazilian currency, while the reporting in the Financial Statements was in USD, which value compared to BRL has increased in 2015.
- 24 We analyzed the PAHO management process of the *Mais Medicos* project in 2015, both in Headquarters and in the Country Office in Brazil. We acknowledge improvements made in the area of human resources as well as the functionality of IT tools. However, we still found some areas of improvement.
- 25 One of the key elements of the current internal control framework of the Project is a database used by the Country Office in Brazil to track and monitor the operational activity of Cuban doctors participating in the program. PAHO has improved the functionality of this tool, addressing most of the recommendations made by the external and the internal auditors. However, the database can still be improved. We detected that there was a lack of a business continuity plan or a disaster recovery plan, as well as a pre-production environment to test and practice the recovery procedures. In addition, we noticed that some improvements were still necessary to fully exploit the capabilities of the incident module. Despite the improvements made, we still detected a number of errors in the supporting documentation attached.
- 26 We detected that some *Mais Medicos* project operations amounting to 1.21 USD million, were funded through sources different to those indicated in *Termo de Cooperacao* 80.

- 27 In regard to a constitutionality lawsuit against the Project, we consider that the level of risk of an unfavorable decision being announced has decreased. Notwithstanding the foregoing, there are still open lawsuits and, in addition, due to the specific country's juncture, PAHO has to keep the contingency plan to face the adverse situations which may arise updated.
- 28 Lastly, in the second part of the year we noted certain funding and cash flow perturbations in the Project treasury management. They resulted in partial payments and delays in the settlements of outstanding commitments. According to the PAHO statement, in the beginning of 2016 a new *Termo de Ajuste* (TA 8) has been signed, which is expected to address payments delays issue.

Recommendation 1: We recommend developing a written, comprehensive business continuity plan or a disaster recovery plan and respective procedures for the IT tool used for the management of the Project. Recovery procedures should include the execution of periodic system recovery tests in a separate pre-production IT environment.

Recommendation 2: We recommend performing a comprehensive data analysis and validation of the main database in order to resolve data quality issues. The analysis should focus, in particular, on removing duplicates and checking the integration of database structure. Moreover, at the same time validation rules should be introduced or reviewed in order to prevent registration of invalid data.

Recommendation 3: We recommend funding all expenses within the scope of the *Mais Medicos* project with the specific allocated resources, avoiding the exceptions and the use of other *Termos de Cooperacao* to fund activities of the Project.

Recommendation 4: Due to the significant resources engaged in the *Mais Medicos* Program, it is important to agree with the donor a precise schedule of payments in order to avoid perturbations about funds transfers.

4. Governance Matters

29 There are mechanisms on which the Governing Bodies of international organizations rely to supervise the effectiveness of their 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

30 In 2008, the 48th Directing Council authorized to carry out an analysis with aim to prepare a modernization of the Pan American Sanitary Bureau (PASB). The analysis was named Management Information System (PMIS) Modernization Project and included the terms of reference for the implementation of an ERP computer system. The original PMIS project budget was set at 20.3 USD million. In 2014 the budget was increased by 2.2 USD million, so the project budget reached 22.5 USD million. This additional funding was obtained from the IPSAS Surplus (2.1 USD million) and from the unspent balance of approved projects from the Holding Account (0.1 USD million).

31 From February 2014 to February 2015 phase 1 of the PMIS was developed, deploying a Human Resources and Payroll module. Subsequently, phase 2 (July 2014 – December 2015) was carried out, implementing the remaining functionalities like Finance, Procurement, Planning and Budgeting and finally linking all modules in one integrated system.

32 In September 2015 a revision of the implementation process was made. As it was clear that a full implementation of all defined functionalities before the end of 2015 was not feasible, the scope was reduced in order to concentrate on core functionalities. The remaining system elements were planned to be implemented in 2016. Moreover, the Directing Council approved additional functionality extension. It added a recruitment module for the additional cost of 0.5 million USD,

which was implemented in the first half of the 2016. This increased the total implementation cost to 23 million USD.

- 33 Despite the fact that PMIS became operational in the beginning of 2016, its development and fine-tuning is an ongoing process goes on. Certain functionalities non-critical for the launch (e.g. periodical closures) and integrations with external systems (e.g. bidirectional integration of In-Tend) were postponed to 2016.

4.1.2. Audit Review

- 34 The most important part of the modernisation of the Pan American Sanitary Bureau was the implementation of the PMIS. The system was successfully launched in the beginning of 2016. Auditors would like to underline the remarkable organizational and financial effort made during the last 2 years of the implementation of the PMIS to replace obsolete legacy systems with modern cloud based ERP system. There is no doubt that this would not be possible without a full commitment of all PAHO employees, including supplementary work caused by additional duties related to the ERP system implementation.

- 35 At the day of audit visit, the system had been already in operation for a few weeks and its development and fine-tuning was still on-going. At this stage, the system went through many changes which included data transfers from legacy systems, correction of faults made at the implementation phase, elimination of bugs, learning process of end users (also learning by doing), integration with external modules (e.g. In-Tend), extension of existing functionalities (e.g. recruitment module) and definition of roles and security rules. The system cannot yet be considered stable and reliable. Large amount of changes and modification in such a complicated system is prone to unexpected errors. Therefore, the system operations may be considered by the organization still as fraught with some risk. Thus, supplementary checks and controls on all possible operational levels are indispensable.

- 36 At the strategic level the development of IT systems in PAHO outlines “PASB Information Technology Strategy 2015-2019”. However, this document does not present any detailed development plans or refers to an eventual operational plan which may set out short-term objectives. Short term planning is particularly important, taking into account a large number of system modification requests and

requests for additional functionalities. In order to keep the development budget under control, all system changes should be prioritized and evaluated prior to sending them to the external consultant.

- 37 The Project and its budget was planned to be closed by the end of March 2016. It was agreed that from April 2016 onwards all cost related to the system development, in particular services of the system integrator (external expert), will be covered by the IT maintenance budget. The most recent budget forecast from the mid-March 2016 shows that project implementation costs amounted to the approved budget of 23 million USD. However, there were still some system functionalities which were removed from the implementation in September 2015 and were not implemented till the end of March 2016. This means that the total budget of 23 million USD was not sufficient to finance completely the PMIS implementation. The list of enhancements to be implemented is quite long and there is no credible calculation of the cost that still needs to be incurred.
- 38 The system testing procedure assumed that each business owner verifies the correctness of the configuration and accuracy of imported data. However, it is difficult to estimate to what extent this was done and whether functional relations between business owners were correctly mapped (and recorded in the accounting registers). This type of assurance may be provided only by means of horizontal checks. The latter were made ad-hoc only if a problem was submitted for technical analysis. At the day of audit visit, there was no specific business unit or team responsible for the horizontal checks and systematic follow up of transactions registered by PMIS.
- 39 Despite the implementation of PMIS, there is still a number of IT application used by the organization which will not be integrated in the near future. For those systems there were no procedures established as regards the transfer of data between them and PMIS. Precisely defined data exchange procedures and their subsequent controls are particularly important for the external systems like PROMESS or EPICOR, where financial data (e.g. concerning payments or stock levels) need to be exchanged and used for transactions controls.
- 40 Finally, the new system has a potential to reduce manual operations and paperwork, thanks to a high level of integration and in-built workflow tool. It offers access to a large amount of horizontal data on the performance of the

organization. However, this tool generates important quantities of information which needs to be analysed and interpreted. These are new functions in the organization, so re-organisation of jobs and retraining of staff will be necessary soon. For the time being these new functions has not been clearly identified by PAHO and no plans in this respect exist.

Recommendation 5: We recommend preparing an operation plan on the basis of the “PASB Information Technology Strategy 2015-2019”, defining short term priorities, stating functionalities to be developed in PMIS, responsible business owners, expected deadlines and the anticipated budget.

Recommendation 6: We recommend reinforcing PMIS transactions controls and verification of business processes registration in the system during the first year of its operation. Established controls should be systematic and coordinated at various levels of the organization, combining controls exercised by business owners, horizontal controls and controls independent from business owners (e.g. carried out by internal control or specific team). The objective of those controls should be to obtain reasonable assurance as to the accuracy, reliability and credibility of data gathered and processed by PMIS. The control system, as well as testing scenarios and their results, should be duly documented and validated by the PMIS Advisory Committee.

Recommendation 7: We recommend preparing a mapping of all external IT systems which are responsible for generating any relevant data which is processed at any stage by PMIS. Particular attention should be paid to systems used by Country Offices. The mapping should identify and present types of IT systems used, their functions, type and amount of data exchanged, business units responsible and controls put in place to ensure integrity of data exchange.

4.2. Retiring staff: Replacement and transfer of knowledge

41 The Human resources of any Organization, including PAHO, are an essential element to achieve its goals. Over the years, skills and abilities required from PAHO employees have changed. However, there are areas in which the experience, the

leadership and the knowledge of the retiring staff of the higher categories should remain within the Organization.

42 Referring to the higher categories of staff, which usually support the leadership and core activities of the Organization, we found that at the end of 2015, 69 of 297 persons, i.e. 23% of PAHO staff whose grade is P4 and above, will reach retirement age in the next three years (2016, 2017 and 2018). The continuity of the operations requires a transfer of knowledge from retiring staff members to the new incumbents. A People Strategy, which was presented to the 10th Session of the Subcommittee on Program, Budget, and Administration of the Executive Committee, is a key document which contains several relevant areas of actions. The implementation of the goals stated in the document is a challenge for the Organization for a number of reasons. In addition, the Organization has been developing templates to harmonize the transfer of knowledge. However, further efforts are needed to ensure an effective transfer of knowledge.

43 On the other hand, we observed that the Organization struggles to carry out effectively the recruitment process for key staff positions. As a consequence, strategic posts remain vacant, or with *ad interim* appointments for a long period of time. In the administration the director posts for Finance, General Services, ITS and, currently, Human Resources remained vacant for almost a year.

Recommendation 8: We recommend continuing the effort to standardize and harmonize the procedures for transferring the retiring staff's knowledge to its successors.

Recommendation 9: We recommend improving the efficiency and effectiveness in the recruitment process for of the Organization.

4.3. Increase of expenses at the end of the biennium

44 For the biennium 2014-2105 the budgetary resources of PAHO included, among other, funds from the Member States' Assessed Contributions, the Miscellaneous Revenue and the PAHO implemented resources from the WHO Regular Budget Allocation. All these resources were destined to implement the international health programs established by the World Health Assembly for the Region of the Americas.

- 45 According to the Resolution 3 of the 52nd Directing Council, PAHO approved and used a Results-based Management framework for the development of its biennial Program and Budget 2014-2015.
- 46 The analysis of the regularity of disbursements and the cash flow of the Regular Budget¹ operations (PAHO Regular Budget and WHO Regular budget allocated to the Region of the Americas) revealed a significant increase in the level of disbursements in the last months of the year 2015. It has to be mentioned that similar observation was reported in the Long-Form Report of the External Auditor for the year 2013, corresponding to the end of the previous biennium.
- 47 Having excluded the Human Resources operations (payroll) for this analysis, it was found that the disbursements in December (13.8 USD million) represented 278% of the monthly average level of the expenditure of the year (4.95 USD million), even though the last month was open for transactions only for the first 10 days, due to the advance closure of the financial year required by the PMIS implementation.
- 48 It has to be admitted that it is a common practice that budget-basis organizations tend to increase their expenditure at the end of the budgetary period. PAHO was not an exception. We noticed that close to the biennium end, Directors and the PWRs increased disbursements in order to meet their expenditure targets. In 2015 this practice escalated as the end of biennium coincided with the launching of PMIS.
- 49 However, the date of deployment of the PMIS had been known well in advance. Therefore, we do not think that the hasty budget implementation at the very end of the biennium can be considered as a good practice and an adequate way to reach the budgetary objectives efficiently. Therefore, we consider that such behaviour is fraught with a risk to a sound financial performance.

Recommendation 10: We recommend improving the scheduling of the implementation of the Program and Budget for the biennium 2016-2017, developing tools within the new budgetary scheme and the PMIS for avoiding the accumulation of expenses at the end of the biennium.

¹ Regular Budget Funds, as they are defined in the accounting records, excluding expenses funded by other sources such as Revolving Funds or Voluntary contributions among other sources of funding.

4.4. After Service Health Insurance (ASHI) Fund. Transferring the ASHI liability to the World Health Organization (WHO)

50 Under the PASB Staff Rules and Regulations, the Organization funds post-retirement employee benefits and entitlements. There are currently two different types of employee benefits. The most important is the Staff Health Insurance, which comprises After Service Health Insurance, and the other is the Termination and Repatriation Entitlements (TAREP) scheme.

51 At the end of 2015, the net value for current and non-current liabilities assumed by PAHO reached the value of 220.58 USD million for the Staff Health Insurance. This obligation resulted from an actuarial calculation of the current value of the present and future obligations related to the Staff Health Insurance of the staff members and retirees.

52 We acknowledge the PAHO commitment to reduce the unfunded net liability which arose when IPSAS were implemented in 2010. Reduction of the unfunded liability continues to be a challenge for most United Nations Organizations, as it is the case for PAHO. We are aware that during the last years various analysis and proposals have been examined to address this issue, most of them in coordination with the WHO. Recently, the executive management has submitted to the governing bodies the following two proposals:

- In the first one, in order to improve the return on investments PAHO will transfer the ASHI plan asset to the WHO. In this case WHO will manage the portfolio of PAHO Plan Assets on behalf of PAHO. Both Organizations will continue reporting the liability separately in each Financial Statement.
- The second proposal puts forward the possibility of merging the ASHI liabilities of both PAHO and the WHO within one single ASHI under the WHO management.

53 As regards TAREP, in 2015 the TAREP scheme has been pooled in one single trust under the PAHO management. Previously, a part of TAREP liabilities related to PAHO employees funded by WHO were disclosed in the WHO Financial Statement

(particularly in its Staff Health Financial Statements, which are separated from the WHO). The WHO allocates resources to PAHO as its American Regional Office and a number of posts are funded with the resources of the WHO and are reported in the WHO Financial Statements. Those salaries are reported both in PAHO and the WHO Financial Statements.

- 54 As a result, for the years 2010-2015 there were two types of employee benefits liabilities for the staff members employed in PAHO. One, which was reported in the PAHO Financial Statements, and was included in the actuarial liability for the ASHI and the TAREP scheme for non-WHO funded posts (around 75% of total staff-members). The second one which has been reported in the WHO Financial Statements and its Staff Health Financial Statements for the liability corresponding to the WHO funded posts, around 25% of total staff members according to the information provided to the actuary.
- 55 As from the end of 2015 there will be a single TAREP liability entirely disclosed in the PAHO Financial Statements, but still there will be two ASHI liabilities: one in the PAHO Financial Statements and another one in the WHO Staff Health accounts. The latter will include PAHO staff members whose remuneration costs are funded by the WHO resources allocated to the Region of the Americas (AMRO).
- 56 The significant PAHO resources earmarked to reduce the unfunded ASHI liability (48 USD million, amount increased to 56 USD million in February, 2016) and the high value of the actuarial liability will require due consideration while defining terms of reference for the agreement with the WHO.
- 57 In the event of merging the plan assets, or even the ASHI liabilities and assets, PAHO should ensure that:
- In case of transferring the plan assets to the WHO, adequate information needs to be provided to calculate the share which belongs to PAHO.
 - PAHO is represented in the standing or oversight Committee, in order to guarantee that the interest of PAHO will be taken into account.
- 58 From the beginning of 2016, AMRO funded posts and PAHO funded posts will no longer exist. However, a portion of ASHI fund under WHO management will still remain, which will be reported in the WHO financial reports as AMRO ASHI liability (as it was shown in the actuarial report). There will not be a TAREP AMRO liability

any more. The reflection of those changes in the Financial Statements for 2016 should be scrutinized by the external auditor in the next year.

Recommendation 11: In the event of a transfer of all the ASHI assets and liabilities to the WHO, the PAHO rights and obligations, including the reporting responsibility, should be duly analyzed and precisely defined. Moreover, the PAHO presence in the governing bodies of the Staff Health Management body should be ensured.

5. Follow up of prior year recommendations

59 In our report for 2014 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.

60 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 adequate implementation of our recommendations on PMIS and *Mais Medicos*, since both projects are critical to the Organization.

Acknowledgement

61 We wish to highlight 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 12, 2016



Ramón Álvarez de Miranda García

President of the Spanish Court of Audit

Annex A. - Summary of Audit Recommendations

Recommendation 1: We recommend developing a written, comprehensive business continuity plan or a disaster recovery plan and respective procedures for the IT tool used for the management of the Project. Recovery procedures should include the execution of periodic system recovery tests in a separate pre-production IT environment.

Recommendation 2: We recommend performing a comprehensive data analysis and validation of the main database in order to resolve data quality issues. The analysis should focus, in particular, on removing duplicates and checking the integration of database structure. Moreover, at the same time validation rules should be introduced or reviewed in order to prevent registration of invalid data.

Recommendation 3: We recommend funding all expenses within the scope of the *Mais Medicos* project with the specific allocated resources, avoiding the exceptions and the use of other *Termos de Cooperaçao* to fund activities of the Project.

Recommendation 4: Due to the significant resources engaged in the Mais Medicos Program, it is important to agree with the donor a precise schedule of payments in order to avoid perturbations about funds transfers.

Recommendation 5: We recommend preparing an operation plan on the basis of the “*PASB Information Technology Strategy 2015-2019*”, defining short term priorities, stating functionalities to be developed in PMIS, responsible business owners, expected deadlines and the anticipated budget.

Recommendation 6: We recommend reinforcing PMIS transactions controls and verification of business processes registration in the system during the first year of its operation. Established controls should be systematic and coordinated at various levels of the organization, combining controls exercised by business owners, horizontal controls and controls independent from business owners (e.g. carried out by internal control or specific team). The objective of those controls should be to obtain reasonable assurance as to the accuracy, reliability and credibility of data gathered and processed by PMIS. The control system, as well as testing scenarios and their results, should be duly documented and validated by the PMIS Advisory Committee.

Recommendation 7: We recommend preparing a mapping of all external IT systems which are responsible for generating any relevant data which is processed at any stage by PMIS. Particular attention should be paid to systems used by Country Offices. The mapping should identify and present types of IT systems used, their functions, type and amount of data exchanged, business units responsible and controls put in place to ensure integrity of data exchange.

Recommendation 8: We recommend continuing the effort to standardize and harmonize the procedures for transferring the retiring staff's knowledge to its successors.

Recommendation 9: We recommend improving the efficiency and effectiveness in the recruitment process for of the Organization.

Recommendation 10: We recommend improving the scheduling of the implementation of the Program and Budget for the biennium 2016-2017, developing tools within the new budgetary scheme and the PMIS avoiding the accumulation of expenses at the end of the biennium.

Recommendation 11: In the event of a transfer of all the ASHI assets and liabilities to the WHO, the PAHO rights and obligations, including the reporting responsibility, should be duly analyzed and precisely defined. Moreover, the PAHO presence in the governing bodies of the Staff Health Management body should be ensured.

Annex B. - Implementation of Prior Year Recommendations

We reviewed management's implementation of recommendations made in our 2014 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 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.</p>	<p>The project is already being closely monitored and a Compliance Officer has been recruited and began working in the BRA Country Office in March 2015. A risk assessment analysis is also in place and periodically updated. Those risks under the direct responsibility of the Country Office are being monitored by the PWR-BRA Office, while the risks that are of a more general nature are being monitored from the Office of the Director of Administration (AM) and from the Office of Legal Counsel (LEG). This includes the consideration of any lawsuits that may place the project in jeopardy.</p> <p>LEG continues to monitor legal proceedings in Brazil and will take any necessary action.</p>	<p>CLOSED</p>
<p>Recommendation 2</p> <p>We recommend funding all expenses within the scope of the <i>Mais Médicos</i> project with specific obligations, thus avoiding the exceptions and the use of other <i>Termos de Cooperação</i> to fund activities of the project.</p>	<p>The Brazilian indigenous health program, implemented by the BRA Ministry of Health, is a vertical one (a sub-system in itself) as the Indigenous Health Districts are not directly covered by municipalities (due to their geographic nature and administrative arrangements, which entails a specific Federal subsidy across state boundaries). For this reason, there are no municipalities to provide the local contribution for maintaining the Cuban MD in Indigenous Health Districts (housing, food, and transportation). Since the Indigenous Health Program has a preexisting TC with PAHO, this has been the source to fund this portion of the MD's compensation, as the larger <i>Mais Medicos</i> program does not allow for any distinction or exception in the compensation assigned to the participating MD's from the Federal level.</p>	<p>CLOSED</p>

<p>Recommendation 3</p> <p>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.</p>	<p>The database used to track all participating Cuban doctors, COLPADI-BRA, has undergone significant improvements following much discussion and most notably the recent visit by the Department of Information Technology Services (ITS) to the Country Office. A subsequent visit from ITS took place in April and May 2015 to continue the process and ensure full compliance with all standards and regulations. A comprehensive incidents module has been integrated into the database as part of the recent modifications.</p>	<p>CLOSED</p>
<p>Recommendation 4</p> <p>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.</p>	<p>With the help of ITS, a firewall has been installed to guarantee the privacy and security of the Cuban doctors' data. Access rights (including remote access) have also been implemented.</p>	<p>CLOSED</p>
<p>Recommendation 5</p> <p>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.</p>	<p>This recommendation has been discussed at the pre-Tripartite reunion in February 2015 with Brazilian and Cuban national authorities. It was agreed that periodic cross-checks would be conducted between PAHO and Brazilian authorities to ensure the database's integrity and accuracy of information, in order to make the disbursements to the Cuban embassy as close as possible to actual delivery of services by Cuban MDs.</p> <p>The MM Program entails the designation by Brazilian Federal authorities of "State level reference staff". Hence, the source of information regarding both the presence and the delivery of services by Cuban MDs at municipal level is the responsibility of the State-level staff who are in permanent contact with the Brazilian Federal level.</p>	<p>CLOSED</p>
<p>Recommendation 6</p> <p>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.</p>	<p>The PAHO Investment Committee met on 31 March 2015 to review the status of investments in Brazil. The Chief Legal Counsel advised that negotiations with Banco do Brasil with regard to the Exclusive Investments had ended unsuccessfully due to the bank's inability to accept PAHO's privileges and immunities. The Investment Committee agreed that while the exposure limits in Brazil would remain the same, <i>Mais Medicos</i> funds could be invested with Citibank should Banco do Brasil reach its limit. The Chief Legal Counsel agreed that with the change in the US position regarding Cuba, there was little risk in using Citibank at this time. The Committee will continue to review investment opportunities to facilitate cash management and</p>	<p>CLOSED</p>

	the efficient and effective investment of these funds.	
<p>Recommendation 7</p> <p>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.</p>	The Treasury Workstation can be implemented independent of the PMIS, as redundancy has been built into both systems. However, the integrations must be addressed to maximize the investment in the Workstation with regard to bank reporting with all bank accounts through the SWIFT network. This is being addressed in the PMIS project timeline.	CLOSED
<p>Recommendation 8</p> <p>We recommend further reinforcing relevant operational units involved in phase 2 deployment with additional staff.</p>	<p>FRM has been reinforced through finalization of recruitment of the Director, hiring of a PMIS Project Coordinator, filling of all vacant posts in Staff Health Insurance/Payroll, and seconding of a Brazil Country Office Treasury staff member to HQ during PMIS testing.</p> <p>Reinforcement of PRO staff to support transaction processing has been requested.</p>	CLOSED
<p>Recommendation 9</p> <p>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.</p>	PMIS has requested that EXM authorize a follow-on contract with the systems integrator in 2016 to support systems enhancements and bug fixes. Key PMIS Core Team members will remain dedicated to PMIS through mid-2016. The PMIS Shared Services team is in the process of recruiting staff members to be dedicated to PMIS operations as part of the EXM-approved PMIS Governance plan.	IN PROGRESS
<p>Recommendation 10</p> <p>We recommend that PAHO focus its efforts in order to comply with the estimated deadlines as defined in the project schedule.</p>	The PMIS team was on schedule as of June 1 to meet project deadlines for Go-Live in January 2016, as a result of intensified efforts in April and May.	CLOSED
<p>Recommendation 11</p> <p>We recommend further developing the action line referring to “<i>succession management</i>”, considering the possibility of preparing the replacement before the retiring staff leaves the Organization.</p>	The HR People Strategy, which includes a provision for succession planning, was approved by the SPBA and will be presented to the Executive Committee in June 2015. Implementation will begin shortly thereafter. Furthermore, the Department of Human Resources Management (HRM) and Director’s office will go forward with the 1st initial step, i.e. asking managers to analyse and communicate their plans regarding posts in which incumbents are reaching the mandatory retirement age within the next 4 years.	IN PROGRESS

<p>Recommendation 12</p> <p>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.</p>	<p>HRM has committed to work with the Office of Knowledge Management, Bioethics and Research (KBR) to develop a standard format for exit reports. Meeting being scheduled by KBR.</p>	<p>CLOSED (RAISED IN 2015 LFR)</p>
<p>Recommendation 13</p> <p>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.</p>	<p>HRM statistics show the two greatest areas of administrative delay in filling posts are:</p> <ol style="list-style-type: none"> 1) Receiving short list from hiring manager after the matrix is sent from HRM. 2) Test design by hiring entity. <p>In 2014, compared to 2013, there were some delays in HRM submitting the matrices due to PMIS implementation and reduced staff assigned to recruitment.</p>	<p>CLOSED (RAISED IN 2015 LFR)</p>