

Statement on Internal Control

Scope of Responsibility

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

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

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

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve expected results and strategic objectives. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritize the risks to fulfilling the Organization's mandate and objectives, evaluate the likelihood of those risks being realized and the impact should they be realized, and manage them efficiently, effectively, and economically. The system of internal control was in place in PASB for the financial reporting period 1 January 2016 through 31 December 2016, and has remained so up to the date of the approval of the Financial Report of the Director.

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

Risk Management Capacity

As the Director of PASB, I have taken note that a system of core and cross-functional teams has been created that has overall responsibility for identifying and assessing risks associated with the implementation of the Program of Work and the overall operations of the Organization. Core teams include the Ethics Office (ETH), the Office of Legal Counsel (LEG), the Office of Country and Subregional Coordination (CSC), the Department of Planning and Budget (PBU), the Department of External Relations, Partnerships and Resource Mobilization (ERP), the Department of Human Resources Management (HRM), the Department of Information Technology Services (ITS), the Department of General Services Operations (GSO), and the Department of Financial Resources Management (FRM). These core teams are responsible for establishing the control environment and providing the discipline and structure for achieving the primary objectives of the system of internal control.

Some examples of key cross-functional teams include the Integrity and Conflict Management System (ICMS), the Asset Protection and Loss Prevention Committee (APLPC), the Crisis Management Team, the Standing Committee on Enterprise Risk Management, the PAHO Management Information System (PMIS) Advisory Committee, the Property Survey Committee, the PAHO Infrastructure Investment Projects Committee (PIIC), the Investment Committee, the Disaster Task Force, and the Epidemic Alert and Response Task Force.

Furthermore, the Office of Internal Oversight and Evaluation Services serves as an advisor to the Director, as well as an advisor and observer on the ICMS, the APLPC, the Property Survey Board, and the PMIS Advisory Committee.

Risk and Control Framework

The risk and control framework is developed and implemented by the Governing Bodies and the Pan American Sanitary Bureau (PASB), the Secretariat of the Organization. These organs, as stipulated in Article 3 of the Constitution of PAHO, determine the Organization's general policies, including financial policy, and review and approve the multi-year strategy and biennial program and budget of the Organization.

The Secretariat submits regular reports to the Governing Bodies on the financial, program, and budgetary status of the Organization, including an annual report by the External Auditors of PAHO. Furthermore, the Office of Internal Oversight and Evaluation Services issues an annual report on its activities, with the status of outstanding audit recommendations. The Auditor General also provides the Director with an overall opinion on PAHO's internal control environment.

In addition, the Departments of Financial Resources Management and Planning and Budget submit monthly reports to Executive Management covering the Organization's current financial position, the likelihood that financial and budgetary plans will be successfully implemented, and the risks attached. ITS submits a monthly report to Executive Management on the implementation and enhancement of the PMIS and the associated risks. These reports are discussed in detail to ensure that the members of Executive Management have appropriate and comprehensive information necessary to the decision-making process. Finally, a corporate Performance Monitoring Assessment process is conducted semiannually, which involves Executive Management, entity managers, and technical staff to assess progress in the implementation of the Program of Work and Strategic Plan.

A fully functional Enterprise Risk Management (ERM) system is critical to controlling the pace and manner of change in the Organization resulting from the adoption of new technology, the growing technical cooperation requirements of the Member States, the growth of resources under administration, and adaptation to UN transformation. In 2011, PAHO's Executive Management team approved the conceptual framework of the ERM.

The objectives of PAHO's risk management approach are twofold: to support informed decision-making and to embed risk management in corporate operational processes. In this regard, the ERM program has two lines of work; one related to the risk register (RR) and the other to corporate risk. The RR was created with the purpose of integrating the identification of risks and opportunities into managerial thinking for the planning, implementation, and monitoring of the Biennial Work Plans (BWP) at the entity level. By definition, the risk register has a two-year horizon and should be considered a tool for supporting management processes and identifying systemic issues. The other purpose is related to the corporate risks of the Organization. The corporate risks are the concern of the top level of PAHO's Secretariat (Executive Management) and focus on risks that might affect the Organization's ability to perform and fulfill its mission and mandate. The horizon for these risks is three to five years. It is important to understand the distinction between these two levels in the ERM Program in terms of accountability, monitoring, and mitigation plans or activities.

To this end, the Enterprise Risk Management program includes a Corporate Risk Management policy that establishes tools to promptly and systematically identify, assess, respond to, and monitor risks in a structured manner. In compliance with the ERM policy, risk assessments were part of the 2016-2017 biennial operational planning process and the 2016 year-end Performance and Monitoring Assessment.

Furthermore, updated guidelines for risk management were developed and have replaced the former risk management manual. These guidelines clearly define roles and responsibilities for the different levels in risk management (Risk Focal Points, Cost Centers, etc.), the ERM approach and scope, and other general business rules.

During the course of 2016, the ERM Standing Committee (ERMSC) reviewed the risk profiles of the top corporate risks identified. These profiles indicate the scope of the risk and mitigation actions and indicators to measure and monitor it. Every six months, the ERMSC and Executive Management review the progress and evolution of the top corporate risks. The Audit Committee also monitors the status of the top corporate risks identified, as well as the implementation of their mitigation plans.

Review of Effectiveness

As Director of the Pan American Sanitary Bureau, I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of the Office of Internal Oversight and Evaluation Services, senior managers in the Organization with responsibility for developing and maintaining the internal control framework, and the comments of the External Auditors in their management letters and audit reports. I have been advised about the implications of the results of my review of the effectiveness of the system of internal control by the Auditor General and the Audit Committee. A plan to address identified weaknesses and ensure continuous improvement of the system is in place.

The Auditor General reports directly to me. IES conducts independent and objective assurance and advisory activities, which are designed to improve and add value to the Organization’s operations. Using a systematic risk-based approach, IES seeks to assist the Organization in meeting its objectives by auditing the effectiveness and efficiency of organizational governance, internal controls, operations, and processes. IES undertakes internal audit assignments, for which very precise objectives are established through an assessment of the relevant risks. At the conclusion of an oversight assignment, IES prepares a detailed report addressed to me and copied to pertinent individuals in the Secretariat. The assignment reports include findings and recommendations to help management address risks, maintain or enhance internal controls, and encourage effective governance. IES systematically follows up on all the recommendations it makes. In addition, it provides support for evaluation activities throughout the Organization, recording and monitoring all evaluation assignments undertaken across the Organization.

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

The system of internal control was in place for the year ending 31 December 2016 and has remained so up to the date of the approval of the Financial Report of the Director. However, with the significant growth in the Organization, a number of weaknesses in the system of internal control were identified that have necessitated additional work so that adequate internal control assurances could be provided.

Significant Internal Control Issues	Action Taken to Address Issues
<p>1. Corporate Administrative Systems Implementation of the new RP system (PMIS) completed in January 2016. Since then, PMIS has been fully operational with ongoing stabilization and continuous improvements.</p> <p>The PMIS platform is continuously evolving and improving. The software vendor delivers automatic weekly updates to the system, and also delivers releases of updated versions of the software twice a year. These updates include enhancements requested by PAHO to address identified internal control issues. A system is in place to review the impact of updates on established business processes and communicate changes to all users.</p> <p>Following the initial launch of the system, a number of unforeseen scenarios needed to be handled with workarounds until solutions were developed. In addition, on occasion unexpected system performance impacted business processes.</p> <p>Once staff began using the system, it became apparent that training before going live required supplementation with a hands-on training program once the system was operational.</p>	<ol style="list-style-type: none"> 1- PMIS Governance defined and implemented. This consists of: a) an Advisory Committee to set priorities; b) Monthly reports and consultations with EXM; c) weekly Business Owner meeting; d) PMIS working groups engaging users and business owners; e) Director’s special forum convened to address PMIS user concerns. 2- A comprehensive process was put in place to manage periodic systems updates and releases. 3- Close coordination with software vendor to address unexpected system behaviors. 4- Knowledge transfer plan defined and ongoing to build PMIS institutional expertise. 5- Extensive PMIS user training plan delivered across the Organization 6- Comprehensive PMIS documentation made available to all staff through a web portal. 7- Business processes continuously streamlined in response to guidance from the Advisory Committee.

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<p>2. Implementation of Voluntary Contribution Agreements Effective implementation of the Program and Budget is critical to the reputation and sustained growth of the Organization. The balance of Voluntary Contributions commitments that remain unimplemented, as well as the funds returned to donors, has remained a concern. A balance of project acceptance and design, timely receipt of committed funds, rational business practices, policies and procedures, and the absorptive capacity of beneficiaries is required to reach optimal project implementation goals.</p>	<p>Over the years, the PAHO Secretariat has noted a growing need to address a range of gaps in supporting the management of Voluntary Contributions, with particular emphasis on implementation monitoring and impact evaluation.</p> <p>Implementation of the PMIS and related award management reporting functionality will provide the necessary tools to better manage the financial components of Voluntary Contributions. Grant coordinators and implementing entities are provided with a range of reports that allow them to monitor unspent balances, expiration dates, and related attributes to enable corrective actions.</p> <p>In an effort to support high-level monitoring of Voluntary Contributions' implementation, ERP collaborated with ITS, PBU, and FRM to develop an executive-level report. This report improves transparency and provides more consistent information.</p> <p>A review of PMIS award management design is planned for March 2017 to address functionality issues related to recording cash receipts by award and breaking down commitments by budgetary or fiscal period.</p> <p>Award expiration dates continue to be monitored closely to ensure that funds from donor agreements are fully implemented as per donor terms and conditions. A review of expired and expiring grants suggests that financial implementation is generally satisfactory; however, exceptions are noted.</p> <p>Separately, the Organization is considering other options to track the programmatic implementation of Voluntary Contributions to allow more comprehensive monitoring of the work under way, beyond financial expenditure. Recognizing the Organization's results-based approach, this component of project management could support the monitoring of activities, or short-term/immediate results.</p> <p>ERP completed an assessment of project management, with a view to developing a corresponding toolkit and roadmap for an overall framework. This assessment a) identified some organizational best practices in grant monitoring and management; b) collected useful tools and consistent practices used to ensure effective oversight of individual grants, as well as a broader perspective on macro-level monitoring within an entity; and, c) summarized existing reports designed to monitor the financial aspects of grants.</p>
<p>3. Succession Planning The ongoing retirement of senior managers has the potential to result in a loss of institutional memory.</p>	<p>HRM presented the business case of the PAHO Succession Planning to Executive Management on 13 December 2016. The proposal took into consideration the recommendations of the United Nations Joint Inspection Unit in its report JIU/REP/2016/2.</p> <p>HRM proposes basing the identification of key positions for</p>

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	<p>succession planning on the criteria of criticality and retention risk. It was agreed with Executive Management that the scope of the program would include the positions of department directors, unit chiefs, and PWRs.</p> <p>HRM is currently developing an Operational Plan for comprehensive PAHO Succession Planning.</p> <p>Succession Planning will supplement the existing HR Planning process, already integrated into BWP planning, with the object of replacing retiring staff in an optimally timely manner.</p>
<p>4. Emergency Response As the preeminent health agency in the Region of the Americas, PAHO must assume a leadership role in addressing emergencies. The impact and severity of recent emergencies in the Region have underscored the need for a strong, decentralized team of specialists to analyze and coordinate response requirements and information.</p>	<p>The implementation of PAHO’s institutional response to emergencies and disasters (IREDD) policy, approved in 2012, continues to strengthen and enhance the ability to respond to emergencies and disasters in the Region. In 2016, a new Department of PAHO Health Emergencies (PHE) was created bringing together the disaster, emergency and epidemic response functions; PHE provided technical support across the Region, which included a regional training event on emergency response procedures for 49 professionals from 20 countries. The workshop, held in Panama, 19-23 September 2016, was aimed at strengthening PAHO’s capacity to assist Member States in coordinating and responding to emergencies and disasters of any nature and keep the Regional Response Team active and up-to-date. Additionally, 16 PAHO staff members from both the regional and country levels received training on the Incident Command and Crisis Leadership System in Washington, D.C. in November 2016. Two PAHO staff members also took the Health Emergencies in Large Populations (HELP) course offered by the International Committee of the Red Cross (ICRC). The HELP course has provided humanitarian workers with an intensive training experience in public health principles and disaster epidemiology.</p> <p>Furthermore, PHE was successful in mobilizing resources in response to Member States’ requests for support in emergencies in 2016. The following are some examples: Ecuador, which was hit by a 7.8 magnitude earthquake in April, received support for rapid assessments and coordination, with more than US\$ 1.5 million mobilized to support technical cooperation in health; Following Hurricane Earl, Belize received support for rapid assessments and coordination; The Bahamas, Cuba, the Dominican Republic and Haiti received support in the wake of Hurricane Matthew for rapid assessments and coordination, WASH, vector control, logistics, health services restoration and the vaccination of more than 800,000 people against cholera (just under \$2M was mobilized to support response operations); Following Hurricane Otto, Costa Rica received technical assistance from the CO, with support from EOC & PHE Central America. Given the nutrition crisis in Guatemala, over US\$1.1 million was mobilized for lifesaving interventions and preventive action to address the health and nutritional needs of specific groups</p>

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	suffering from or at risk of acute malnutrition and to support the coordination and preparedness efforts of the Ministry of Health and other partners; To address the migrant crisis in Colombia, with people arriving from Venezuela, and in Costa Rica and Panama, with Cubans transiting from Ecuador to the USA, support provided for health service coordination and organization.
<p>5. International Economic Environment Global economic challenges, including significant fluctuations in exchange rates and raw material prices, impact many Member States and pose several risks to the Organization's ability to fund the Budget:</p> <ul style="list-style-type: none"> • Member States have continued to espouse a policy of zero-to-minimal nominal budget growth. • The low interest rate environment has reduced the investment income earned on U.S. dollar investments and available to supplement the Member States' Assessed Contributions. • Exchange rates in some countries have fluctuated significantly during the year, resulting in additional uncertainties regarding the value of some transactions locally. 	<p>The Organization has a conservative Investment Policy, overseen by the Investment Committee. The Investment Committee meets in person at least twice a year to review the performance of the investment portfolio and regularly invites experts to these meetings to discuss the various risks in the portfolio and their forecast of the economic environment. The Investment Committee has contracted three external investment managers to manage approximately \$350 million of the \$600 million portfolio, thus taking advantage of expertise, economies of scale, and opportunities in the market to maximize the yield on available resources while preserving the principal.</p> <p>The Organization monitors exchange rates in the country offices and manages local currency bank balances accordingly. Exchange rate gains and losses are allocated based on the source of the funds. However, as the Budget is denominated in U.S. dollars, fluctuations in local exchange rates will still impact the country offices' "purchasing power," even if their revenue and expenses are denominated in local currency, although with lower associated exchange risks. Country offices work closely with the Department of Planning and Budget to address these issues.</p>
<p>6. Funding of Long-Term Employee Liabilities With the implementation of IPSAS in 2010, the Organization recognized its assets and liabilities, resulting in a more transparent picture of its true financial status. The long-term liabilities associated with After-Service Health Insurance (ASHI) and the Termination and Repatriation Entitlements Plan (TAREP) were recorded in the Statement of Financial Position in 2010, and irrevocable trusts were established for the financial resources available to fund these liabilities (plan assets). In 2016, in cooperation with the World Health Organization (WHO), a comprehensive plan was established to fully fund the ASHI liability over a determined period of time.</p> <p>The 2016 actuarial study determined that the PAHO ASHI Defined Benefit Obligation (DBO) totaled \$252.1 million as of 31 December 2016. Also as of 31 December 2016, the ASHI Trust and the SHI Equity Account assets totaled \$60.1million. After other adjustments, the net unfunded liability totaled \$219.0 million. This amount represents an estimate of the additional funding required by PAHO to meet the future cost of providing health benefits to current retirees and active staff eligible to retire from PAHO with these benefits over time. In</p>	<p>In addition to the usual payroll contributions to the ASHI Fund Trust, since 2010 PAHO has made an additional contribution equivalent to 4% of the base pay of PAHO staff in order to provide funding towards this liability. In 2016, this contribution totaled approximately \$2.1 million. In addition, the net investment revenue for the PAHO ASHI Trust Fund in 2016 was \$1.2 million.</p> <p>In consultation with WHO, and referencing actuarial projections and recommendations, PAHO has adopted a strategy combining the liabilities and assets of the WHO SHI Trust Fund and PAHO's ASHI Trust Fund to achieve efficiencies in meeting funding objectives. This funding strategy is expected to enable PAHO to achieve full funding of its DBO liability jointly with WHO in the next 25 years. PAHO and WHO will annually review progress toward this goal, taking actuarial assumptions about the future evolution of market rates of return and health care cost trends into account.</p> <p>As part of this process, on November 2016, PAHO and WHO signed a Memorandum of Understanding (MOU) on the Assets</p>

Significant Internal Control Issues	Action Taken to Address Issues
<p>addition, at the end of December 2016, PAHO had an ASHI Equity Account with 4.5 million to be added to the ASHI Trust assets.</p> <p>Concerning the Termination and Repatriation Entitlements Plan (TAREP), at the end of 2016 its Defined Benefit Obligation was \$16.8 million and its Trust assets were \$11.3 million, resulting in a net unfunded liability of \$1.7 million. The TAREP Trust received \$235,000 in net investment revenue on its assets.</p>	<p>of the WHO Staff Health Insurance. When the MOU enters into force in 2017:</p> <p>a) PAHO will transfer the balance of the PAHO ASHI Trust Fund and PAHO's SHI Equity account to the WHO SHI Trust Fund, to be invested as SHI assets under the SHI investment policy. The assets will be recorded as PAHO SHI assets, and PAHO will continue to record its share of any SHI actuarial deficit in its annual financial statement.</p> <p>b) PAHO will transfer the 4% ASHI contribution levied on payroll to the WHO SHI Trust Fund on a monthly basis and any surplus of health insurance contributions of active staff over expenses from the previous calendar year on an annual basis.</p> <p>c) PAHO will participate in the SHI Trust Fund-related deliberations of the WHO Investment Committee.</p> <p>d) A joint actuarial valuation will be performed on an annual basis to achieve efficiencies and reduce administrative costs.</p> <p>In addition, the SHI Global Oversight Committee has adopted several decisions to control future health care costs in the United States in order to contain the future increase in the DBO.</p>
<p>7. IT Security of PAHO Network</p> <p>The IT security controls have substantially improved over the last two years and now provide adequate protection to PAHO's network. PAHO did not experience any significant information security breach in 2016.</p> <p>Nevertheless, in the current digital age, the threat of a cyber-attack or information security breach is always present. Such an event could leave IT systems temporarily inoperable, expose confidential information, and/or inflict significant reputational damage on the Organization.</p> <p>Ensuring that IT security controls are continuously monitored and enhanced is key to mitigating the risk of an incident.</p>	<p>In 2016, established information security controls were improved and new ones were implemented:</p> <ol style="list-style-type: none"> 1) Information Security advisory services were procured from UNICC; 2) An information security roadmap aligned with the ISO 27001 industry standard was created; 3) Managed Firewall security services were procured from a leading provider to further enhance network security throughout the Organization. This service blocks new threats and has significantly improved the security controls in place. 4) Cloud-based IT Disaster Recovery As A Service (DRAAS) is being implemented <p>In addition, existing controls have been reviewed and enhanced and are continuously monitored. These include: a) enterprise antivirus; b) vulnerability scans; c) monitoring tool; d) back-up system; e) password policies,</p> <p>In 2016, temporary expert information security services were procured, while a new dedicated Information Security post was created and recruitment begun.</p>

Conclusion

I am confident that as a result of the action taken to address the significant issues noted above, the system of internal control will continue to be strengthened. Therefore, in my opinion, the Organization's system of internal control was effective throughout the financial reporting period 1 January 2016 through 31 December 2016 and remains so on the date I sign this statement.



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Director

Pan American Health Organization