

Report of the External Auditor



TRIBUNAL DE CUENTAS
DE ESPAÑA

The Pan American Health Organization

Long Form Report on the 2016 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.

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1. Executive Summary

1.1. Introduction

- 1 We have provided an unmodified audit opinion on the 2016 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, 2016; 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 financial statements.
- 2 Due to unforeseen circumstances related to the new enterprise resource planning system at PAHO, the financial statement reports were made available to the Court of Audit behind schedule. To ensure that the Court of Audit had sufficient time to conduct its audit, PAHO proposed an extension of the deadline for presenting the Audit Opinion and the Long-Form Audit Report for 2016 and, subsequently, Article Seven of the Engagement Letter signed on 21 June 2016 was amended, as follows:
“The Audit Opinion and the Long-Form Audit Report for 2016 shall be completed-signed and dated- and provided by the Court of Audit to the Director of PAHO together with the audited financial statements, no later than 28 April 2017”.

1.2. Overall Results of the Audit

- 3 We have audited the 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).
- 4 The audit opinion confirms that these financial statements: present fairly, in all material respects, the financial position as at December 31, 2016 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.
- 5 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.

- 6 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 2015 Long Form Report are set out in Annex B.
- 7 The 2016 financial statements correspond to the fifth year of the Spanish Court of Audit's appointment as the external auditor of PAHO.
- 8 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

- 9 In this report we have commented upon the Organization's financial position and presented our findings with respect to Country Offices (CO) and governance matters.
- 10 In the Brazilian CO we have specifically analyzed the management of the Mais Medicos project during 2016, in particular regarding its internal control framework. We conclude that this framework remains strong, all the posts created to support 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, a special review and follow up of participating doctor's dropouts, the capability of the Cuban doctors' database, as well as the classification of the expenses.
- 11 In regard to lawsuits against the Mais Medicos project, in 2016 and so far in 2017, at least 50 Cuban doctors have filed lawsuits related to the request to obtain a contract extension in their contracts and to achieve equal working conditions to other non-Cuban doctors within the same project. Furthermore, the main lawsuit still remains unresolved. However, other lawsuits at the Brazilian Labor Court ended without any impact to the project.

PAHO will have to continue following up the development of the situation and keeping the contingency plan updated, including potential consequences of the lawsuits presented in 2016.
- 12 The Pan American Sanitary Bureau Management Information System (PMIS) was launched in January 2016. For the first time the PAHO'S 2016 Financial Statement has been produced using the new Workday System (WD). Despite the great effort made by the Organization, we consider that there are still a series of weaknesses which have an impact on the overall perception of the usefulness of the system and the quality of data produced.
- 13 Since PMIS/WD is a critical project for the Organization, we strongly encourage PAHO to maintain institutional support, in the form of a permanent task, to fully exploit benefits deriving from the availability of management information.

- 14 Under the Pan American Sanitary Bureau (PASB) Staff Rules and Regulations, the Organization funds employee benefits and entitlements for current employees and for retirees. At the end of 2016, the net value of current and non-current liability reached 218.88 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. In November 2016, a Memorandum of Understanding has been signed with the objective to unify and simplify future management of the SHI Fund's overall liabilities and to enable PAHO ASHI assets transferred to the WHO SHI Fund to be managed more efficiently.

2. Financial review

- 15 The Director's Comments on the Financial Statements provide a comprehensive analysis of the financial performance of the Organization for 2016. We have reviewed the financial information provided and checked its consistency with the information contained in the Financial Statements, and hereby we present some further analysis to enhance their understanding.

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

- In the financial year 2016, the first year of the budgetary biennium, PAHO had a net surplus of 21.8 USD million. That represented a major change to the previous year, which presented a deficit of 8.8 USD million. The main causes of this change are detailed below.
- Total revenue decreased from 1.460 USD million in 2015 to 1.448 USD million in 2016, which was a 0.8% decrease.
- During 2016, the total revenue from the Procurement of Public Health Supplies increased by 6.2%, to 686.5 USD million compared to 646.2 USD million in 2015. 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 47.4% of the overall balance of revenues.
- Revenue generated by Voluntary Contributions decreased by 7.8% compared to the prior year, down to 571.5 USD million in 2016. This type of revenue was the second source of revenue in the year 2016, which represented over 39.5% of total revenue.
- Miscellaneous Revenues increased in 2016 from negative 8.8 USD million at the end of 2015 to positive 21.6 USD million at December 31, 2016. Miscellaneous revenues mainly include foreign currency revaluations, interest earned, exchange rate gains and losses.

The principal explanation of this increase of revenues was the result of a growth in the value of non-USD investments and available liquid funds of 6.4 USD million compared to a previous 15.8 USD million decrease in 2015.

The interest earned also raised from 8.1 USD million in 2015 to 12.9 in 2016 which represents an increase of 59.2%.

- PAHO's expenses decreased by 2.9% from 1,468.9 USD million in 2015 to 1,426.5 million as at December 31, 2016.
- Procurement expenses (supplies, materials and commodities) increased by 5.5% from 644.8 USD million 2015 to 680.5 USD in 2016. These expenses were the first source of expenditure, which represented 47.7% of the overall balance of expenses.
- The disbursements in grants and transfers to counterparts have decreased by 8.2%, from 480.9 USD million in 2015 to 441.3 USD million in 2016. The 95.8% of this amount corresponds to Mais Medicos project (422.7 USD million expenditures in 2016 in these types of payments).
- Staff and other personnel costs have decreased by 6.3%, from 185.5 USD million in 2015 to 173.9 USD million in 2016.
- The cost deriving from depreciation and amortization has reached the amount of 1.9 USD million in 2016. The difference from the previous year (7.1 USD million) is due to result of a negative revaluation of land and buildings carried out at the end of the previous accounting period.
- Travel costs have decreased by 46.7%, from 68 USD million in 2015 to 36.2 USD million in 2016. Contract services have increased from 72.1 USD million in 2015 to 80.3 USD million in 2016 (by 11.3%).
- PAHO's total current assets have decreased by 39.5 USD million, from 766 USD million to 726.5 USD million in 2016.
- Short term investments decreased from 256.8 USD million in 2015 to 239.7 in 2016. Current Account Receivables have decreased from 358.3 USD million in 2015 to 349.6 USD million in 2016.
- The current account of receivables from voluntary contributions rises by 14.7%, from 181.4 million USD in 2015 to 208.2 in 2016, although the account receivables from Mais Medicos project descended from 111.9 USD million in 2015 to 102.6 in 2016.
- The Long Term Investments balance stands at 297.7 USD million, which is expected to be adequate to meet PAHO needs disclosed as long term liabilities.
- Mainly due to 2016 amortization, the value of Property, Plant and Equipment has decreased from 110.3 USD million in 2015 to the current 108.4 USD million.

- PAHO’s current liabilities have increased from 576.1 USD million in 2015 to 589.3 USD million in 2016.
- Employee benefits, current and non-current liabilities have decreased by 1.1%. Thus, the amount of 223.9 USD million shown in 2015 has descended to 221.4 USD million of liability at the end of 2016.
- In a short-term perspective, PAHO has enough resources to fund the staff’s employee benefits. However, future funding of this liability may be a financial challenge for PAHO.
- PAHO has sufficient financial resources to meet its obligations (262.6 USD million in Fund Balances and Reserves, 14.4% more than in 2015).

3. Country Offices

3.1. Introduction

- 17 PAHO operates in more than 30 countries throughout the Region of the Americas. Its operations and projects’ implementation at country level are managed by its network of CO and Centers. PAHO funds its activity using regular budget allocations, as well as specific project funds. The cumulative disbursements of these offices in 2016 (including the Mais Medicos project) were around 632 USD million (2015: 613 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.
- 18 Our selection of CO 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.
- 19 During 2016 we visited CO in Brazil, Argentina and Uruguay. 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 CO. Subsequently, CO Management has been requested to respond and prepare an action plan to be implemented, addressing detected weaknesses. It was the seventh consecutive year that external auditors have visited the CO in Brazil. This Office was accountable for the largest part of PAHO’s expenditure.
- 20 In addition, in the course of the audit procedures carried out in Headquarters (HQ) we have reviewed relevant documentation regarding the activity of the CO.

3.2. *Mais Medicos* Project

- 21 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. This *Termo de Cooperacao* was signed for five years (until April 2018), with a possibility to extend it for five years more (2023). 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. In March 21, 2017 the 10^o *Termo do Ajuste* was signed, which will be in place until April, 2018.
- The total implementation of the Project, since its beginning, in terms of financial resources, amounted to 1,827 USD million (5,24 BRL million) as of December 2016, out of which at least 465.3 USD million were disbursed in 2016 (1,614.7 BRL million).
- 22 We analyzed the PAHO management process of the *Mais Medicos* project in 2016, both in Headquarters and in the CO in Brazil. We acknowledge improvements made in the area of human resources as well as in the functionality of IT tools. However, we still found some areas of improvement.
- 23 One of the key elements of the current internal control framework of the Project is a database used by the CO 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 by eliminating some errors in the supporting documentation, in particular those related to the collection of data about training courses, the dates of arrivals of new doctors and the wide range of types of incidents and errors in the data entry in the “Incident Management Module” of COLPADI.
- 24 As regards the Cuban doctor’s dropouts, the External Auditor reconciled the official list of dropouts sent to the “Ministério da Saúde” with the COLPADI database and the Invoice Verification System (IVS). We noticed that in some cases there was a lack of coincidence between the data of dropouts in the official list sent to the “Ministério da Saúde” and the data recorded in the COLPADI database. We also noted that in two cases the dropouts indexed in the official list as well as in COLPADI were not expressly included as dropouts in the IVS.
- 25 We detected that some *Mais Medicos* project operations, amounting to 2,6 USD million, were funded through sources different from those indicated in *Termo de Cooperacao 80*.
- 26 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 an updated contingency plan to face the potential adverse situations which may arise.
- 27 We noticed that at least 50 Cuban doctors had filed lawsuits related to the *Mais Medicos* project. The claim of the lawsuits was to get a contract extension in their contracts and to

achieve equal working conditions to other doctors within the same project. Those lawsuits would imply a potential risk if those medical workers won their lawsuits and got court ruling stating that they must receive equal working conditions to other doctors participating in the program. This hypothetical event could provoke a massive number of lawsuits of the same nature, which would be a serious issue for the functioning of the Mais Medicos project.

Recommendation 1: We recommend reviewing the data inputs in COLPADI database to ensure their quality and accuracy, especially as regards the data of the new participating doctors. The PWR-BRA management should analyze the capability of the incidents module, homogenizing typologies of incidents, as well as reviewing unresolved incidents and their corresponding data.

Recommendation 2: We recommend a special review and follow up of participating doctor's dropouts. The consistency of information in the Official list of dropouts, COLPADI database and Invoice Verification System should be double checked.

Recommendation 3: We recommend avoiding using general grants or budget lines to fund activities which are specifically within the scope of Mais Medicos project.

Recommendation 4: We recommend continuing closely monitoring relevant decisions of the Brazilian courts about Cuban doctor's claims. At the same time, PAHO should elaborate a contingency plan in case of favorable sentences for plaintiffs. We also recommend continuing monitoring closely relevant decisions of the Brazilian Federal Supreme Court and keep the contingency plan updated.

4. Governance Matters

28 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

29 In 2010 the 50th Directing Council formally authorized a process of modernization of the Pan American Sanitary Bureau (PASB) and approved a budget of 22,5 USD million for the implementation of the PAHO Management Information System (PMIS), an ERP computer system.

30 The implementation started in the beginning of 2014 and it was divided in two stages: phase 1 deployed Human Resources and Payroll module and phase 2 implemented the remaining functionalities, like Finance, Procurement, Planning and Budgeting, and finally linked all modules under one integrated system. The PMIS became operational at the beginning of 2016. Its further development and fine-tuning was carried out in parallel to day-to-day operations. Certain functionalities non-critical for the launch (e.g. periodical closures) and integrations with certain external systems (e.g. bidirectional integration of In-Tend) were also

added in 2016. The total implementation cost of the ERP reached 23 million USD. This amount does not include the value of enormous effort and amount of work done internally by PAHO staff.

4.1.2. Audit Review

- 31 The system was successfully launched at the beginning of 2016. At the day of audit visit the system had been already in operation for 14 months, but its fine-tuning was still on-going. The system went through many changes as a result of the elimination of detected bugs, additions or remapping of business processes. Changes also included corrections of faults made at the implementation phase, integration with external modules (e.g. In-Tend) or extensions of existing functionalities.
- 32 Despite the fact that in 2016 PAHO made an important effort to accomplish the implementation and fine tuning process, the system still cannot be considered fully reliable. Large amount of amendments and modifications in such a complicated system is prone to unforeseen errors. Therefore, the system operations may be considered by the organization still as fraught with material risk. Thus, supplementary checks and controls on all possible operational levels are indispensable.
- 33 The PAHO organization structure is strongly based on vertical and self-contained departments subordinate to the top management (e.g. FRM and PBU). This architecture is mirrored in the WD, where key users are often confined by their assigned system rights to exclusively those transactions carried out within their scope of competence. This means that each business owner verifies the correctness of the transactions pertinent only to its own field of competence and, as a consequence, is unable to follow up an operation in its entirety throughout the system.
- 34 We observed that necessary systematic preventive checks were not carried out by the departments. In case of detected errors or system glitches, the Information Technology Services Department was engaged via the ticketing system to follow up on the configuration or the technical problems. However, these interventions had a punctual, ad-hoc character and could not serve as horizontal and systematic control.
- 35 In the report on Status of the PMIS prepared for 11th Session of the Subcommittee on Program, Budget, and Administration of the Executive Committee, PAHO identified a list of system related challenges that were either tackled or they still needed to be addressed in the near future. These are:
- a. Some scenarios not previously contemplated need to be resolved with workarounds, until a satisfactory solution is developed;
 - b. A number of unexpected behaviors of the system impacts business processes;
 - c. Preparation of the coming biennial financial closure with PMIS for the first time.
- 36 During the audit of 2016 Financial Statements, auditors paid special attention to the performance of the new system. The PMIS data processing was identified as a high risk area, thus additional audit procedures were adopted to evaluate the correctness and regularity of

transactions registered therein. Specific tests in this respect were carried out during the audit visits to CO in Brazil, Argentina and Uruguay. Additionally, a substantive testing of a sample of transactions was performed in the Headquarters to detect possible system flaws.

37 As a results of this audit work, we detected a series of weaknesses which have an impact on the overall perception of the usefulness of the system and the quality of data produced. Below we present categories of problems detected during our audit assignment, which were not previously stated in the report:

- a. Reporting in WD is not fully adapted to the needs of the Organization. Although we noted important improvements in 2016, the use of spreadsheets and off the system calculations is common. The reporting capacity provides very little support to the management at the CO level. The system does not provide financial performance reports for the CO (providing management information per project or per person responsible) or exhaustive implementation reports on budget use and balances of the extra budgetary projects.
- b. Similarly to the legacy system, the preparation of the 2016 PAHO Financial Statements was a process that generated a lot of workload, manual operations and off-system-data manipulation.
- c. The accounting system year-end procedures do not include a closure of financial performance accounts. It means that the closing balance for December 31, 2016 of those accounts (revenues and expenses) is different from the opening balance for January 1, 2017. As a result the operation of opening the financial year and transferring the balances is susceptible to clerical errors. Two errors of this nature were detected in the opening balance for 2017.
- d. One of the areas affected by the lack of reliable reporting is treasury. Reports available in the system do not allow for rapid and precise bank reconciliations. This is a serious limitation to the internal control over cash assets, for any organization and, in particular, for an organization that manages over 60 bank's accounts.
- e. The system offers a very basic functionality as regards the revaluation of foreign currencies. This is a serious functional limitation for a system implemented in an Organization which accounts for 24 difference currencies and carries out operations in 30 countries. The implications of this fact are detectable in the accounting where, for instance, an automatic revaluation of receivable and payables is not possible or exchange differences on cash transactions are not calculated automatically.
- f. The system identifies and uses for registering transactions a lot of different dates, for instance contract dates, accounting dates, payment dates, etc. However, it is not clear what dates are taken into account by the system to generate reporting or calculate exchange differences. It is necessary to define precisely what dates are critical for each type of accounting operation. Correct definition and input of dates is fundamental, for instance for registering accounting entries correctly, calculating aging of receivables and payables or determining the results of foreign exchange operations.
- g. Some internal processes still require tuning and optimizing. The assumptions made before the system implementation included reduction of workload and a reduction of administrative tasks due to automatization of back office activities. However, in CO high value operations have to be artificially divided into smaller instalments, no higher than the value of delegation of authority (e.g. 100,000 USD), and have to be repetitively

- registered in WD as multiple entries until the total amount of operation is reached. This unnecessarily multiplies administrative workload for Representatives in CO.
- h. For some accounting transactions in WD, copies of the original document need to be uploaded. However, there are either no rules or specific policy concerning the process of filing in the system. As a result searching for documents in the system is difficult, as there are no standardized file names.
 - i. The accounting schemes configured in the system are normally triggered by the use of appropriate worktags. In fact, there are a lot of worktags defined throughout the system and their use is obligatory to input any operation in the system. Large numbers of worktags, their similar wordings or unclear meanings lead to clerical errors which may have important consequences for the correctness of data registration and accounting entries. Those errors are often difficult to detect and once discovered require tedious manual corrections.
 - j. Despite the effort made to translate WD interface, system alerts, error messages, reports, PAHO Standard Operating Procedures and other related documentation, there is still a significant amount of system communications available only in English. Although this is the working language of the Organization, there are roles in the system, in particular in CO, fulfilled by non-English speaking personnel.

Recommendation 5: We recommend assigning a specific business unit or a team responsible to the horizontal and systematic control.

Recommendation 6: We recommend drafting a list of necessary reports that should be prepared to ensure useful and reliable information for all functional areas. The preparation of the list should be preceded by an in depth analysis (e.g. including a survey) to address needs of all managers, with particular attention being paid to CO.

Recommendation 7: We recommend increasing efforts to limit the off-the-system data manipulation to the minimum.

Recommendation 8: We highly recommend introducing a reliable bank reconciliation report in the system. The report should be used regularly to reconcile on a monthly basis all banks' accounts, comparing data obtained from banks with the ledger entries.

Recommendation 9: We recommend updating the system to enable proper calculation of exchange differences and automatic revaluation of open positions denominated in foreign currencies at the period end closures. If correct treatment of those operations is not possible due to the system limitations, relevant information should be disclosed in the financial statements and in the accounting policy of the Organization.

Recommendation 10: We recommend performing an analysis and mapping of dates used by the system. The work should conclude with an inventory of dates used in the system and description on how each date affects the area of accounting (including calculation of exchange rates), procurement, budgeting and payroll.

Recommendation 11: We recommend further fine tuning of internal business processes and procedures configured in WD. It is important to concentrate on those areas which demand a heavy workload, are repetitive in nature or abundant. The process of optimizing internal workflow should lead to a decrease of administrative burden and automatization of tasks susceptible to clerical errors.

Recommendation 12: We recommend elaborating rules on documents storage in WD. It is necessary to introduce a standardization which enables easy content and period recognition on the basis of file names. Moreover, the rules should also define a minimum standard regarding the

documents that should be attached to each system information. Those rules should be applicable to all documents attached to WD transactions.

Recommendation 13: We recommend tightening system controls on use of worktags. The worktags in use should be revised and if possible, some of them should be disabled for those users or operations where they cannot be used. Analysis of worktags should also include dynamic combinations, e.g. in a situation when a given worktag is automatically disabled depending on other options selected while inputting data (e.g. account number, budget line, project number).

Recommendation 14: We recommend translating end user related system messages and alerts to other languages than English. There are a number of system users in CO which do not speak English, but need to operate the system. Inability to clearly understand the system documentation, messages or instruction may diminish their usefulness and contribute to erroneous data input.

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

- 38 Under the PASB Staff Rules and Regulations, the Organization funds post-retirement employee benefits and entitlements. In 2010 PAHO established a trust fund, After-Service Health Insurance Fund (ASHI), to fund actuarial liability for PAHO current and prior staff members' health insurance in future years. The liability resulted from an actuarial calculation of the current value of the present and future obligations related to the Staff Health Insurance (SHI) of the staff members and retirees.
- 39 The initial contribution to the ASHI Fund originated from an accumulated surplus of contributions paid to the PAHO Terminal Payments Fund and a one-time distribution of the surplus generated from the implementation of IPSAS (10 million USD). Moreover, PAHO established recurring contributions to the fund from a 4% of the net pay against PAHO staff salaries and earnings on Fund investments. In 2016, this contribution totaled approximately 2.1 USD million. Additionally, in January 2016 PAHO made a one-time contribution to the ASHI Trust Fund, by transferring \$8 million from the SHI Equity Fund.
- 40 At the end of 2016, the net value for current and non-current liabilities assumed by PAHO reached the value of \$252.2 million for the SHI. The assets of the ASHI Trust Fund totaled to \$60.1 million. Thus the unfunded gap amounted to \$192.1 million as of December 31, 2016.
- 41 We acknowledge the PAHO commitment to reduce the unfunded net liability which arose when IPSAS were implemented in 2010. However, reaching a full funding of the liability continues to be a challenge. To address this issue, PAHO decided to pool the PAHO ASHI Trust Funds- Plan Assets- with WHO Staff Health Insurance under the WHO management.
- 42 In November 2016 a Memorandum of Understanding was signed to unify and simplify the future management of the SHI Fund's overall liabilities and to enable PAHO ASHI assets transferred to the WHO SHI Fund to be more efficiently managed. Upon entry into force of

the Memorandum (on the date on which the Director General approves amendments to the SHI Rules reflecting the financial arrangements described in the Memorandum):

- a. PAHO will transfer the balance of the PAHO ASHI Trust Fund Plan Assets and PAHO's SHI Equity account \$60,111,536.77 to the WHO SHI Trust Fund, to be invested as SHI assets under the SHI investment policy.
 - b. PAHO will transfer monthly to the WHO SHI Trust Fund the 4% ASHI contribution levied on payroll and, on an annual basis, any surplus of health insurance contributions.
 - c. PAHO will participate in the meetings of the WHO Investment Committee on investment recommendations relating to the WHO SHI Trust Fund and PAHO will receive quarterly reports on investment performance.
 - d. A joint actuarial valuation will be performed on an annual basis and will include PAHO census data, to achieve efficiencies and reduce administrative costs.
- 43 For the years 2010-2015 there were two types of employee benefits liabilities for the staff members employed in PAHO. One, was reported in the PAHO Financial Statements and was included in the actuarial liability for the ASHI for non-WHO funded posts (around 75% of total staff-members).The second one have 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. The calculation was prepared taking into account the specific posts funded by WHO. In 2016 the latter include a portion of PAHO staff members whose remuneration costs are funded by the WHO resources allocated to the Region of the Americas (AMRO), but based in an estimation of the percentage of total human resources costs funded by WHO, not through a population census.
- 44 The significant PAHO resources earmarked to reduce the unfunded ASHI liability (60 USD million) and the high value of the actuarial liability require a close monitoring. In addition, once the enforcement the terms of reference of the Memorandum begins, it will be important to understand its effects. Specifically, regarding accounting matters and subsequently on presentation of the actuarial liability in the Financial Statement as well as in the management of the assets allocated to fund the ASHI. This should be planned well in advance, taking into account the entry into force a new IPSAS 39 standard on Employee's Benefits.
- 45 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).

Recommendation 15: We recommend implementing adequate procedures between both Organizations to allow PAHO preparing its financial statements, in particular ensuring timely reception of reliable investment reports regarding the PAHO Plan Assets performance.

Recommendation 16: PAHO should actively participate in the meetings of the WHO Investment Committee in order to ensure that the interests of PAHO are considered and protected.

Recommendation 17: PAHO should develop a schedule to reach a 100% funding of the ASHI liability in a period of time.

5. Follow up of prior year recommendations

- 46 In our report for 2015 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.
- 47 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

- 48 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 27, 2017



Ramón Álvarez de Miranda García

President of the Spanish Court of Audit

Annex A. - Summary of Audit Recommendations

Recommendation 1: We recommend reviewing the data inputs in COLPADI database to ensure their quality and accuracy, especially as regards the data of the new participating doctors. The PWR-BRA management should analyze the capability of the incidents module, homogenizing typologies of incidents, as well as reviewing unresolved incidents and their corresponding data.

Recommendation 2: We recommend a special review and follow up of participating doctor's dropouts. The consistency of information in the Official list of dropouts, COLPADI database and Invoice Verification System should be double checked.

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Recommendation 5: We recommend assigning a specific business unit or a team responsible to the horizontal and systematic control.

Recommendation 6: We recommend drafting a list of necessary reports that should be prepared to ensure useful and reliable information for all functional areas. The preparation of the list should be preceded by an in depth analysis (e.g. including a survey) to address needs of all managers, with particular attention being paid to CO.

Recommendation 7: We recommend increasing efforts to limit the off-the-system data manipulation to the minimum.

Recommendation 8: We highly recommend introducing a reliable bank reconciliation report in the system. The report should be used regularly to reconcile on a monthly basis all banks' accounts, comparing data obtained from banks with the ledger entries.

Recommendation 9: We recommend updating the system to enable proper calculation of exchange differences and automatic revaluation of open positions denominated in foreign currencies at the period end closures. If correct treatment of those operations is not possible due to the system limitations, relevant information should be disclosed in the financial statements and in the accounting policy of the Organization.

Recommendation 10: We recommend performing an analysis and mapping of dates used by the system. The work should conclude with an inventory of dates used in the system and description on how each date affects the area of accounting (including calculation of exchange rates), procurement, budgeting and payroll.

Recommendation 11: We recommend further fine tuning of internal business processes and procedures configured in WD. It is important to concentrate on those areas which demand a heavy workload, are repetitive in nature or abundant. The process of optimizing internal workflow should lead to a decrease of administrative burden and automatization of tasks susceptible to clerical errors.

Recommendation 12: We recommend elaborating rules on documents storage in WD. It is necessary to introduce a standardization which enables easy content and period recognition on the basis of file names. Moreover, the rules should also define a minimum standard regarding the documents that should be attached to each system information. Those rules should be applicable to all documents attached to WD transactions.

Recommendation 13: We recommend tightening system controls on use of worktags. The worktags in use should be revised and if possible, some of them should be disabled for those users or operations where they cannot be used. Analysis of worktags should also include dynamic combinations, e.g. in a situation when a given worktag is automatically disabled depending on other options selected while inputting data (e.g. account number, budget line, project number).

Recommendation 14: We recommend translating end user related system messages and alerts to other languages than English. There are a number of system users in CO which do not speak English, but need to operate the system. Inability to clearly understand the system documentation, messages or instruction may diminish their usefulness and contribute to erroneous data input.

Recommendation 15: We recommend implementing adequate procedures between both Organizations to allow PAHO preparing its financial statements, in particular ensuring timely reception of reliable investment reports regarding the PAHO Plan Assets performance.

Recommendation 16: PAHO should actively participate in the meetings of the WHO Investment Committee in order to ensure that the interests of PAHO are considered and protected.

Recommendation 17: PAHO should develop a schedule to reach a 100% funding of the ASHI liability in a period of time.

Annex B. - Implementation of Prior Year Recommendations

We reviewed management's implementation of recommendations made in our 2015 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 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.</p>	<p>PWR Brazil developed a comprehensive Business Continuity Plan (BCP) in 2011 which describes all necessary procedures for recovery and protects information during a disaster; this BCP was updated in 2012.</p> <p>A detailed update has not been necessary as there is not a high risk of disasters in the area of Brasilia which could impact the operation of the Representation. Additionally, during the last three years all the identified risks relating to IT infrastructure and systems were mitigated to the extent possible.</p> <p>However, in order to update the BCP, the PWR-BRA will execute the following Action Plan:</p> <ul style="list-style-type: none"> • Hire a BCP Consultant: develop the TORs, publish the post and issue the contract (2 months) • BCP Consultancy to review the BCP (4-5 months) <p>Execute the recommended actions to mitigate the identified risks in BCP (2017)</p>	<p>CLOSED</p>
<p>Recommendation 2</p> <p>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.</p>	<p>During the debriefing session the PWR was informed verbally that some information in database was wrong, duplicated or missing. This information relates to identity numbers or passport numbers, which have no economic impact.</p> <p>To validate this observation the IES Office has scheduled its second audit visit for 2016, which has been completed and we are waiting for the final report.</p>	<p>CLOSED (RAISED IN 2016 LFR)</p>
<p>Recommendation 3</p> <p>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.</p>	<p>The same recommendation was already raised in the 2014 External Auditor's Report, and the situation has not changed.</p> <p>The Brazilian indigenous health program, implemented by the Ministry of Health-BRA is a specific subsystem and is not directly linked to the municipalities (due to its geographical nature and administrative arrangements, which also implies a specific federal subsidy). For this reason, there are</p>	<p>CLOSED (RAISED IN 2016 LFR)</p>

	<p>no municipalities to provide local contribution of counterpart for the support of Cuban doctors in the districts Indigenous Health (housing, food and transportation). We emphasize that the Indigenous Health Program has a pre-existing TC with PAHO, this has been the source for funding this part of the remuneration of doctors. It is worth noting that most of the doctors, about 11,100 who work for cooperation, given the consideration of municipalities as set out in specific decree published by the Brazilian Government (Pt No. 30 of February 12, 2014). So this situation does not characterize in any way the use of other TCs nor the TC 80 to fund the project, but it is to act according to what was legally agreed with the counterparties.</p> <p>The answer provided for the 2014 External Audit Report was the following:</p> <p><i>“For physicians who perform their activities in indigenous areas need a monetary supplement to compensate the lack of municipalities to provide housing, as stipulated in the agreement. According to financial and regulatory standards of the Government of Brazil, this component cannot be financed from the same budget which goes funding for the TC 80. This is the reason we should continue to fund this component of the corresponding TC and not TC 80.”</i></p>	
<p>Recommendation 4</p> <p>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.</p>	<p>This observation has already been implemented since 2014, on a monthly basis the staff of the Project meets with the Ministry of Health in order to make the necessary revisions of the work plan and cash flows. In 2016, with the change of government, the Representative met with the Minister of Health who ensured the continuity of the project and therefore the normal flow of funds. To date of this report (June 2016) we had no cash flow issues, all transfers have been made in accordance with the agreed schedule.</p>	<p>CLOSED</p>
<p>Recommendation 5</p> <p>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.</p>	<p>ITS PMIS Shared Services meets twice a month with key stakeholders and PMIS business owner’s focal points to discuss priorities. Based on these discussions, a list of proposed priorities for each period is submitted to the PMIS Advisory Committee (PMIS AC). This committee meets on a monthly basis and is comprised of business owners and key stakeholders from different areas of the organization. The PMIS AC is chaired by the director of ITS. Once the priorities for next period have been approved by the PMIS AC, ITS PMIS Shared Services manages the necessary works to implement them. During each session of the PMIS AC, ITS PMIS Shared Services presents a progress report on previous priorities and propose a list of new priorities.</p> <p>ITS/PMIS Shared Services and Business Owners work in close collaboration to analyze streamlining opportunities, and to find solutions to reported items that require a decision. A recommendation paper with different possible options is drafted and</p>	<p>CLOSED</p>

	<p>presented to the PMIS AC to make a decision.</p> <p>We have a PMIS Governance document, ToRs for the different groups, and documentation for each set of approved priorities with their function ability, Business Owner, status, and other information. The priority tracker document is reviewed weekly with everyone involved in each task. We also have all the change requests in a global system (TopDesk – Change Management Module) where everything is documented and we track historical and future changes/enhancements/features. Attached: PMIS Governance, ToR for different groups, example of priorities for one month, example of priority tracker.</p>	
<p>Recommendation 6</p> <p>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.</p>	<p>FRM is modifying the current Financial Accountability tools to support the Internal Control Framework within the context of the implementation of Workday. The team is developing monthly and quarterly control and compliance reports at different levels to ensure accountability and enhanced control for all financial business processes.</p> <p>In addition, all financial transactions performed outside the normal business process or time period (opening balances, catch-up transactions, journal corrections, and new processes) are duly tested and validated in the testing tenant “Sandbox” prior to moving to production. All such changes require the approval of the business process expert and the business process owner.</p>	CLOSED
<p>Recommendation 7</p> <p>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.</p>	<p>We have a document mapping all integrations and manual data transfers for main systems. Excel file and diagram attached for reference.</p>	CLOSED
<p>Recommendation 8</p> <p>We recommend continuing the effort to standardize and harmonize the procedures for transferring the retiring staff’s knowledge to its successors.</p>	<p>HRM and AM have drafted a standard exit report. It is pending KBR’s clearance - May 2016 – and should be implemented by 31 December 2016.</p>	IN PROGRESS
<p>Recommendation 9</p> <p>We recommend improving the efficiency and effectiveness in the recruitment process for of the Organization.</p>	<p>After extensive consultation with Collaborative Solutions to implement a new recruitment module in PMIS, it became clear that Workday has too many limitations and does not meet PAHO’s needs. On 4 May 2016, EXM Members endorsed the recommendation to collaborate with WHO on their new recruitment module “Taleo”. WHO’s system will replace e-recruit and e-select. It will handle consultants as well as UN staff. PAHO is participating in the design.</p>	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>	<p>Management will continue to work with and monitor country offices and departments at Headquarters, including having an accelerated fund disbursements scheduled (already released) throughout the budgetary period to encourage timely implementation and prevent a high volume of biennium-end expenditures.</p>	<p>IN PROGRESS</p>
<p>Recommendation 11</p> <p>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.</p>	<p>A detailed agreement on rights and responsibilities between PAHO and WHO will precede the transfer of ASHI assets and liabilities to WHO. Such agreement will consider the management of investments, the allocation of returns, and the ability to track both the assets and liabilities attributable to PAHO. Amendments to the SHI Rules to accommodate such consolidation will be presented to the SHI governing body, the Global Oversight Committee (GOC). Participation in the GOC is on a two-year rotational basis. Continuous participation will be proposed but cannot be assured. Participation on the WHO Investment Committee will also be proposed.</p>	<p>CLOSED</p>