



PAHO

FINANCIAL
REPORT OF THE
DIRECTOR
and
REPORT OF
THE EXTERNAL
AUDITOR

1 JANUARY 2017 – 31 DECEMBER 2017



Pan American
Health
Organization



World Health
Organization
REGIONAL OFFICE FOR THE
Americas

**FINANCIAL
REPORT
OF THE
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THE EXTERNAL
AUDITOR**

1 January 2017 – 31 December 2017

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https://www.paho.org/hq/index.php?option=com_content&view=article&id=14392%3Aofficial-document-356&catid=1258%3Aexecutive-committee&Itemid=40453&lang=en

DIRECTOR'S COMMENTS



In accordance with Financial Regulation 14.9 of the Pan American Health Organization (PAHO), I have the honor to present the Financial Report of the Pan American Health Organization for the financial reporting period 1 January 2017 through 31 December 2017.

The Financial Statements and Notes to the Financial Statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS) and PAHO's Financial Regulations and Financial Rules.

Although PAHO has adopted an annual financial reporting period as stipulated in Financial Regulation 2.2, the budgetary period remains a biennium (Financial Regulation 2.1). Therefore, for the purposes of actual vs. budget comparisons in the Director's Comments, the annual budget figures represent one half of the Biennial Program and Budget as an approximation of annual budgetary figures.

1. Overview of Achievements

During 2017, PAHO exercised its leadership, convening and catalyst role to improve the health of the peoples of the Americas in collaboration with Member States and partners. The Organization continued to provide direct technical cooperation, mobilize resources, strengthen partnerships and networks, build capacity, generate and provide evidence, and advocate for the necessary actions to continue to make progress on the priorities of the PAHO Strategic Plan 2014-2019 and the 2030 Agenda for Sustainable Development.

Highlights of the progress and achievements in technical cooperation during 2017 included:

- The region continued to make progress in the elimination of communicable diseases (CD), with landmark achievements such as the certification by the World Health Organization (WHO) for achieving the Elimination of Mother-to-Child Transmission (EMTCT) of Human Immunodeficiency Virus (HIV) and Syphilis in 6 countries. Progress continued toward universal access and coverage of HIV care and treatment, reaching an estimated 81% of people living with HIV. The region also declared the elimination of maternal and neonatal tetanus in Haiti. The Region of the Americas has been at the forefront in introducing new vaccines as part of routine vaccination schedules in countries since 2000. To date, 20 countries and territories in the Region have introduced the rotavirus vaccine; 29 the pneumococcal conjugate vaccine (PCV); and 31 the HPV vaccine. During 2017, Bolivia, Jamaica, St. Vincent and the Grenadines and Dominican Republic have introduced HPV vaccines and Guatemala is currently in the process.
- Successes were achieved throughout the region in addressing non-communicable diseases (NCD), risk factors and mental health conditions, in which PAHO pioneered the generation of evidence to promote an understanding of the economic impact of NCDs and mental health, of the cost of inaction and the return on investment. In 34 countries and territories in the region, mental health was integrated into primary health care.

The Organization also implemented a Strategy and Plan of Action to strengthen tobacco control in the Region of the Americas for 2018-2022. In addition, front of package nutritional warning systems were applied or are being considered in 12 countries and 2 sub-regional integration mechanisms, on the basis of scientific, evidence-based information provided by PAHO.

- In the context of the Sustainable Development Goals, efforts were intensified to promote health throughout the life course and address social determinants. PAHO worked to prevent maternal deaths by postpartum hemorrhage in 4 countries in the region, as a result of the implementation of the Zero Maternal Deaths from Hemorrhage initiative, which aims to save mothers' lives and also benefit their families and their countries' development. Recognizing the need to adopt an intercultural approach to health, the 29th Pan American Sanitary Conference approved PAHO's Ethnicity and Health Policy, marking a significant step forward in establishing a unique commitment across the WHO system to address ethnic inequities in health.
- Countries are progressing in implementing roadmaps for Universal Health (UH) in 2017, with 26 countries having developed comprehensive national health policies, strategies, and plans within the context of the regional strategy for UH. Financial frameworks for UH were implemented for 16 countries, and 13 countries were implementing the Monitoring Framework for UH at the end of 2017. In addition, 15 countries expanded access to and quality of care through different focused strategies.
- Immediate support was provided to all countries requesting assistance for response operations during the year, effectively responding to all acute emergencies with potential health impacts that occurred during 2017 due to hurricanes, earthquakes, floods, droughts, outbreaks, and migration crises that occurred in 33 countries and several territories. The Organization's efforts included but were not limited to providing support, including health services, water and sanitation, among many other services to Peru and other countries which were affected by severe floods due to the "El Niño" phenomenon. The Organization continued to provide dynamic leadership and timely technical support and guidance to Member States in order to prevent, manage, and mitigate associated complications and socioeconomic consequences due to the ZIKV outbreak across the region, and provided support to Brazil, which was affected by a Yellow Fever outbreak at the beginning of 2017. In addition, PAHO supported 15 countries and territories on their national response operations due to Hurricanes Irma and Maria, earthquakes, and an outbreak of Diphtheria.
- The Mais Medicos Project provided basic health care in 2017 to 2,887 municipalities in Brazil and 34 indigenous health districts. In all, more than 60 million people in Brazil are benefiting from the Program, of which 43 million are served by Cuban medical doctors through PAHO technical cooperation. The project monitoring and evaluation framework has been successfully implemented. Additionally, a new set of case studies was initiated that includes strategic themes such as governance, medical training, and indigenous population.

Innovations and efficiencies in Information Technology in 2017 included:

- The PAHO Management Information System (PMIS) continued to streamline operations, resulting in more efficient processes. PMIS users now use custom reports and dashboards to support decision-making. The PAHO Program and Budget Portal <https://open.paho.org> was deployed to provide Member States with details of the Organization's work financing and implementation progress via quarterly updates.
- The adoption of cloud-based Microsoft Office 365 services has increased efficiencies in communication and collaboration within a secure and cost-effective environment available on any device connected to the internet.
- Thanks to implementation of the PAHO Cybersecurity Roadmap, during 2017, no critical cyber security incident impacted the confidentiality, availability or integrity of the Pan American Sanitary Bureau's information.

2. Total Revenue

Main Components of PAHO Revenue		(\$million)	
	2017	2016	
Program Budget	282.1	252.4	
Procurement Funds	684.8	678.5	
National Voluntary Contributions	532.4	511.9	
Other Special Funds ¹	9.5	6.9	
TOTAL	1,508.8	1,449.7	

¹ Other Special Funds include the Tax Equalization Fund (\$6.0 million).

Program and Budget		(\$million)	
	2017	2016	
Assessed Contributions ¹	96.4	96.4	
PAHO Voluntary Contributions	50.4	31.0	
WHO Voluntary Contributions	22.6	23.0	
Other WHO Funds ²	53.2	40.0	
Program Support Cost	41.9	43.5	
Miscellaneous Revenue	15.5	15.2	
Other ³	3.1	3.3	
TOTAL REVENUE	283.1	252.4	

¹ Net of Tax Equalization of \$6.0 million.

² In 2017 Other WHO Funds include WHO Assessed Contributions (\$41.2 million) and WHO Special Account for Servicing Costs (\$12.0 million).

³ In 2017 Other Funds include PANAFTOSA sales (\$1.3 million), Rents (\$1.0 million), PROMESS (\$0.6 million), and \$0.2 million of others.

3. PAHO Assessed Contributions and Budgeted Miscellaneous Revenue

The PAHO Assessed Contributions were \$96.4 million, net of the Tax Equalization Fund (\$6.0 million) for fiscal year 2017. Revenue from Assessed Contributions was recorded in full on 1 January 2017, the date it became due and payable. The cash receipts of current and prior years' Assessed Contributions in 2017 totaled \$58.4 million and \$40.1 million, respectively. In 2016, the rate of collection of current year Assessed Contributions was 65%, compared with 57% for 2017. During 2017, PAHO received payments towards current and prior years' Assessed Contributions from thirty-nine Member States. Twenty-Seven Member States paid their 2017 assessments in full, twelve Member States made partial payments toward their 2017 assessments, and three Member States made no payment toward their 2017 assessments.

Total Assessed Contributions outstanding, including amounts due for previous financial periods, increased from \$40.5 million on 31 December 2016 to \$44.4 million on 31 December 2017. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their Assessed Contributions and subject to Article 6.B of the PAHO Constitution. As of 1 January 2018, there were two Associate Members subject to Article 6.B.

Miscellaneous Revenue includes a portion of investment revenue earned on the funds administered by the Organization, investment fees associated with the portfolios, net currency exchange gains and losses, savings on prior period obligations, and other miscellaneous revenue. Total Miscellaneous Revenue to the PAHO Program and Budget for 2017 was \$15.5 million and is comprised of \$19.0 million in investment revenue, investment management fees of \$0.5 million, and \$3.3 million of realized valuation losses and \$0.3 million in other miscellaneous revenue.

4. Biennial Surpluses

At the end of each budgetary biennium, PAHO defines its Revenue Surplus and Budgetary Surplus according to the Financial Regulations. Revenue Surplus is the excess of revenue over the Budgeted Miscellaneous Revenue at the end of a budgetary period. Budgetary Surplus is any balance that is not committed by the end of the current budgetary period. The Budgetary Surplus for the biennium 2016-2017 is \$1.0 million. The Revenue Surplus for the same period is \$5.7 million.

PAHO Assessed Contributions and Miscellaneous Revenue: Financial Highlights (\$million)	Actual	Actual	Total Actuals	Budgeted
	2017	2016	2016-2017	2016-2017
Revenue:				
2017 Assessed Contributions	102.4	102.4	204.8	204.8
Less: Tax Equalization	(6.0)	(6.0)	(12.0)	(12.0)
Other Revenue	-	-	-	-
Miscellaneous Revenue ¹	15.5	15.2	30.7	25.0
Total Revenue	111.9	111.6	223.5	217.8
Expenses:			-	
2017 Operating Expenses ¹	(118.9)	(97.9)	(216.8)	(217.8)
Financial Net Surplus/(Deficit) from Operations for 2017	(7.0)	13.7	6.7	-

¹ Non-budgetary items are excluded, mainly depreciation and unrealized gains and losses.

5. Working Capital Fund

As of 31 December 2017, the Organization's Working Capital Fund was \$21.7 million. The maximum authorized level of the Working Capital Fund is \$25.0 million.

6. WHO Assessed Contributions and Other WHO Funds

The Pan American Health Organization implemented \$63.7 million from the WHO Funding Allocation in support of the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization implemented \$12.1 million in Other Sources Funds from WHO. Therefore, total implementation of WHO funds during 2017 reached \$75.8 million. In comparison, during 2016, the Organization implemented \$54.0 million from the WHO Funding Allocation and \$9.0 million in Other Sources Funds from WHO for a total of \$63.0 million.

7. PAHO Voluntary Contributions

PAHO Voluntary Contributions are comprised of (1) the Voluntary Contributions (VC) Fund, (2) the Voluntary Contributions-Emergency Preparedness and Disaster Relief Fund.

During 2017, PAHO's total (expensed) revenue from Voluntary Contributions net of Program Support Costs reached \$50.4 million as compared to \$31.0 million in 2016. Deferred (not expensed) revenue totaled \$159.1 million in 2017 as compared to \$149.0 million in 2016, which is an increase of \$10.1 million.

In 2017, the largest donors of implemented Voluntary Contributions were: the United States of America (\$19.6 million), Canada (\$6.5 million), Gavi--the Vaccine Alliance (\$4.8 million), the United Kingdom (\$4.2 million), and Brazil (\$3.5 million). The largest donors for Emergency Preparedness and Disaster Relief were the United Kingdom and the United States of America (\$1.0 million each).

8. National Voluntary Contributions

National Voluntary Contributions (NVC) are financial resources donated by governments exclusively for projects benefiting their countries. During 2017, PAHO implemented \$532.4 million (2016: \$511.9 million) in NVC. The slight increase in NVCs revenue in 2017 is due mostly to the revaluation of the exchange rate of the Brazilian Real versus the United States dollar.

Revenue: National Voluntary Contributions					(\$million)
	2017	2016	2015	2014	2013
Mais Medicos Program	466.1	442.8	473.3	673.2	145.6
Other Brazil Programs	59.8	51.4	74.4	105.7	120.3
Other NVC	6.5	17.7	7.0	14.4	7.0
TOTAL NVC	532.4	511.9	554.7	793.3	272.9

9. Procurement on Behalf of Member States

During 2017, the total financial activity realized for procurement services on behalf of Member States increased to \$684.8 million, compared with \$678.5 million in 2016. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment on behalf of Member States and international institutions at affordable prices.

Revenue: Procurement Activities On Behalf of Member States					(\$million)
	2017	2016	2015	2014	2013
Revolving Fund for Vaccine Procurement	612.0	582.3	561.2	596.2	550.7
Regional Revolving Fund for Strategic Public Health Supplies	69.0	92.2	71.5	60.6	23.4
Reimbursable Procurement	3.8	4.0	6.0	12.0	22.9
TOTAL	684.8	678.5	638.7	668.8	597.0

The Revolving Fund for Vaccine Procurement was established as a purchasing mechanism to guarantee the quality and timely mobilization of vaccines at lower prices, as part of the regional immunization program. The Fund increased from \$582.3 million in 2016 to \$612.0 million in 2017, or 5.1%, reaching the highest level of activity of the Revolving Fund for Vaccine Procurement since its inception.

This was mainly due to additional demand from some countries such as Colombia (PCV, Rotavirus and Varicella vaccines), and Peru (Seasonal Influenza Vaccine). In 2017, 41 countries and territories participated in the Fund. The Member States with the largest volume of procurement purchases were Argentina, Bolivia, Brazil, Chile, Costa Rica, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru and Venezuela. The Revolving Fund continues its efforts to support countries in improving demand planning, increasing operational efficiencies and promoting supply availability of vaccines under global constrained conditions such as yellow fever and IPV.

The Regional Revolving Fund for Strategic Public Health Supplies was created in 1999 in order to facilitate the procurement of strategic public health supplies at affordable, stable prices, to improve availability of strategic supplies, and to enhance planning capacity for procuring and distributing products. The Strategic Fund has historically focused on assisting Member States in increasing access to public health products to treat and prevent communicable diseases (HIV/AIDS, malaria, Tuberculosis, Neglected Tropical Diseases).

Since 2013, the Organization has strengthened the Strategic Fund in order to improve access to quality, essential medicines for Non-Communicable Diseases (NCDs), particularly for hypertension, diabetes, cancer, renal disease; and to high-cost medicines, with emphasis on Hepatitis C.

Despite a reduction in revenue to \$69.0 million in 2017 from \$92.2 million in 2016, an additional of \$38.7 million of purchase orders were being processed on behalf of Member States as of 31 December 2017, resulting in an overall increase in the levels of procurement activity in 2017 as compared to 2016. In 2017, 23 Member States used the Strategic Fund. The Member States with the largest volume of procurement purchases were Brazil, Colombia, Guatemala, Peru and Venezuela. For the first time, Trinidad and Tobago, Bermuda and Turks and Caicos used the Fund.

The overall monthly average use by Member States of the **Revolving Funds Lines of Credit** increased by \$3.6 million in 2017 as compared to 2016; increasing from \$46.5 million to \$50.6 million for the Revolving Fund for Vaccine Procurement, and decreasing from \$2.7 million to \$2.2 million for the Regional Revolving Fund for Strategic Public Health Supplies.

Funding for the purchase of medical supplies, medical equipment, and literature processed through **the Reimbursable Procurement on Behalf of Member States Fund**, was \$3.8 million. In 2017, 24 Member States used this Fund.

10. Expenses by Category

PAHO's total expenses, reflecting disbursements and accrued liabilities, increased to \$1,510.9 million in 2017 from \$1,469.4 million in 2016.

The primary PAHO expense categories are shown below in millions of United States dollars:

PAHO Expense Categories (Net of Eliminations)	(\$million)
Staff and Other Personnel Cost ¹	147.9
Supplies, commodities, Materials ²	697.2
Depreciation and Amortization	0.9
Contractual Services	137.8
Travel ³	54.2
Transfers and Grants to Counterparts ⁴	455.0
General Operating and Other Direct Cost	17.9
Total PAHO Expenses	1,510.9

¹ Includes increase in liabilities for After Service Health Insurance.

² The Supplies, Commodities, Materials category represents mainly the procurement of vaccines, strategic public health medications, syringes, and medical supplies for Member States through the Procurement Funds.

³ Includes Events, Transportation and Per Diem.

⁴ The Transfers and Grants to Counterparts category is primarily comprised of expenses linked to the National Voluntary Contributions.

11. Liquidity and Investments

The PAHO Investment Committee establishes and implements appropriate investment policies, reflecting best practices and prudent financial management. The Investment Committee regularly reviews the investment portfolio's performance, keeping in mind the primary objective of preserving the capital value of resources and maintaining adequate liquidity, while maximizing the yield on the portfolio.

Investment revenue totaled \$18.7 million in 2017 and \$12.9 million in 2016. Total cash and investments for the Organization at 31 December 2017 were \$803.3 million, an increase of \$133.9 million over the cash and investment balance as of 31 December 2016.

12. Accounting Policies and Basis of Preparation

The Financial Statements of the Pan American Health Organization (the Organization) have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS), using the fair value valuation convention. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

These Financial Statements were prepared under the assumption that the Organization is a going concern and will continue in operation and will meet its mandate for the foreseeable future. The Governing Bodies of the Organization have not communicated through any means that there is an intention to terminate the Organization or to cease its operations. Furthermore, at the time of the preparation of these Financial Statements, the Executive Management of the Organization was not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the ability of the Organization to continue as a going concern.

The Financial Statements of the Organization were authorized for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference as stated in the Resolution CSP29.R7 in September 2012. This issuance approval is dated 23 March 2018. No other authority has the power to amend the Financial Statements after issuance.



Carissa F. Etienne

Director

Pan American Health Organization

Certification of the Financial Statements for the year ended 31 December 2017

In accordance with the provisions of Regulation XIII of the Financial Regulations, attached are the Financial Statements for the year ended 31 December 2017. The financial statements, accounting policies and notes to the financial statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS). The Financial Statements and notes have been audited by the Organization's External Auditor, the Spanish Court of Audit whose opinion is included in this report.

The Financial Statements for the year ended 31 December 2017, together with the supporting notes to the statements have been reviewed and approved.



Xavier Puente Chaudé
Director
Financial Resources Management



Carissa F. Etienne
Director
Pan American Health Organization

23 March 2018

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 PASB's 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 regulations and rules. 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 at PASB for the financial reporting period 1 January 2017 through 31 December 2017, 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 implemented additional tools to further inform and guide the control framework and promote the efficient and effective operations and use of the Organization's resources.

At the systemic level, PAHO relies on Staff Rules and Staff Regulations, the E-Manual and Standard Operating Procedures, the Personnel Performance and Evaluation System (PPES), the Performance Monitoring and Assessment (PMA), and the Financial Accountability Framework. Additionally, a compliance initiative at corporate level has been established, along with the PAHO Standard Operating Procedures for Compliance with Internal Control, noting the full system for implementing internal control systems and accountability measures.

Capacity to Handle Risk

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 Sub regional 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.

For some specific initiatives and processes, PAHO coordinates efforts through key cross-functional programs that involve several cost centers or teams, for example: 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 and Compliance, the PASB 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 PASB, the Secretariat of the Organization. These organs, as stipulated in 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. For the financial reporting period 1 January 2017 through 31 December 2017, the Auditor General has concluded the following:

Internal controls are procedures and activities that mitigate risks and thereby increase the likelihood of the achievement of Organizational objectives. Examples of internal controls include ensuring the secure custody of physical assets and the safeguarding of institutional memory through formal mechanisms that transmit knowledge from separating to replacement personnel. The rationale for every internal control is the risk (or risks) to institutional objectives that the internal control purports to address. The overall internal control framework aggregates internal controls within the Organization's overall operating style; its operating policies and practices; and its assignment of authority and accountability to personnel.

The concept of the "three lines of defense" sets out institutional responsibilities for the implementation and monitoring of internal controls. The first and second "lines of defense" are provided by management, the first line consisting of day-to-day, risk-mitigating internal controls, and the second entailing managerial review and monitoring of internal controls. The "third line of defense", which operates behind management's defenses, is the assurance provided by internal auditors (and other external sources, such as external auditors).

From a "third line of defense" perspective, IES has observed steady improvements in PAHO's first and second "lines of defense" in recent years. In 2016, however, IES had found a temporary deterioration in the effectiveness of both lines. This was a consequence of a transitional period, in which the implementation of the PMIS modernization project had redefined and disrupted many internal controls, most notably in terms of budgetary processes. In 2017, IES found a recovery and improvement in internal controls as the PMIS project improved information flows in PAHO and delivered more robust, automated internal controls. In 2017, therefore, some of the expected enhancements to internal controls in the PMIS project started to materialize, reinforcing the longer-term trend of improving internal controls.

IES's overall opinion on the PAHO's internal control environment in 2017 is that it continued to provide reasonable assurance over the accuracy and timely recording of transactions, assets, and liabilities; the mitigation of risks to the achievement of the Organization's objectives; and the safeguarding of assets.

As in previous years, IES continues to advise management that both the linking of internal controls to risks, and the linking of risks to Organizational objectives, needs to be clearer. A more rigorous articulation of the connections between the Organization's objectives, risks, and risk-mitigating internal controls is an ongoing process that is essential to the further strengthening of PAHO's internal control environment.

In addition, FRM and PBU 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.

In 2011, PAHO's Executive Management approved the establishment of the Enterprise Risk Management (ERM) Program and the conceptual framework of the ERM. Risk Management is an integral part of the compliance system within PAHO. The ERM system is critical to assess those events or initiatives that may influence the mandate, pace and manner of change in the Organization resulting from the adoption of new technology, new demands for technical cooperation from the Member States, the growth of resources under administration, and adaptation to UN transformation.

The objectives of PAHO's risk management approach are to support informed decision-making and to embed risk management in corporate strategic and operational processes. In this regard, the ERM program has the following lines of work: the risk register (RR), the identification of corporate risks, and training and enhancing awareness. 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 Program and Budget and the respective Biennial Work Plans (BWP) at cost center 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 process of the assessment and monitoring of corporate risks of the Organization includes the full involvement of PAHO's Executive Management and the ERM Standing Committee (ERMCS). This Committee focuses 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.

During 2017, the ERMSC reviewed the risk profiles of the top corporate risks identified including the scope of the risk, mitigation actions, and indicators to measure and monitor the risks. Every six months, the ERMCS 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.

To this end, the ERM 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, the 2016 and 2017 year-end Performance and Monitoring Assessment (PMA), and the preparation of the Program and Budget, and the Operational Planning for 2018-2019

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. Several trainings and videos were offered on risk management.

Review of Effectiveness

As Director of the PASB, 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 2017 and has remained so up to the date of the approval of the Financial Report of the Director. During the course of 2017, the Secretariat’s risk management process identified a number of areas requiring additional work in order to maintain adequate internal control assurances, and the Secretariat implemented mitigating actions to address them.

Significant Internal Control Issues	Action Taken to Address Issues
1. Corporate Administrative Systems	
<p>The Biennium Closure of 2017 was an important challenge, as the first biennial closure for PAHO using the PMIS.</p> <p>The PMIS platform is continuously evolving and improving. The software vendor delivers automatic weekly updates to the system, and delivers major releases of the software twice a year. These updates include enhancements requested by PAHO to address identified internal control issues.</p>	<p>To ensure a smooth biennial closure, a Cross Functional Team with participation of all main units involved in the closure process was created. To mitigate risk and ensure a successful financial closure, the process was managed as follows:</p> <ul style="list-style-type: none"> • Closure Processes were defined and documented • Focused Testing Team was established • A website on the Intranet with up-to-date information was created • Standard Operating Procedures, Job Aids and Videos were made available to users. • Video and Training sessions to Headquarters and Country Office personnel were provided. <p>There is a PMIS Governance framework in place to manage and prioritize changes and enhancements. This process enables the Organization to maintain and continuously update a roadmap for change.</p>
2. Implementation of Voluntary Contribution Agreements	
<p>Effective and timely implementation of the Program and Budget is critical to the reputation and sustained growth of the Organization. Timely implementation is particularly critical for time-bound Voluntary Contributions commitments, in order to avoid returning funds to donors after the expiration of agreements. 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>PAHO’s dialogue with donors has identified a need to continuously improve and modernize implementation monitoring and impact evaluation in supporting the management of Voluntary Contributions.</p> <p>PMIS and related award management reporting functionality has provided the necessary tools to 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 addition, to support high-level monitoring of Voluntary Contributions’ implementation, an executive-level report has been developed, improving</p>

Significant Internal Control Issues	Action Taken to Address Issues
	<p>transparency with more consistent information.</p> <p>Award expiration dates are 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 also considering options to track the programmatic implementation of Voluntary Contributions.</p>
3. Succession Planning	
<p>The normal process of retirement of senior managers requires systematic procedures to preserve and transmit institutional memory.</p>	<p>HRM is currently developing operational procedures for comprehensive PAHO Succession Planning to supplement the existing HR Planning process, already integrated into BWP planning, with the goal of replacing key senior staff in an optimally timely manner.</p>
4. Emergency Response	
<p>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 well organized, flexible team of specialists to analyze and coordinate response requirements and information.</p>	<p>In 2017, PAHO established a new Health Emergencies Department, consistent with WHO's Emergency Program Reform. PAHO functionally aligned its work in Public Health Emergencies with WHO's new Health Emergencies Programme, while maintaining the areas of work that do not fall under the scope of WHO. PAHO also continued its collaboration with Member States to improve their Disaster Management capacity within the context of the Plan of Action for Disaster Risk Reduction 2016-2021, and for the Coordination of Humanitarian Assistance. PAHO provided a timely response to all acute emergencies with potential health impacts that occurred during this period within 24-72 hours.</p> <p>PAHO also screened approximately 24,000 signals of potential events during 2017; 5,000 of which were further analyzed and are specifically monitored (3 per week on average). Out of the 365 events registered by WHO in 2017, 119 (32%) were monitored and reported by PAHO culminating in it in being the region with the second highest number of events.</p>
5. International Economic Environment	
<p>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"> • Exchange rates in some countries have fluctuated significantly during the year, resulting in additional uncertainties regarding the value of some transactions locally. • Member States have continued to espouse a policy of zero-to-minimal nominal budget growth. 	<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>

Significant Internal Control Issues	Action Taken to Address Issues
	<p>The Organization has a conservative Investment Policy, overseen by the Investment Committee that meets in person at least twice a year to review the performance of the investment portfolio. The Investment Committee has contracted three external investment managers to manage approximately \$373 million of the 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>6. Funding of Long-Term Employee Liabilities</p>	
<p>Since the implementation of IPSAS in 2010, the Organization has recognized its long-term liabilities associated with After-Service Health Insurance (ASHI) and the Termination and Repatriation Entitlements Plan (TAREP) in the Statement of Financial Position.</p> <p>As of 31 December 2017, PAHO's net unfunded liability totaled \$234.3 million. This amount (calculated in accordance with IPSAS employee benefits standard 39) 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.</p> <p>PAHO's Termination and Repatriation Entitlements Plan (TAREP), as of 31 December 2017 recorded a net unfunded liability of \$4.3 million.</p>	<p>In addition to the payment of the organizational share of SHI health insurance premiums, since 2010 PAHO has made a supplementary contribution equivalent to 4% of the base pay of PAHO staff in order to support funding of the long-term ASHI liability. In 2017, this contribution totaled approximately \$2.1 million. Net investment revenue on PAHO's accumulated ASHI funds in 2017 was \$3.0 million.</p> <p>In consultation with WHO, and referencing actuarial projections and recommendations, PAHO in 2016 adopted a strategy combining the assets of the WHO SHI Trust Fund and PAHO's ASHI Trust Fund to achieve efficiencies in meeting funding objectives. In 2017, PAHO began participating in the SHI Trust Fund-related deliberations of the WHO Investment Committee. This funding strategy is expected to enable PAHO to fund its Defined Benefit Obligation (DBO) liability jointly with WHO within the next 25 years. PAHO and WHO 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>In addition, in consultation with PAHO, the SHI Global Oversight Committee has adopted several decisions to control future health care costs in the United States and other high-cost countries in order to contain the future increase in the DBO.</p>
<p>7. Cyber Security</p>	
<p>As cyber threats continue to impact international organizations, PASB is committed to continuously strengthening the cyber security measures needed to protect data and maintain a safe digital environment. The rise in the frequency and sophistication of cyberattacks indicates a need to enhance the access control mechanisms in PASB's information systems.</p> <p>In 2017, PASB registered no critical cyber security incidents impacting the confidentiality, availability or integrity of the PASB information or Information Technology Resources.</p>	<p>The PAHO Cybersecurity Roadmap was approved as a result of assessments on PAHO Cybersecurity against international standards (ISO 27001).</p> <p>The implementation of various controls identified in the cyber security roadmap improved PAHO's cyber security posture and brought it to a higher maturity level, in line with industry best practices. It also enhances PAHO's capabilities in detecting, reacting, remediating and learning from cyber security incidents.</p> <p>In 2017 PAHO procured information security advisory services that played a significant role in the implementation of the above-mentioned initiatives.</p>

Significant Internal Control Issues	Action Taken to Address Issues
	<p>PAHO subscribed to a threat intelligence service which enables PAHO to receive early notifications on cyber threats that could affect the Organization and other International Organizations. The service also provides the Organization with information on cyber threats affecting other international organizations and intelligence reports on threat actors and networks involved in cybercrime, hacking, and fraud.</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 2017 through 31 December 2017 and remains so on the date I sign this statement.

Carissa F. Etienne

Director

Pan American Health Organization

Opinion of the External Auditor on the 2017 Financial Statements

The Pan American Health Organization



Opinion

We have audited the consolidated financial statements of the Pan American Health Organization for the year ended 31 December 2017. These comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flow, Statement of Comparison of Budget and Actual Amounts and the related notes. These financial statements have been prepared following the Organization's accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Pan American Health Organization as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

In our opinion the accounting policies have been applied on a basis consistent with that of the preceding financial period in all material respects, the revenue and expenditure have been applied to the purposes intended by either the Pan American Sanitary Conference or the Directing Council and the financial transactions conform to the Financial Regulations and legislative authorities that govern them.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit in accordance with Article XIV of the Financial Regulations. We conducted the audit in accordance with 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).

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect any existing material misstatements. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In addition, we were required to obtain sufficient evidence to give reasonable assurance that the revenue and expenditure reported in the consolidated financial statements have been applied to the purposes intended by either the Pan American Sanitary Conference or the Directing Council and that the financial transactions are in accordance with the Financial Regulations and legislative authorities that govern them. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Director's Responsibility for the Financial Statements

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards and the requirements of the Financial Regulations as authorized by either the Pan American Sanitary Conference or the Directing Council. The Director is also responsible for such internal control as She determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

External Auditor's Report

In accordance with Article XIV of the Financial Regulations and the Letter of Engagement, we have also issued an External Auditor's Report on our audit of the Pan American Health Organization's financial statements.

Madrid, April 11, 2018

A handwritten signature in blue ink, reading "Ramón A. de Miranda García". The signature is written in a cursive style with a horizontal line underneath the name.

Ramón Álvarez de Miranda García
President of the Spanish Court of Audit

Financial Statements

Pan American Health Organization Statement of Financial Position

As at 31 December 2017
(In thousands of US dollars)

Description	Reference	31 December 2017	Restated 31 December 2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	Note 3	65 740	128 286
Short Term Investments	Note 4.1	359 795	239 705
Accounts Receivable	Note 6.1	352 316	349 612
Inventories	Note 7	8 010	8 896
Total Current Assets		785 861	726 499
Non-Current Assets			
Long Term Investments	Note 4.2	372 974	297 674
Accounts Receivable	Note 6.2	140 111	148 873
Property, Plant and Equipment	Note 8.1	107 356	108 376
Intangible Assets	Note 9	931	763
Total Non-Current Assets		621 372	555 686
TOTAL ASSETS		1 407 233	1 282 185
LIABILITIES			
Current Liabilities			
Accrued Liabilities	Note 10	22 938	13 175
Accounts Payable	Note 11.1	8 343	62 352
Employee Benefits	Note 12.3	2 812	10 970
Deferred Revenue	Note 13.1	661 221	502 770
Total Current Liabilities		695 314	589 267
Non-Current Liabilities			
Accounts Payable	Note 11.2	7 796	7 796
Employee Benefits	Note 12.3	235 794	186 522
Deferred Revenue	Note 13.2	219 549	216 125
Total Non-Current Liabilities		463 139	410 443
TOTAL LIABILITIES		1 158 453	999 710
NET ASSETS / EQUITY			
Fund Balances and Reserves			
Fund Balances	Note 14	91 226	132 124
Reserves	Note 14	157 554	150 351
NET FUND BALANCES and RESERVES		248 780	282 475

Pan American Health Organization
Statement of Financial Performance

As at 31 December 2017
(In thousands of US dollars)

Description	Reference	Restated	
		31 December 2017	31 December 2016
REVENUE			
Revenue from Non-Exchange Transactions			
Assessed Contributions	Note 15	102 393	97 793
Voluntary Contributions	Note 15	614 190	571 460
Other Revenue	Note 15	75 767	63 019
Revenue from Exchange Transactions			
Procurement of Public Health Supplies	Note 15	692 956	686 518
Other Revenue	Note 15	7 457	7 965
Miscellaneous Revenue	Note 15	16 057	22 968
TOTAL REVENUE		1 508 820	1 449 723
EXPENSES			
Staff and Other Personnel Costs	Note 16	147 948	140 368
Supplies, Commodities, Materials	Note 16	697 175	676 779
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	Note 16	859	1 919
Contract Services	Note 16	137 836	111 802
Travel	Note 16	54 187	40 155
Transfers and Grants to Counterparts	Note 16	454 959	441 327
General Operating and Other Direct Costs	Note 16	17 900	15 935
TOTAL EXPENSES		1 510 864	1 428 285
NET SURPLUS / (DEFICIT)		(2 044)	21 438

Pan American Health Organization
Statement of Changes in Net Assets

As at 31 December 2017
(In thousands of US dollars)

Description	Reference	Restated	
		31 December 2017	31 December 2016
Net assets at the beginning of the year		282 475	229 605
Settlement of Employee Benefit Liability	Note 12.7	(26 172)	31 557
Gain/(Loss) on Revaluation of Investments	Note 4.2	(1 051)	(1 692)
(Recognition) / De-recognition of Liability through Reserves	Note 24	(4 478)	1 567
Prior Year Adjustment- Voluntary Contributions		50	
Total of items (revenue/expenses) recognized directly in Net Assets		(31 651)	31 432
Surplus/(deficit) for the Financial Period		(2 044)	21 438
Total recognized revenue and expenses for the year		(33 695)	52 870
Net assets at the end of the year		248 780	282 475

Pan American Health Organization
Cash Flow Statement

As at 31 December 2017
(In thousands of US dollars)

Description	31 December 2017	Restated 31 December 2016
Cash Flows from Operating Activities:		
Surplus (Deficit) for the period	(2 044)	21 438
Depreciation and Amortization	2 237	2 384
(Increase) / Decrease in Accounts Receivable	6 058	(76 580)
(Increase) / Decrease in Inventories	886	(257)
Increase / (Decrease) in Accrued Liabilities	9 763	(80 507)
Increase / (Decrease) in Accounts Payable	(54 009)	46 319
Increase / (Decrease) in Employee Benefits	14 942	5 158
Increase / (Decrease) in Other Liabilities	(4 478)	1 567
Increase / (Decrease) in Deferred Revenue	161 925	126 161
Net Cash Flows from Operating Activities	135 280	45 683
Cash Flows from Investment and Financing Activities:		
(Increase) / Decrease in Short Term Investments	(121 141)	15 447
(Increase) / Decrease in Long Term Investments	(75 300)	(74 620)
(Increase) / Decrease in Property, Plant and Equipment and Intangibles Assets	(1 385)	(465)
Net Cash Flows from Investing Activities	(197 826)	(59 638)
Net Increase / (Decrease) in Cash and Cash Equivalents	(62 546)	(13 955)
Cash and Cash Equivalents at the beginning of the Year	128 286	142 241
Cash and Cash Equivalents at the end of the Year	65 740	128 286

Pan American Health Organization
Comparison of Budget and Actual Amounts

As at 31 December 2017
(In thousands of US dollars)

Category/Program Area	Program and Budget	Approved Transfers	Resulting Budget	2016 Expenses	2017 Expenses	Total	2017 Expenses as % of PB-Adjusted
1. Communicable Diseases	102 389		102 389	34 482	45 150	79 632	78%
2. Non-communicable Diseases and Risk Factors	58 028		58 028	16 805	23 075	39 879	69%
3. Determinants of Health and Promoting Health throughout the Life Course	81 242		81 242	20 323	27 868	48 191	59%
4. Health Systems	109 196		109 196	34 102	49 110	83 212	76%
5. Preparedness, Surveillance, and Response	59 811		59 811	20 250	33 256	53 507	89%
6. Corporate Services/Enabling Functions	202 134		202 134	79 329	93 077	172 406	85%
Total for Base Programs (Categories 1-6)	612 800		612 800	205 290	271 537	476 827	78%
Special Programs and response to emergencies	35 000		35 000	14 368	11 834	26 201	75%
TOTAL	647 800		647 800	219 658	283 370	503 028	78%

The PAHO Program and Budget was approved through Resolution CD54/R16 as an integrated budget, independent of the sources of financing. The amounts indicated under the Program and Budget represents total resource requirements. There were no budget transfers during fiscal year 2016 or 2017; the resulting budget is therefore the same as the originally approved budget. The 2016 and 2017 expenses represent actuals from all funding sources, assessed contributions and miscellaneous revenue, voluntary contributions, as well as special funds from both the Pan American Health Organization and the World Health Organization. The levels of funding and expenses by source are presented in other reports.

Notes to the Financial Statements

1. Mission of the Pan American Health Organization

The mission of the Organization is “To lead strategic collaborative efforts among Member States and other partners to promote equity in health, to combat disease, and to improve the quality of, and lengthen, the lives of the peoples of the Americas.”

The Pan American Health Organization (the Organization) is an international public health agency with more than 100 years of experience in working to improve health and living standards in the countries of the Americas. It serves as the specialized organization for health of the Inter-American System. It also serves as the Regional Office for the Americas of the World Health Organization and enjoys international recognition as part of the United Nations system.

The Pan American Sanitary Bureau (PASB) is the Secretariat of the Organization. The Bureau is committed to providing technical support and leadership to the Organization's Member States as they pursue their goal of Health for All and the values therein.

The headquarters of the Organization is located in Washington, D.C. In addition, the Organization has Representative Offices throughout the Americas, which are in charge of implementing its values, mission, and vision.

2. Accounting policies

2.1 Basis of Preparation

The financial statements of the Pan American Health Organization have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS), using the historical cost convention except for land and buildings which are shown at fair value. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

The Financial Statements of the Organization were certified and approved for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference, as stated in Resolution CSP28.R7 in September 2012. This issuance approval is dated 23 March 2018. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).

The Organization previously prepared its financial statements on the modified cash basis under the United Nations' System Accounting Standards (UNSAS). Based on the decision to change to accrual accounting under IPSAS, amendments to the Financial Regulations and Rules were made and adopted by the Directing Council at its 49th meeting on 28 September 2009 and by the 145th Executive Committee on 2 October 2009, to become effective 1 January 2010. The first-time adoption of International Public Sector Accounting Standards effective 1 January 2010 reflected the change from a modified cash basis of accounting to an accrual basis of accounting. The accounting period is 1 January through 31 December. The financial period 1 January through 31 December 2017 represents the second year of the 2016 – 2017 bienniums, which is the third biennium in which the IPSAS standards were implemented.

The functional and reporting currency of the Organization is the United States Dollar (US\$). Disclosed amounts in the Financial Statements and Explanatory Notes are rounded in order to be expressed in thousands. The rounding practice may result in tables that may not sum precisely to the rounded totals.

These financial statements were prepared on the assumption that the Organization is a going concern and will continue in operation and fulfill its mandate for the foreseeable future (IPSAS 1). The Governing Bodies of the Organization have not communicated any intention to terminate the Organization or cease its operations.

In accordance with IPSAS 1, a complete set of financial statements has been prepared as follows:

- a. Statement of Financial Position
- b. Statement of Financial Performance
- c. Statement of Changes in Net Assets
- d. Cash Flow Statement
- e. Comparison of Budget and Actual Amounts
- f. Notes, comprising a summary of significant accounting policies and other relevant information.

The Organization has fully adopted IPSAS and in 2017 IPSAS 39 was implemented (Note 12.6).

For detailed information on IPSAS implementation in the organization, refer to pages 40 to 45 of the Financial Report of the Director and Report of the External Auditor (Official Document 351) for the fiscal period 1 January 2015 to 31 December 2015.

http://www.paho.org/hq/index.php?option=com_content&view=article&id=11981&Itemid=41975&lang=en

2.2 Cash and Cash Equivalents

Cash and cash equivalents, which are financial assets, comprise cash on hand, cash at banks, money markets and short-term deposits with original maturities of 90 days or less. For an investment to qualify as a cash equivalent, it must be convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Short-term deposits are stated at amortized cost using the effective interest method, with interest income recognized on an effective yield basis.

Cash and Cash Equivalents are held for purposes of meeting short-term cash commitments rather than for investment purposes.

2.3 Investments

Investments are financial assets and are recognized when the Organization becomes a party to the contractual provisions of the investment. Investments are classified as either available for sale or held to maturity. Available-for-sale investments are accounted for on a purchase date basis. Held to maturity investments are recognized on settlement date.

Investments are classified as being available for sale where the Organization has not committed to hold such items to maturity. Available-for-sale items are stated at fair value (including transaction costs that are directly attributable to the acquisition of the financial asset) with value changes recognized in the Statement of Changes in Net Assets. Available-for-sale assets are actively traded on the market, and the valuation of these assets is determined by price quotes on the open market for identical financial instruments. Impairment losses are recognized when the book value of an asset exceeds the fair market value on other than temporary basis. PAHO monitors the fair market value of its investments monthly and investigates the underlying cause of a decline in value. The investment policy specifies credit rating limitations. If the impairment is the result of a credit downgrade below investment policy guidelines, the investment must be liquidated.

Impairment charges and interest calculated using the effective interest method is recognized in the surplus or deficit. When an available-for-sale asset is disposed of, the cumulative gain or loss previously recognized in the Statement of Changes in Net Assets is included in the surplus or deficit for the period.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Organization has the intention and ability to hold to maturity. Held-to-maturity investments are comprised of U.S. agency paper such as that of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Held-to-maturity investments are stated at amortized cost using the effective interest method, with interest income recognized on an effective yield basis in the Statement of Financial Performance.

2.4 Loans and Receivables

Loans and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and other receivables are stated at amortized cost calculated using the effective interest method, less any impairment.

Interest income is recognized on the effective interest basis, other than for short-term receivables where the recognition of interest would be immaterial.

2.5 Risk Management Policies

The Organization holds funds not required for immediate operating needs as investments in order to earn revenue on surplus liquidity which, in accordance with Financial Regulations X and XI and Financial Rules X and XI of the Pan American Health Organization, funds a portion of the Program and Budget. Investments are made subject to the Organization's Investment Policy, which prescribes guidelines intended to protect invested principal, maintain adequate liquidity, and realize a return commensurate with investment risk constraints. Policy guidelines define duration, diversity and credit quality, which are consistent with limiting credit, market, and interest rate risk exposures. The Organization's credit risk is mitigated by Investment Policies that impose limits on the amount of credit exposure to any-one-counterparty, limiting investments on a single non-government issuer to no more than 25%.

In accordance with the Investment Policy requirements, internally managed investments are restricted to A1/P1 and AAA/Aaa rated financial instruments. Fixed Income Notes consist primarily of U.S. Agency Paper which carries the implicit guarantee of the U.S. Government.

Funds placed with external investment managers are restricted to instruments rated A1/P1 or BBB- credit quality or higher in accordance with their mandates. Mechanisms are in place to divest the portfolio of an investment that falls below the minimum requirements. In the event a security's rating falls below the minimum requirements for credit quality, the external manager immediately notifies PAHO and initiates actions to liquidate the security.

Maximum maturity for the short-term investment of operating cash is not to exceed one year. Long-term investment of strategic funds is limited to an effective maturity of no more than five years.

Depository accounts are held at financial institutions with investment grade ratings by primary rating agencies, where such ratings exist. In instances in which no rating is available, the overall financial strength of the institution is evaluated prior to depositing funds in the institution. Non-U.S. dollar accounts are monitored daily to ensure that balances are kept at minimum operating requirements levels.

The PAHO Investment Committee approves financial instruments, as well as partner financial institutions, in accordance with the Investment Policy guidelines noted above in order to mitigate credit risk.

2.6 Accounts Receivable

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Current receivables are for amounts due within 12 months of the reporting date, while non-current receivables are those that are due more than 12 months from the reporting date of the financial statements. Receivables are stated at amortized cost calculated using the effective interest method, less any impairment losses (which are recognized in the Statement of Financial Performance). However, for current receivables there is no material difference between the amortized costs; thus, these receivables have been recognized at cost (less any impairment losses).

Receivables from exchange transactions are recognized when the Organization is owed assets or services (usually in the form of cash) arising from a transaction that directly gives approximately equal value to another entity in exchange (IPSAS 9).

Receivables from non-exchange transactions are established when the Organization is owed assets or services (usually in the form of cash) that arise from a transaction that does not directly give approximately equal value in exchange; or the Organization has given value to another entity without directly receiving approximately equal value in exchange (IPSAS 23).

The main types of receivables are:

- **Assessed Contributions (non-exchange transactions)** these contributions are formal commitments from Member and Participating States and Associate Members for the biennial budget period. Assessed contributions are recognized as receivables when they fall due and payable on 1 January of each year. There is no provision in the Financial Regulations to write off an assessed contribution; therefore, no impairment loss has been recognized.
- **Tax Equalization Fund (non-exchange transactions)** Receivables under the Tax Equalization Fund are due from Member States that levy income tax on emoluments received from the Organization by their nationals or others liable to such taxes. The credit from the staff assessment plan is charged with the estimated amount to be levied by those Member States.

Under the Tax Equalization Fund, the assessed contributions of all Members are reduced by the income generated by the staff assessment plan. In determining the reduction of assessed contributions to be applied to the Member States concerned, the Tax Equalization Fund is credited with the revenue from the staff assessment plan, the credits being recorded in the name of individual Members States, in proportion to their assessments for the biennium.

The amounts been charged, in turn, are used by the Organization to reimburse income tax paid by the staff concerned.

- **Voluntary Contributions (non-exchange transactions)** The Organization enters into Voluntary Contribution agreements which are comprised of (1) the Voluntary Contributions, which includes financial resources from governments, and private and public sector organizations governments (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions; (2) the National Voluntary Contributions, which was established on 1 January 2010 and includes financial resources from governments exclusively for internal projects; and (3) the Voluntary Contributions-Emergency Preparedness and Disaster Relief Fund, which includes financial resources from governments, and private and public sector organizations (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions. Upon signature by both parties and approval by the Organization's Office of Legal Counsel of the agreements, the full value of the agreement is recognized as a receivable and as deferred revenue (Note 2.13)

To determine the current portion of accounts receivable from Voluntary Contributions as of 31 December 2017, the Organization classified all the accounts receivable balances of Voluntary Contributions expiring prior to 31 December 2018, as well as those grants with an indefinite status, as current accounts receivable. In addition, accounts receivable balances of Voluntary Contributions agreements extending beyond 2018 were allocated between current and non-current accounts receivable using a straight- line- calculation based on the number of years remaining. The non-current portion of accounts receivable will reflect the balance of the total accounts receivable amount for Voluntary Contributions, less the calculation of the current accounts receivable.

- **Procurement of Public Health Supplies (exchange transactions)** The Procurement of Public Health Supplies is critical to the Organization to achieve its mission of supporting Member States through technical cooperation for public health programs, including the procurement of vaccines and syringes, medical supplies, diagnostic kits, medications, and equipment.

The accounts receivable from the Member States in the Procurement of Public Health Supplies is comprised of two funds: the Revolving Fund for Vaccine Procurement and the Regional Revolving Fund for Strategic Public Health Supplies. Receivables are established for each participating Member State upon notification that goods were delivered by the supplier and payment to the supplier has been approved. This triggers the issue of an invoice addressed to the relevant Member State.

- **Inter-organization Funding Activities** the Inter-organization accounts receivable represents the amount due to the Organization from the World Health Organization as the net result of inter-agency transactions.
- **Advances to Staff** Advances are made to individuals in accordance with the Financial Regulations and Rules of the Organization for entitlements (i.e., education grants, travel, income tax settlements, insurance claims, etc.) and are recognized as receivables, until they are charged to expense upon receipt of the required claim or supporting documentation.

The Organization will establish allowances for doubtful accounts based on the evidence that certain receivables are uncollectable. A formal procedure must be followed, based on the delegation of authority regarding the amounts to be written off, prior to offsetting the uncollectable receivable against the established allowance.

2.7 Inventories

Medications and medical supplies owned and controlled by the Organization are recorded as inventories with the intention that they be held for distribution in the ordinary course of operations. They are valued at the lower of cost or net realizable value at the end of the financial period. The Organization-owned medications and medical supplies quantities, derived from the Organization's tracking systems, are validated by physical stock counts. These medications and medical supplies are expensed when distributed directly by the Organization or handed over to government or non-government institutions. Inventories held for distribution without charge are valued at the lower of cost or replacement cost. Inventories are held at the PROMESS warehouse in Haiti, a strategic storage facility. If the Organization receives inventories acquired through non-exchange transactions, they will be valued at fair value of acquisition. Due to the specific circumstances in Haiti, the cost formula is "First to expire, First out" for the inventories of pharmaceutical drugs and medications.

The Expanded Textbook and Instructional Materials Program (PALTEX) was established by the Pan American Health Organization (PAHO) in the mid-1960s as a technical cooperation program aimed at improving the quality of health science educational processes in Latin America. PALTEX is a publishing program that acquires, produces, and distributes quality textbooks and instructional materials in Spanish and Portuguese at affordable prices.

Inventories, procured with Voluntary Contributions on behalf of a project do not form part of the Organization's inventory. The Organization is simply the implementing agent and is responsible only for the disposition of the items within the terms of the agreement. If the items are not consumed within the project period, the final disposition will be determined by the donor. At no time does the Organization retain control of these items; therefore, the correct accounting treatment is to expense these items at the time of purchase.

2.8 Property, Plant and Equipment

Property, plant, and equipment assets with a value greater than the \$20 000 threshold are recognized as non-current assets in the Statement of Financial Position. They are initially recognized at cost, unless acquired through a non-exchange transaction, in which case they are recognized at fair value as of the date of acquisition. The Organization applies the cost model to its plant and equipment—i.e. the items are carried at cost, less accumulated depreciation and any accumulated impairment losses. The Organization applies the revaluation model to land and buildings only. The Organization considers all its Property, Plant and Equipment to be non-cash generating assets.

Depreciation is charged on property, plant, and equipment (except for land) to write down the cost/fair value of the asset to its residual value over the estimated useful life, using the straight-line method with a full year's depreciation charged in the year of acquisition. In 2014, during the design of the new Enterprise Resource Planning system, it was determined that, for the depreciation calculation of the acquisition year, the new system will support only half-year depreciation instead of the usual full year that had been applied previously. In order to fully leverage the automation capabilities of the new ERP, the decision was made to change the depreciation policy to half year. The estimated useful lives for fixed asset classes are as follows:

Assets Class and Description	Estimated Useful Life
Buildings	40 years
Computer Equipment	3 years
Office Equipment	3 years
Motor Vehicle	5 years
Audio Visual Equipment	3 years
Lease-hold Improvements	3 years
Office Fixture and Fittings	3 years

Property, plant, or equipment procured with Voluntary Contributions on behalf of a project are not the Organization's assets and are meant solely for the use of the project beneficiary. The Organization is the implementing agent and is responsible simply for the disposition of the items within the terms of the agreement. The Organization does not retain ownership of these items; therefore, these items are expensed at the time of purchase. If the items are not consumed within the project period, the final disposition will be determined by the donor.

Transitional provisions were applied in the initial recognition of Property, Plant, and Equipment (PP&E) purchased or donated before 1 January 2010. Except for land and buildings, assets acquired prior to 1 January 2010 were expensed at the date of purchase and were not recognized as assets. The Organization will periodically revalue its land and buildings, including leased property. External experts will be utilized to determine updated market value. All improvements, renovations, etc. made to the buildings since the prior appraisal will be expensed in the year they occur and included in the future revaluation.

The Organization recognized the effect of the initial recognition of Property, Plant, and Equipment (PP&E) as an adjustment to the opening balance of accumulated surpluses or deficits. In regard to IPSAS 17, paragraph 99, Transitional Provision, the Organization did not recognize the accumulated depreciation of buildings that were recognized, as it was not practical to do so.

Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of the remaining useful life of the improvements or the lease term.

Donated land and buildings are valued at fair market value and recognized as non-current assets.

2.9 Leases

The Organization is the owner and lessor of the land parcel for the building at 2121 Virginia Avenue, N.W., Washington, D.C.

The Organization is the lessee for the first two floors of the same building mentioned above under an operating lease. The Organization also leases various office premises for the Representative Offices throughout the Americas. These are all cancelable agreements. Total annual lease payments have been disclosed in Note 16 on Expenses as a footnote.

Assets held under finance leases are included within Property, Plant, and Equipment and are depreciated on a straight-line basis over their estimated useful lives. Assets are recognized at fair value or, if lower, the present value of the minimum lease payments. Where assets are provided to PAHO with no or nominal lease payments, the fair value of the asset has been recognized.

On 1 January 2016 the Organization migrated its administrative, budgetary and financial operations to a new Enterprise Resource Planning System. These software services are provided through an operating lease which is expensed on an annual basis. No capitalization or recognition of an intangible asset was recorded.

A liability is also recognized for the same amount. Rental payments are apportioned between the finance element, which is charged in the statement of financial performance, and the capital element, which reduces the lease liability.

2.10 Intangible Assets

Intangible assets, which are above the pre-established thresholds of \$30 000 for intangible assets purchased externally and \$100 000 for intangible assets developed in-house, are stated at historical cost less accumulated amortization and any impairment losses. Amortization is determined for intangible assets over their estimated useful life using the straight-line method. Amortization is charged on Intangible Assets to write down the cost/fair value of the asset to its residual value over the estimated useful life, using the straight-line method, with a full year's amortization charged in the year of acquisition. The estimated useful lives for intangible asset classes are as follows:

Class	Estimated useful life (years)
Software acquired externally	7
Internally developed software	5
Licenses and rights, copyrights and other intangible assets	3

2.11 Accounts Payable

Accounts Payables are financial liabilities in respect of goods or services that have been received by the Organization and are recognized at amortized cost, which for payables are equal to cost. Accounts payable include the following:

- Amounts due to donors, partners, and stakeholders representing the unspent Voluntary Contributions for expired agreements.
- The inter-organization accounts payable represent the amount due from the Organization to the World Health Organization as the net result of inter-agency transactions.
- Invoices received and approved for payment but not yet paid.

2.12 Accrued Liabilities

Accrued liabilities are financial liabilities in respect of goods or services that have been received or provided to the Organization during the reporting period and that have not yet been invoiced, or invoices have been received but not approved for payment. They are recognized at amortized cost, which for accruals are equal to cost.

2.13 Deferred Revenue

Deferred revenue derives from legally binding agreements between the Organization and partners, such as governments (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions, where the partners provide funding to the Organization to support technical cooperation initiatives (voluntary contributions).

Deferred revenue is recognized when (1) a contractual agreement is confirmed in writing by both parties—i.e.; the Organization and the donors, partners, or stakeholders, and (2) the funds are conditional. Conditionality of voluntary contribution agreements is determined by factors like:

- The agreement has a stated purpose.
- Funds provided under the agreement must be used for activities as required/described in the agreement.
- The agreement has a budget.
- The agreement has an effective date and an end date.
- The agreement requires technical and financial reporting.
- Upon completion, any unused funds will be returned to the donor, partner, or stakeholder.

Revenue is recognized in the Statement of Financial Performance based on the level of funds implemented during the financial period.

Funds received from governments and institutions participating in the Procurement of Public Health Supplies, in advance of the procurement of the goods, are treated as deferred revenue. Once confirmation is received that goods were delivered by the supplier and payment to the supplier has been approved, the revenue is recognized in the Statement of Financial Performance.

To determine the current portion of deferred revenue from Voluntary Contributions as of 31 December 2017, the Organization classified all the deferred revenue balances of Voluntary Contributions expiring prior to 31 December 2018, as well as those grants with an indefinite status, as current deferred revenue. In addition, deferred revenue balances of Voluntary Contributions agreements extending beyond 2018 were allocated between current and non-current deferred revenue using a straight line calculation based on the number of years remaining. The non-current portion of deferred revenue will reflect the balance of the total deferred revenue amount for Voluntary Contributions, less the calculation of the current deferred revenue.

2.14 Employee Benefits

The Organization recognizes expenses and liabilities in respect of the following employee benefits:

- 1) Employee benefits earned in the current financial period are current liabilities recognized at an undiscounted cost.
- 2) Post-employment benefits— e.g., ASHI—are recognized at present value of the liability.
- 3) Other separation-related employee benefits are recognized at present value of the liability.

The Organization periodically contracts the actuarial services of external experts to provide confident figures on the liabilities regarding employee benefits. This information is used to calculate different contribution percentages to be applied for staff costs.

The Organization also uses this information for investment purposes to ensure that the Plan's investments meet the liquidity requirements of the respective liabilities.

2.15 Provisions and Contingent Liabilities

Provisions are made for future liabilities and expenses where the Organization has a present legal or constructive obligation as a result of past events, and it is probable that the Organization will be required to settle the obligation, and the value can be reliably measured.

Other commitments that do not meet the recognition criteria for liabilities are disclosed in the Notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Organization or the value cannot be reliably estimated.

2.16 Contingent Assets

In accordance with IPSAS 19, Contingent Assets will be disclosed when there is enough information that the inflow of economic benefits or service potential is probable.

2.17 Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the Organization during the year that represent an increase in net assets (IPSAS 23). The Organization recognizes revenue following the criteria established by IPSAS 9, "Revenue from Exchange Transactions," and IPSAS 23, "Revenue from Non-Exchange Transactions."

Exchange transactions are transactions in which the Organization receives assets or services, or has liabilities extinguished, and directly gives approximately equal value primarily in the form of cash, goods, services, or use of assets to another entity in exchange (IPSAS 9).

In a non-exchange transaction, the Organization either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange (IPSAS 9).

The main sources of revenue for the Organization include but are not limited to: Assessed Contributions, Voluntary Contributions, Procurement of Public Health Supplies, Other Revenue, and Miscellaneous Revenue.

- **Revenue from Assessed Contributions (non-exchange transactions).** Revenue from assessed contributions is recognized as of 1 January of each year when the Member States' assessed contribution commitment to the Organization is incurred.
- **Revenue from Voluntary Contributions (non-exchange transactions).** Voluntary Contributions, confirmed in writing by both parties, are recognized as receivables and deferred revenue (liabilities) because these funding agreements are conditional. As the Voluntary Contribution projects are implemented, the deferred revenue is then recognized as revenue. Voluntary Contributions categories are explained in Note
- **Revenue from the Procurement of Public Health Supplies (exchange transactions).** Revenue is recognized in respect of the procurement of public health supplies, because the Organization bears the risks and rewards of the purchased goods. Revenue on these transactions is recognized upon notification that goods were delivered by the supplier and payment to the supplier has been approved. The Procurement of Public Health Supplies is comprised of three funds: the Revolving Fund for Vaccine Procurement; Reimbursable Procurement; and the Regional Revolving Fund for Strategic Public Health Supplies. (See Note 2.6 Accounts Receivables, in respect of the Revolving Funds, and Note 2.13 Deferred Revenue, in respect of Reimbursable Procurement).

- **Other Revenue (non-exchange transactions).** As the Regional Office of the Americas (AMRO) of the World Health Organization, the Organization receives funding allocations from WHO for the implementation of technical cooperation activities.

Funds received by the Organization from WHO include the following allocations:

- Allocations of WHO regular budget
 - Allocations of WHO voluntary contributions
 - Allocations of other WHO internal funds
- **Other Revenue (exchange transactions).** The Organization, under its specific mandates, carries out other technical cooperation activities for which revenue is separately disclosed. These activities include the following: Sales of services and program support costs.
 - **Miscellaneous Revenue (exchange transactions).** Miscellaneous revenue includes foreign currency revaluations, exchange rate gains and losses, interest earned, realized gains and losses, and gains and losses from the sale of property, plant, and equipment.
 - **Special Activities Segment.** Special Activities are activities approved by the Organization's Governing Bodies for specific objectives and entitlements (i.e., staff entitlements, terminal entitlements, and after-service health insurance). Therefore, all employee benefits liabilities have been included in this segment.

2.18 Foreign Currency Transactions and Balances

The functional and reporting currency of the Organization is the United States dollar (US\$). Transactions in currencies other than US\$ are converted to US\$ at the prevailing market rate at the time of the transaction. The Organization has determined that the United Nations Operational Rates of Exchange (UNORE) are aligned closely with the prevailing market rates due to frequent analysis and adjustments and thus function as an approximation of the market rate at the time of the transaction. At the end of each reporting period, the Organization analyzes the performance of the UNORE in comparison with the prevailing market rate in order to determine the alignment and make any required adjustments. Assets and liabilities in currencies other than US\$ are converted to US\$ at the prevailing market rate at the end of the reporting period. Resulting gains or losses are accounted for in the Statement of Financial Performance within Miscellaneous Revenue.

2.19 Segment Reporting

A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and to make decisions about the future allocation of resources. The Organization classifies all projects, operations, and fund activities into five segments: 1) Core Activities Segment; 2) Partnership Activities Segment; 3) Enterprise Activities Segment; 4) Special Activities Segment; and 5) Sub-regional Centers Activities Segments and Inter-party Transactions. The Organization reports on the transactions and balances of each segment during the financial period.

In every financial period, the Organization processes internal transactions not involving the use of cash (transfers) within any given segment and between different segments (i.e., Program Support Cost, Provision for Termination and Repatriation Entitlements, After-Service Health Insurance, Master Capital Investment Fund, etc.). The effect of these transfers is an over-statement (duplication) of both revenue and expense by the same amount, which are valued at the cost incurred at the time of the original transaction. The Inter-Party Transactions column in the Statement of Financial Performance allows for the elimination of such duplication.

The following segments were identified to provide a better understanding of the different activities of the Organization:

Core Activities Segment—Activities critical to the Organization's Strategic Plan that are mandated and appropriated by the Organization's Governing Bodies (i.e., activities funded with assessed contributions and other revenue for Program and Budget activities).

Partnership Activities Segment—Activities aligned with the Organization’s Strategic Plan and supported by partners, donors, and stakeholders (i.e., activities developed in partnership with external donors who provide the voluntary contributions and to whom the technical and financial reports are provided).

Enterprise Activities Segment—Activities performed by the Organization to strengthen technical cooperation with the ministries of health and facilitate their access to essential public health supplies (i.e., procurement activities funded by the Member States for the access to essential public health supplies).

Special Activities Segment—Activities approved by the Organization’s Governing Bodies for specific objectives and entitlements. (i.e., staff entitlements, terminal entitlements, after-service health insurance).

Sub-Regional Centers Activities Segment – The Organization does not have regional centers to consolidate Effective January 1, 2013.

Intra-party Transactions – internal transfers. According to IPSAS 18, the Organization eliminates these activities.

2.20 Budget comparison

The Organization’s budget and financial statements are prepared using different accounting bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, and Cash Flow Statement are prepared on a full accrual basis, whereas the Comparison of Budget and Actual Amounts are prepared on a cash basis.

As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

The Organization’s Governing Bodies approve the Biennial Program and Budget Plan, which includes assessed contributions, projected voluntary funds, and estimated miscellaneous income. The Biennial Program and Budget Plan may subsequently be amended by the Governing Bodies.

The Comparison of Budget and Actual Amounts compares the final budget to actual amounts disbursed, calculated on the same Strategic Objective categories as the corresponding budgetary amounts. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are timing differences for the Organization for purposes of comparison of budget and actual amounts because the budget is prepared on a biennial basis and the financial statements are prepared on an annual basis. Furthermore, other differences result from depreciation and amortization.

Entity differences occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared. Presentation differences are due to differences in the format and classification schemes adopted for presentation of the Statement of Financial Performance and the Comparison of Budget and Actual Amounts.

2.21 In-Kind Contributions

In-kind contributions of services that support approved operations and activities, including the use of premises, utilities, personnel, transportation services, etc., are identified by categories of services under the respective Member State providing the in-kind contribution during the reporting accounting period. These are not recognized in the financial statements because the fair value of the services or assets cannot be reliably measured.

Donated land and buildings are recognized on the Statement of Financial Position at fair market value.

Donated inventories are capitalized subject to the materiality and conditions of the goods. The Organization will only accept donated goods in alignment with its core activities.

3. Cash and Cash Equivalents

	31 December 2017	31 December 2016
Cash on Hand, US\$	45 915	90 394
Cash on Hand, Other Currencies	18 464	40 367
Money Market Funds	2 502	1 312
Less: Plan Assets	(1 141)	(3 789)
Total	65 740	128 286

4. Investments

4.1 Short-Term Investments

Short-term investments are those with final maturities at purchase below 365 days.

	31 December 2017	31 December 2016
Certificates of Deposit	359 795	305 786
Less: Plan assets		(66 081)
Certificates of Deposit	359 795	239 705

Accrued interest of \$ 815 581 (2016: \$1 351 476) is included in the balance of short-term investments in the Statement of Financial Position.

4.2 Long-Term Investments

Long-term fixed income notes within the Organization's general portfolio are held to maturity and stated at amortized cost using the effective interest method. Long-term fixed income notes within the TAREP portfolio, comprising the plan assets held in an irrevocable trust, are stated at fair value with value changes recognized in the fund balance.

	31 December 2017	31 December 2016
Net Increase in Long-term Investments		
Increase (decrease) in Long-term Investments	75 218	73 974
Unrealized Net (Gains)/Losses	1 051	1 692
Net Increase in Long-term Investments	76 269	75 666
Cash Flows from Long-term Investments		
Interest Revenue	5 531	4 052
Realized Net Gains/(Losses)	(704)	(180)
Cash Flows from Long-term Investments	4 826	3 872

Valuation of Long-term Investments	31 December 2017		31 December 2016	
	Cost	Market	Cost	Market
Fixed Income Notes	10 347	10 271	1 563	1 535
Managed Portfolios	376 389	372 974	300 039	297 674
Less: Plan Assets	(10 347)	(10 271)	(1 563)	(1 535)
Total	376 389	372 974	300 039	297 674

Long-term fixed income instruments held in the two portfolios are issued by U.S. Government agencies and backed by the full faith and credit of the U.S. Government. Although the credit rating of the U.S. Government was downgraded from its historical AAA rating by one credit rating agency in 2012, there is no evidence to suggest that the borrower will default on these obligations. Accrued interest of \$36 079 has been included in the balance of long-term investments and recognized on the Statement of Financial Performance as Miscellaneous Revenue

Managed Portfolios are classified as available for sale and stated at fair value with value changes recognized in the fund balance. The market value above includes accrued interest of \$1 604 399 (2016: \$1 155 698) and recognized on the Statement of Financial Performance as Miscellaneous Revenue.

Total gains (losses) on managed portfolios are comprised of the cumulative gain or loss previously recognized in the Statement of Changes in Net Assets and the incremental change in value at the point of sale or maturity. Total gains (losses) are recognized in the surplus or deficit for the period.

5. Financial Instruments

5.1 Nature of Financial Instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition and de-recognition, the basis of measurement, and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability, are set out in Note 2.3.

Financial Instruments and Method of Valuation	2017	2017	2016	2016
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Cash and Cash Equivalents				
Cash and Cash Equivalents	65 740		128 286	
Cash and Cash Equivalents (Plan Assets)	1 141		3 789	
Short-term Investments				
Certificates of Deposit (held to maturity)	359 795		239 705	
Certificates of Deposit (held to maturity) (Plan Assets)			66 081	
Long-term Investments				
Fixed Income Notes (held to maturity)				
Fixed Income Notes (Plan Assets)		10 271		1 535
Managed Portfolios (available for sale)		372 974		297 674
Total	426 676	383 245	437 860	299 209

5.2 Interest Rate Risk

The Organization is exposed to interest rate risk through both short-term and long-term investments. Principal amounts are stated at amortized cost for investments held to maturity and at fair value for investments available for sale.

	Effective Maturity	Effective Interest Rate	Fixed Interest	Floating Interest	Non-Interest Bearing
Total Cash and Cash Equivalents	<90 days	0,25%		3 001	63 879
Short-term Investment					
Certificates of Deposit	59.52 days	2,79%	359 795		
Long-term Investments					
Plan Assets	9.14 years	2,95%	10 271		
Managed Portfolios	1.88 years	1,76%	372 974		
Total			743 040	3 001	63 879

The Organization holds certain fixed income notes that the issuer has a right to redeem prior to the maturity date.

Callable Instruments

Issuer	Principal	Rate	Maturity	Call Dates
Federal Home Loan Bank	1 540	2,14%	5-Dec-22	5-Dec-22
TAREP	8 695	3,10%	16-nov.-27	16-nov.-18
Total	10 236	2,96%		

Changes in market interest rate impact the fair value and future cash flows of investment instruments. This impact is irrelevant for held-to-maturity investments but would affect the Statement of Financial Position for available-for-sale fixed rate investments and the Statement of Financial Performance for floating rate available-for-sale investments. The portion of PAHO's available-for-sale portfolio comprised of floating rate instruments is insignificant, and rate fluctuations would not have a material effect. However, a market rate shift for fixed rate available-for-sale investments could materially impact the Statement of Financial Position.

A fluctuation of market interest rates of 100 basis points would have the following impact on the fair market value of fixed rate available-for-sale investments:

Fair Market Value of fixed rate investments at 12-31-17	Increase of 100 basis points	Change in Fair Market Value	Decrease of 100 basis points	Change in Fair Market Value
373 056	365 278	(7 778)	380 942	7 886

5.3 Credit Risk

The maximum credit risk represents the carrying amount of loans and receivables. PAHO's investment guidelines stipulate limits on the amount of credit exposure to any one counterparty. However, there may be some counterparty risk associated with the concentration of financial instruments and cash deposits in the banking sector. These significant concentrations in the banking sector equal 62% of the total cash, short-term and long-term investments.

The minimum credit quality requirements for all investments, as defined by the Investment Policy, falls within the investment grade range. Although the credit rating of the U.S. Government was downgraded from its historical AAA

rating by one credit rating agency in 2012, there is no evidence to suggest that the borrower will default on these obligations.

PAHO's long-term investments and managed portfolios are held as follows:

Investment Type	2017	2016
Money Market Funds	3 339	5 224
Government & U.S. Agency Issues	211 089	211 484
Mortgage- and Asset-backed Securities	16 115	14 156
Corporate Notes	125 470	66 565
Municipal Government Bonds	998	999
Other	5 494	
Bank Deposits	20 323	
Total Long Term Investments	382 828	298 428

5.4 Exchange Rate Risk

The Statement of Financial Position does not reflect significant exposure to exchange rate risk as foreign currency deposits at any given time are either immaterial or are designated for foreign currency expenditures. During the course of the year, a considerable portion of expenditures (38%) is disbursed in currencies other than the United States dollar. These disbursements are not hedged, but are met by local currency receipts and the purchase of local currency as needed in the market at the time of disbursement.

Contributions may be received in foreign currency, provided the amount can be absorbed by country offices within a thirty day window. The majority of funds held in Brazilian accounts are committed to specific programs that stipulate disbursements in local currency within six months. An exception to the Cash Management Guidelines, which limit the balance of local currency maintained locally, has been approved by the Investment Committee for the Brazilian program to eliminate the need to enter the market to buy or sell local currency. It is, therefore, not anticipated that Brazilian deposits would be subject to exchange rate risk.

Some local currency deposits held in Cuba and Venezuela totaling the equivalent of \$1.0 million are subject to restrictions that make it difficult to repatriate those funds to PAHO headquarters. These restrictions may increase the exchange risk for the organization.

6. Accounts Receivable

6.1 Accounts Receivable - Current

	31 December 2017	31 December 2016
Assessed Contributions	44 363	40 500
Tax Equalization Fund	5	8
Voluntary Contributions	218 185	208 168
Procurement Funds	70 659	73 928
Balance due from the World Health Organization due to inter-office transactions.		10 836
Balance due from the PAHO Foundation	560	560
Expanded Textbook and Instructional Materials Program	45	49
Advances to Staff	5 029	5 562
Prepaid Expenses	9 616	6 605
Miscellaneous Receivables	3 854	3 397
Total	352 316	349 612

6.1.1 Accounts Receivable from Assessed Contributions

	Arrears	2017	Total 2017	Total 2016
PAHO				
Argentina		1 313	1 313	
Aruba		21	21	21
Brazil		6 681	6 681	11 976
Colombia		1 263	1 263	1 263
Costa Rica		37	37	5
Curaçao		21	21	
Dominican Republic				1
El Salvador	83	83	166	193
France		3	3	4
Grenada		21	21	21
Peru		165	165	
Puerto Rico	241	79	320	241
Sint Maarten	37	22	59	37
Suriname		25	25	25
United States		32 177	32 177	20 356
Venezuela		2 091	2 091	6 357
TOTAL	361	44 002	44 363	40 500

6.1.2 Accounts Receivable from Voluntary Contributions

	31 December 2017	31 December 2016
Voluntary Contributions		
Voluntary Contributions - Emergency Preparedness and Disaster Relief	1 000	559
Voluntary Contributions	58 550	67 333
Voluntary Contributions - National Voluntary Contributions	158 635	140 276
Total	218 185	208 168

6.1.3 Accounts Receivable from the Procurement of Public Health Supplies

The Accounts Receivable from Member States in the Procurement of Public Health Supplies is comprised by two funds: the Revolving Fund for Vaccine Procurement and the Regional Revolving Fund for Strategic Public Health Supplies.

Receivables under the category of Procurement of Public Health Supplies are considered to be current assets, as follows:

a. Revolving Fund for Vaccine Procurement

The establishment of the Revolving Fund for Vaccine Procurement was authorized by Resolution CD25 R27 of the 25th Directing Council (1977). The Revolving Fund finances the procurement of vaccines for participating Member States/Institutions unable to deposit funds with the Organization in U.S. currency in advance of procurement.

b. Regional Revolving Fund for Strategic Public Health Supplies

The Regional Revolving Fund for Strategic Public Health Supplies was established in 1999 by the Director under the authority vested in him by Financial Regulation 9.3 (originally 6.7), following the request of the Organization's Member States. The objectives of the Fund include reducing the cost of strategic public health supplies, making these supplies continuously available to the participating Member States, assisting the Member States in improving their planning capabilities to use these supplies, and broadening the scope of the Member States' public health programs. Specific details on the governments and institutions are not disclosed in these financial statements, although such information can be found in the unaudited informational annexes.

Receivables from the Procurement of Public Health Supplies are as follows:

	31 December 2017	31 December 2016
Revolving Fund for Vaccine Procurement	66 637	71 997
Regional Revolving Fund for Strategic Public Health Supplies	4 022	1 931
Total	70 659	73 928

6.2 Accounts Receivable Non-Current

	31 December 2017	31 December 2016
Voluntary Contributions	140 031	144 271
Revolving Fund for Vaccine Procurement	80	4 602
Total	140 111	148 873

6.2.1 Accounts Receivable from Voluntary Contributions Non-Current

	31 December 2017	31 December 2016
Voluntary Contributions	65 863	46 791
National Voluntary Contributions	74 168	97 480
Total	140 031	144 271

7. Inventories

	31 December 2017	31 December 2016
PROMESS	705	485
Expanded Textbook and Instructional Materials Program	7 306	8 411
Ending Balance of inventory	8 010	8 896

7.1 Inventories PROMESS

The following table shows the movement of the PAHO inventory for medications and medical supplies at the PROMESS warehouse in Port-au-Prince, Haiti, during the financial period. The table shows the reconciliation of the inventory, which reflects the pending balance and additions during the period, reduced by the value of the goods distributed during the year.

	31 December 2017	31 December 2016
Beginning inventory	485	909
Additions	739	767
Distributions	(519)	(1 191)
Ending Balance of inventory	705	485

In addition to the PAHO inventory, the PROMESS warehouse provides warehousing services for essential public health medications and medical supplies to international agencies and non-governmental organizations (NGOs) providing assistance to the Haitian government. Furthermore, PROMESS also warehouses the medications and medical supplies provided by donors, partners, and stakeholders to the Haitian government through the Organization.

7.2 Inventories Expanded Textbook and Instructional Materials Program

	31 December 2017	31 December 2016
Beginning inventory	8 411	7 730
Additions	1 399	3 575
Distributions	(2 548)	(2 740)
Write-Offs		(107)
Allowance for Obsolete/Damaged Inventory	44	(47)
Ending Balance of inventory	7 306	8 411

8. Property, Plant and Equipment

8.1 General Information

The category Property, Plant, and Equipment consists of buildings; computer, office, and audio visual equipment; motor vehicles; leasehold improvements; and mobile buildings, as well as land. Net acquisitions (after disposals) for the year totaled \$666 811 (2016: \$94 737).

Additions or reductions in fixed assets are reported in the Statement of Financial Position, while the depreciation expenses for the period are reported in the Statement of Financial Performance.

Buildings; computer, office and audio visual equipment; motor vehicles; leasehold improvements; and mobile buildings are capitalized if their cost is greater than or equal to the threshold limit set at \$20 000. They are depreciated over the asset's estimated useful life using the straight-line method. The threshold level is reviewed periodically. Assets are reviewed annually to determine whether there is any impairment in their value.

Pursuant to IPSAS 17, paragraph 44, land and buildings were revalued at the end of 2015 according to expert appraiser reports. In the case of one country, no revaluation was recorded due to the hyperinflationary economy and existence of different exchange rates. This decision was made in compliance with IPSAS 1, paragraphs 31 and 32, which recommend avoiding certain practices when they could be misleading.

	Land	Buildings	Computer Equipment	Office Equipment	Motor Vehicles	Audio Visual Equipment	Leasehold Improve- ments	Mobile Buildings	Total
Cost as of 1 January	64 026	44 867	657	165	1 865	317	266	27	112 190
Additions					730				730
Disposals					(63)				(63)
Impairments									
Adjustments									
Net Revaluations									
Cost as of 31 December	64 026	44 867	657	165	2 532	317	266	27	112 857
Depreciation as of 1 January		1 313	610	73	1 236	302	266	14	3 814
Charged in current period		1 313	47	45	325	15		5	1 750
Disposals					(63)				(63)
Adjustments									
Net Revaluations									
Depreciation as of 31 December		2 626	657	118	1 498	317	266	19	5 501
Net book value as of 31 December 2017	64 026	42 241		47	1 034			8	107 356
Net book value as of 31 December 2016	64 026	43 554	47	92	629	15		13	108 376

8.2 Transferred Assets with Conditions

In accordance with the donation document filed in Public Record, the Government of Brazil Development Company for the New Capital of Brazil, Successors and Assigns granted PAHO ownership of the land on which the PAHO/WHO Representative Office buildings in Brazil are located. The document further stipulates that PAHO may not transfer, rent, or lend the donated land under penalty of revocation of the donation. In the event that the land is sold for the same purpose (i.e., establishment of a headquarters facility), PAHO must obtain written consent from the Government and pay the Government the present value of the land. This does not include the buildings and other immovable property thereon. Because of the restriction on the sale of the land and the requirement to pay the Government of Brazil the present value of the land, the Organization recognized such property in the Statement of Financial Position as both an asset and a liability (Note 11.2).

8.3 Revaluation of Land and Buildings

Following the Organization's Accounting Policies (Note 2.8), a revaluation exercise is performed on periodic basis. The last full revaluation occurred at the end of 2015.

The 2015 appraisal amounts for each property of the Organization are as follows:

Buildings	
Argentina	1 600
Barbados	2 332
Brazil	4 418
Jamaica	1 464
Guatemala	2 437
Guyana	614
Haiti	1 061
Washington DC	28 110
Paraguay	464
Peru	1 441
Venezuela	926
Sub-total Buildings	44 867
Land	
Brazil	7 796
Haiti	1 229
Washington DC	44 440
Peru	8 914
Venezuela	1 647
Sub-total Land	64 026
Total	108 893

As of 31 December 2015, the Organization adjusted the figures related to the Revaluation Surplus in order to be compliant with the Revaluation Model for its Property, Plant, and Equipment, as prescribed by IPSAS 17 paragraphs 44 to 58. The overall result of the adjustment of the revaluation of buildings ended in the recognition in 2015 of a loss of \$4 808, reflected in the Statement of Financial Performance.

9. Intangible Assets

The Organization separately discloses Intangible Assets that are:

- (a) Available for use and subject to amortization; and,
- (b) Under development and have not been completed.

	31 December 2017	31 December 2016
Intangible Assets Available for use		
Cost as of 1 January	3 689	3 689
Additions	992	
Adjustments		
Deletions		
Cost as of 31 December	4 681	3 689
Amortization as of 1 January	3 263	2 665
Charged in current period	487	598
Adjustments		
Amortization as of 31 December	3 750	3 263
Net book value as of 31 December for Intangible Assets Available for use	931	426
Intangible Assets under Development		337
Total Intangible Assets	931	763

10. Accrued Liabilities

	31 December 2017	31 December 2016
Accrued Liabilities-Regular Budget Fund	1 866	503
Accrued Liabilities-Other Sources - PAHO	20 330	12 284
Accrued Liabilities-Other Sources - WHO	742	388
Total	22 938	13 175

11. Accounts Payable

11.1 Accounts Payable Current

	31 December 2017	31 December 2016
Assessed Contributions Received in Advance	10	96
Voluntary Contributions Expired Agreements	1 192	5 501
Voluntary Contributions Pending Signature of Agreement		
Procurement of Public Health Supplies	226	49 024
Balance due to the World Health Organization due to inter-office transactions	2 280	
Miscellaneous	4 635	7 731
Total	8 343	62 352

11.2 Accounts Payable-Non Current

	31 December 2017	31 December 2016
Liability Restricted Assets-Land in Brasilia, Brazil (Note 8.2)	7 796	7 796
Total	7 796	7 796

12. Employee Benefits

Under the Staff Rules of the Pan American Health Organization, the Organization provides employee benefits that can be categorized as short-term liabilities and others that can be categorized as long-term liabilities. The employee benefits categorized as short-term liabilities are the education grant, education grant travel, and the assignment grant. The employee benefits that can be categorized as long-term liabilities include certain terminal payments, such as payment for annual leave, the repatriation grant, repatriation travel, or other separation indemnities, as appropriate.

In order to accrue the funds required for these short-term and long-term liabilities, the Organization has established three funds:

12.1 The Staff Entitlements Fund

Established in January 2008, funds the short-term liabilities of the education grant, education grant travel, and assignment grant. This fund receives monthly apportionments from organizational contributions calculated from payroll.

12.2 The After-Service Health Insurance Fund

Established in 2010, reflects the financing and liability of the Organization for current and prior staff members' health insurance for future years. This fund is part of the Staff Health Insurance of the World Health Organization (WHO) and it is also administered by WHO on behalf on PAHO.

PAHO reports all activity related to this fund (i.e. revenue collected from contributions of the Organization) to WHO. An agreement between WHO and PAHO established in 2016 granted WHO to administer all of PAHO's liabilities and plan assets for the fund.

For PAHO, activity related to the Defined Benefit Obligation is obtained through an annual actuarial report prepared by a professional consultant. The report discloses segregated activity for each of the participating agencies of the fund, including PAHO. The actuarial report for this year covers several mandatory disclosures in accordance with paragraphs 141 and 149 from IPSAS 39. Although the report is addressed to WHO, the following disclosures apply to

PAHO.

- 141(a) (i) The Staff Health Insurance reimburses expenses related to health care, and associated administrative costs, for eligible staff member and their dependents. The ASHI is the portion of the Staff Health Insurance that covers retirees and their dependents/survivors.
- ii) The ASHI is not subject to any outside regulatory framework.
- iii) The Global Oversight Committee (GOC) governs the overall Staff Health Insurance, including the ASHI. The GOC generally holds two meetings per year, which include monitoring of the historical experience and analysis of potential changes to plan design and administration.
- 141(b) The principal economic financial risks faced by the plans are changes to discount rates and asset returns.
- 141(d) The discount rate is developed for each regional grouping of offices, based on the yields on high-grade corporate bonds at the measurement date and the expected cash flows and assumed currency exposure for each grouping of offices.
- 149(a) WHO or PAHO are not legally obligated to set aside funds in advance for the plan. However, PAHO's current intention is to accumulate funds to approximately fully fund the accounting liability over time. The primary mechanism for achieving this goal is making steady increases to organization and participant contributions to the overall Staff Health Insurance Fund, with each year's surplus retained in the assets for the fund.

12.3 The Termination and Repatriation Entitlements Fund

Established in April 1972, reflects the financing and liability of the Organization for terminal entitlements, including annual leave, repatriation grant, repatriation travel, and household removal. The activity of the Defined Benefit Obligation is obtained through an annual actuarial report prepared by a professional consultant. The actuarial report for this year contains the following mandatory disclosures in accordance with paragraphs 141 and 149 from IPSAS 39.

- 141(a)(i) The Termination and Repatriation Entitlements Plan provides certain benefits upon separation, including: accrued leave payments; repatriation, disability, and death benefits; and termination indemnities.
- ii) The TAREP is not subject to any outside regulatory framework, but PAHO's overall financing is governed by input from its member nations.
- iii) There is no formal governance committee for the TAREP. However, we understand that PAHO's management oversees the operations of the TAREP in accordance with the staff rules and associated United Nations rules and guidance.
- 141(b) The principal economic financial risks faced by the plans are changes to discount rates and asset returns.
- 141(d) The discount rate reflects anticipated cash flows from the plan. The cash flows are discounted using a U.S. yield curve for high-grade corporate bonds as of the measurement date.
- 149(a) PAHO is not legally obligated to set aside funds in advance for the plan. However, PAHO's current intention is to accumulate funds to approximately fully fund the accounting liability over time. The primary mechanism for achieving this goal is making contributions to the fund, with each year's surplus generally anticipated to be retained in the assets for the fund.

As of 31 December 2017, the status of the current and non-current defined benefit obligations per calculations of the actuarial consultants are as follows:

	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2017	Restated Total 2016
Current liability		2 812	2 812	10 970
Non-current Liability	234 284	1 511	235 794	186 522
Total	234 284	4 323	238 607	197 491

- Gain and losses (unexpected changes in surplus or deficit) are recognized immediately on the balance sheet and do not impact past or future expense.
- The expected rate of return on assets was based on the e-toll of Aon Hewitt Corporation, previously known as Aon Hewitt Associates LLC, (30 year time horizon for ASHI only) and the current portfolio.
- There is no reimbursement right.
- The expected Organization's contributions during 2018 are estimated at \$4 192 000 for After Service Health Insurance and \$2 812 479 for Termination and Repatriation Entitlements.

12.3.a Adoption of IPSAS 39 Employee Benefits and Restatement of the Actuarial Activity and Defined Benefit Obligation

In 2017 PAHO adopted IPSAS 39 which superseded IPSAS 25.

The World Health Organization, through their Staff Health Insurance fund, manages PAHO's After-Service Health Insurance (ASHI) Fund. To facilitate comparability between 2017 and 2016, the 2016 financial disclosures of the ASHI fund were restated to IPSAS 39 from data provided by the PAHO actuarial consultant.

The 2016 Termination and Repatriation Entitlements Fund (TAREP) figures were also restated.

The following chart presents the Defined Benefit Obligations for both funds, ASHI and TAREP disclosed per 2017 adopted IPSAS 39 and previous applied IPSAS 25. For the revenue and expense impact of the adoption of IPSAS 39, please see the revenue note 15 in the amount of \$1.4 million and expense note 16.1 in the amount of \$1.8 million.

2016 Defined Benefit Obligation per IPSAS 39 as of 31 December (Restated and Disclosed in the 2017 PAHO Financial Statements)

	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2016
Current liability	8 614	2 356	10 970
Non-current Liability	183 403	3 119	186 522
Total	192 017	5 475	197 491

**2016 Defined Benefit Obligation per IPSAS 25 as of 31 December
(Originally disclosed in the 2016 PAHO Financial Statements)**

	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2016
Current liability	8 614	2 356	10 970
Non-current Liability	210 430	(4 014)	210 430
Total	219 044	(1 658)	221 400

	2016 Original		2016 Restated	
	Gross	Net	Gross	Net
Revenue				
Miscellaneous Revenue				
After Service Health Insurance			1 161	1 161
Provision for Termination and Repatriation Entitlements			235	235
Expenses	Gross	Net	Gross	Net
Staff and Other Personnel Costs				
International and National Staff	149 664	129 885	151 459	131 680

12.4 Actuarial Valuations of Post-Employment and Other Separation-Related Benefits

Post-employment Benefits and Other Separation-Related Benefits are defined benefit plans of After-Service Health Insurance and Termination and Repatriation Entitlements. During 2017, the rates of contribution to these two long-term liability funds were 5% of net base pay plus post adjustment being credited to the Termination and Repatriation Fund, and 4% of the base pay credited to the After-Service Health Insurance.

The assets shown for the After-Service Health Insurance Plan do not include any part of the assets held in the aggregate World Health Organization (WHO) Staff Health Insurance Fund (SHI) managed by the WHO. The staff members of the WHO and its administered entities, including the Organization, contribute to this SHI Fund. However, the Fund's assets have not been irrevocably allocated between WHO, the Organization (i.e., PAHO), and the rest of the WHO and its administered entities.

12.5 Actuarial Assumptions and Methods

Other long-term employee benefits consist of home leave travel, which is accrued on a monthly basis. Employees entitled to this benefit are meant to earn it and take it every two years.

12.6 Actuarial Assumptions

The following assumptions and methods have been used to determine the value of post-employment and other separation-related employee liabilities for the Organization at 31 December 2017.

Assumption	After Service Health Insurance Fund	Termination and Repatriation Entitlements Fund
Accounting Standard	International Public Sector Accounting Standard 39; was adopted by the Organization on 1 January 2017. Previously PAHO had used IPSAS 25 for recording and disclosure purposes	
Measurement Date	31 December 2017	
Discount Rate	3.8 %	3.3 %
General Inflation	2.2 %	
Medical Costs Increases	U.S.—5.00% in 2017, decreasing gradually to 3.85% in 2033 and later years. During 2017, a downward adjustment is then made to reflect certain U.S. network changes. Non-U.S. Americas—6.4% in 2018, decreasing gradually to 3.85% in 2040+.	Not Applicable
Future Participant Contribution Rate Changes	Rates are assumed to increase by 4.0% per year at 1 January 2018, 2019, and 2020; 2.0% per year at 1 January 2021 through 2050; and 0.0% per year thereafter. Increases are compounded geometrically.	Not Applicable
Life Expectancy	Mortality rates match those in the 31 December 2017 valuation of the United Nations Joint Staff Pension Fund.	
Average Medical Costs	Per adult in 2018, \$13,732 for the U.S. and \$5,387 for the non-U.S. Americas.	Not Applicable

The following tables provide additional information and analysis on employee benefits liabilities calculated by actuaries.

12.7 Actuarial summary for the After-Service Health Insurance Fund and the Termination and Repatriation Entitlements Fund

Description	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2017	Restated Total 2016
Reconciliation of Defined Benefit Obligation				
Defined Benefit Obligation (beginning balance)	252 128	16 769	268 897	317 220
Service Cost	7 210	1 865	9 075	8 607
Interest on Defined Benefit Obligation	10 658	530	11 188	13 831
Actual Gross Benefit Payments	^{1/} (9 824)	^{1/} (2121)	(11 945)	(12 630)
Actual Administrative Expenses	^{1/} (504)		(504)	(491)
Actual Contributions by Participants	^{1/} 1848		1 848	1 857
Plan Amendments Adopted				(736)
Changes in Accounting Methods				
(Gain)/Loss on DBO due to Financial Assumption Changes	^{1/} 29110	^{1/} 72	29 182	(4 180)
(Gain)/Loss on DBO due to Other Assumption Changes	^{1/} 8971	^{1/} (1 380)	7 591	(54 581)
Defined Benefit Obligation as of 31 December 2017	299 597	15 735	315 332	268 897
Reconciliation of Plan Assets				
Plan Assets (beginning balance)	60 112	11 294	71 406	59 875
Actual Gross Benefit Payments	(18 857)	(2 121)	(20 978)	(12 630)
Actual Administrative Expenses	(967)		(967)	(491)
Actual Contributions by Participants	5 921		5 921	1 857
Actual Total Organization Contributions	10 259	2 121	12 380	5 683
WHO SHI Fund Contributions to PAHO ASHI	3 643		3 643	5 581
Contributions to Increase Assets	1 495		1 495	10 135
Interest on Net Assets	2 581	384	2 965	3 044
Gain/(Loss) on Plan Assets	1 125	(265)	860	(1 649)
Plan Assets as of 31 December 2017	65 312	11 413	76 725	71 405
Reconciliation of Funded Status				
Defined Benefit Obligation				
Active	114 677		114 677	161 548
Inactive	184 920	15 735	200 655	107 348
Total Defined Benefit Obligation	299 597	15 735	315 332	268 896
Plan Assets				
Gross Plan Assets	65 313	11 412	76 725	71 405
Offset for WHO 470.1 Reserve (*)				
Total plan assets				
Current		2 812	2 812	10 970
Non-current	234 284	1 511	235 795	186 522
Net Liability (Asset) Recognized in Statement of Financial Position	234 284	4 323	238 607	197 491
Expenses for 2017				
Service Cost	8 287	1 865	10 152	8 607
Interest Cost	8 170	146	8 316	10 786
Plan Amendments Adopted				(736)
Total Expense Recognized in Statement of Financial Performance	16 457	2 011	18 468	18 657
Expected Contributions during 2018				
Contributions by / for Active Staff, Net of Claims / Admin Costs	2 485	2 812	5 297	276
Contributios by WHO for Inactives	4 192		4 192	3 786
Net Transfer by WHO to Cover PAHO Deficit	1 855		1 855	
Operational Fund Payments to cover TAREP Benefit Payments				2 356
Total expected contributions for 2018	8 532	2 812	11 344	6 418

(*) According to SHI Rule F.8.1, WHO has internally established an "Offset for Incurred-But-Not-Paid" reserve in the amount of \$ 6 608 000. PAHO does not include such reserve in the ASHI Fund.

2 ^(1/) = \$26 172 Per Statement of Changes on Net Assets

12.8 After-Service Medical Plan - Sensitivity Analysis

Three of the principal assumptions in the valuation of the After-Service Medical Plan are: 1) the rate at which medical costs are expected to change in the future; 2) the return on the assets; and 3) the discount rate used to determine the present value of benefits that will be paid from the plan in the future. Because the medical inflation rate and the discount rate have a very significant impact on the determination of the Organization's long-term valuation, it is helpful to conduct sensitivity analysis on them. The sensitivity analysis identifies the impact that the medical inflation rate and the discount rate variables will have on the total valuation. The Aon Hewitt Corporation determined the impact of increasing or decreasing assumptions on the valuation.

12.9 Medical Sensitivity Analysis - After - Service Health Insurance *

	Current Medical Inflation Assumption Minus 1%	Current Medical Inflation Assumption	Current Medical Inflation Assumption Plus 1%
Defined Benefit Obligation as of 31 December 2017	255 587	299 597	355 403

12.10 Discount Rate Sensitivity Analysis – After-Service Health Insurance *

	Current Discount Rate Assumption Minus 1%: 2.8%	Current Discount Rate Assumption: 3.8%	Current Discount Rate Assumption Plus 1%: 4.8%
Defined Benefit Obligation as of 31 December 2017	359 423	299 597	253 616

*The Sensitivity Analyses above do not address the Termination and Repatriation Entitlements Fund, because the benefits from this Fund are distributed upon retirement or shortly thereafter.

12.11 United Nations Joint Staff Pension Fund

1. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

2. The Organization's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

3. The actuarial valuation performed as of 31 December 2015 revealed an actuarial surplus of 0.16% (a deficit of 0.72% in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2013 was 23.54% of pensionable remuneration, compared to the actual contribution rate of 23.70%. The next actuarial valuation will be conducted as of 31 December 2017.

4. At 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1% (127.5% in the 2013 valuation). The funded ratio was 100.9% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

5. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2015, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

6. During 2017, contributions paid to the UNJSPF by the Organization amounted to \$16 297 962 (2016: \$15 690 234) and by the participants, \$8 174 780 (2016: \$7 859 840), including \$25 799 (2016: \$ 14 723) in pension restoration payments.

7. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

13. Deferred Revenue

13.1 Deferred Revenue – Current

	31 December 2017	31 December 2016
Voluntary Contributions		
Voluntary Contributions - Emergency Preparedness and Disaster Relief	4 626	704
Voluntary Contributions	79 267	84 420
National Voluntary Contributions	325 460	213 992
Procurement of Public Health Supplies		
Revolving Fund for Vaccine Procurement	194 102	164 751
Regional Revolving Fund for Strategic Public Health Supplies	6 166	5 272
Reimbursable Procurement	51 600	33 631
Total	661 221	502 770

13.2 Deferred Revenue – Non-Current

	31 December 2017	31 December 2016
Voluntary Contributions	76 935	61 165
National Voluntary Contributions	142 614	154 960
Total	219 549	216 125

14. Fund Balances and Reserves

Fund balances represent the unexpended portion of contributions that are intended to be utilized in future operational requirements of the programs or projects.

Reserves are established by the Governing Bodies as facilities for funding and/or financing the Organization's programs and projects. They currently are:

- Working Capital Fund
- Holding Account
- Tax Equalization Fund
- Master Capital Investment Fund
- Special Fund for Program Support Costs
- Voluntary Contributions – Emergency Preparedness and Disaster Relief
- Governing Bodies Authorized Fund
- Special Fund for Health Promotion
- Budgetary Surplus Fund
- Epidemic Emergency Fund
- Food Safety Five – Years Plan Fund
- PMIS Funding PAHO IPSAS Surplus Fund
- Revenue Surplus Fund
- IPSAS Surplus Fund

Summary of Fund Balances and Reserves

	Balance as of 31 December 2017		Restated Balance as of 31 December 2016	
Fund Balances:				
Strategic Public Health Supplies-Capitalization	14 985		13 071	
PAHO After-Service Health Insurance	(234 284)		(192 016)	
Voluntary Contributions	35		46	
Income from Services	5 586		5 399	
Provision for Staff Entitlements	2 145		1 935	
Revolving Fund for Vaccine Procurement	180 966		163 930	
PAHO Assessed Contributions and Miscellaneous Revenue	93 535		115 227	
Provision for Termination and Repatriation Entitlements	2 044		(406)	
PAHO Post Occupancy Charge	12 960		10 763	
Expanded Textbook and Instructional Materials Program	13 254	91 226	14 175	132 124
Reserves:				
Working Capital Fund	21 717		20 745	
Tax Equalization Fund	(4 831)		(298)	
Master Capital Investment Fund	20 094		15 227	
Special Fund for Program Support	108 138		100 045	
Voluntary Contributions - Emergency Preparedness and Disaster Relief	2 679		2 629	
Governing Bodies Authorized Fund			(531)	
Special Fund for Health Promotion	775		951	
Budgetary Surplus Fund	132		132	
Epidemic Emergency Fund	1 086		1 336	
Food Safety Five-Years Plan Fund	1		131	
PMIS Funding PAHO IPSAS Surplus Fund	2 102		2 120	
Revenue Surplus Fund	5 661	157 554	7 864	150 351
Total		248 780		282 475

14.1 Working Capital Fund

The Working Capital Fund was established for the primary purpose of providing funds as required to finance the Regular Budget pending receipt of contributions from Member and Participating States and Associate Members.

Noting that since 1978-1979, the Organization's budget had grown from \$64 849 990 to \$159 457 717 in 1994-1995, the 37th Directing Council (1993) authorized the Director to gradually increase the level of the Working Capital Fund from \$11 000 000 to an authorized level not to exceed \$15 000 000. The 44th Directing Council (2003) increased the authorized level of the Working Capital Fund from \$15 000 000 to \$20 000 000. The 53rd Directing Council, per Resolution CD53.R10 dated 2 October 2014, approved an increase in the authorized level from \$20 000 000 to \$25 000 000.

In accordance with Financial Regulation 4.5, any deficit of revenue over expenses of the Program and Budget appropriation at the end of the current budgetary period shall be funded first by the Working Capital Fund to the extent possible, and then by borrowing or by other authorized means. Non-budgetary items, such as depreciation, amortization and contributions in-kind, do not constitute part of the Program and Budget and are therefore excluded from revenue and expense for the purposes of calculating the Program and Budget Appropriation surplus or deficit.

	Total as of 31 December 2017	Total as of 31 December 2016	Total as of 31 December Biennium 2016-2017	Total as of 31 December Biennium 2014-2015
Balance as of 1 January - Biennium		20 745	20 745	15 864
2016 Surplus / (Deficit)		11 263	11 263	
2017 Surplus / (Deficit)	(7 359)		(7 359)	
2014 Surplus / (Deficit)				9 743
2015 Surplus / (Deficit)				(9 238)
2016-2017 Surplus / (Deficit)	(7 359)	11 263	3 904	505
2016 Non-budgetary Items *		2 364	2 364	
2017 Non-budgetary Items *	365		365	
2014 Non-budgetary Items *				1 300
2015 Non-budgetary Items *				6 714
2016-2017 Non-budgetary items *	365	2 364	2 729	8 014
2016 Transfer to Revenue Surplus Fund	(5 661)		(5 661)	
2017 Transfer to Revenue Surplus Fund				
2014 Transfer to Revenue Surplus Fund				(3 722)
2015 Transfer to Revenue Surplus Fund				(4 052)
2016-2017 Transfer to Revenue Surplus Fund	(5 661)		(5 661)	(7 774)
Regular Budget Appropriation Surplus/(Deficit)	(12 655)	13 627	972	745
Repayment of the Loan from the Revolving Fund for Vaccine Procurement				4 136
Balance as of 31 December	(12 655)	34 372	21 717	20 745

* Non-budgetary Items are comprised, of but not limited to, depreciation, amortization and in-kind contributions.

14.2 Holding Account

The balance of this account was recorded pursuant to the Financial Regulations in effect until the adoption of IPSAS in 2010, when the Regulations were revised. This balance will be utilized in future financial periods, subject to a decision by the Governing Bodies.

14.3 Tax Equalization Fund

The Tax Equalization Fund, as established by Resolution CD18.R7 of the 18th Directing Council (1968), is credited with the revenue derived from the staff assessment plan. The credits to the Fund are recorded in the name of each Member State in proportion to its assessment for the financial period concerned and reduced by the amount needed to reimburse income taxes levied by the Member State on Organization staff. Adjustments are made in the next financial period to take account of the actual charges in respect of amounts reimbursed to staff members who are subject to national taxes.

Member States participating in the Tax Equalization Fund had the following balances at the end of the reporting period.

Member States	Balance 1 January 2017	Credits from the Tax Equalization Fund	Apportionment to Member States	Available to Cover Tax Reimbursements to Staff	Taxes Reimbursed to Staff	Balance 31 December 2017
Canada	63	947	947		42	21
Colombia	16	117	117			16
United States	(354)	5 322	(678)	6 000	10 468	(4 822)
Venezuela	(23)	192	167	25	48	(46)
Other		2 374	2 374			
Total	(298)	8 952	2 927	6 025	10 558	(4 831)

There is no outstanding accounts receivable for the Tax Equalization Fund because the liabilities for the reimbursement of income taxes are included in the accounts receivable for assessed contributions due from the relevant Member States.

14.4 Master Capital Investment Fund

The Organization's Master Capital Investment Fund (MCIF) was established by Resolution CSP27. R19 of the 27th Pan American Sanitary Conference, 59th Session of the Regional Committee, in October 2007. This fund was initially created with two sub-funds, Real Estate and Equipment, and Information Technology, in lieu of the Organization's Building Fund and the Capital Equipment Fund, effective 1 January 2008. The purpose of the Fund is to finance the repairs of the Organization's office buildings and the systematic replacement of computer and telecommunications equipment software and systems to support the Organization's information technology infrastructure.

In 2012, under Resolution CSP28.R17 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee of WHO for the Americas, the establishment of three additional sub-funds was authorized: Real State Maintenance and Improvement, Revolving Strategic Real Estate and Vehicle Replacement.

14.5 Special Fund for Program Support Costs

The Special Fund for Program Support Costs was established in 1976 by the Director under the authority of Financial Regulation 9.3 (originally 6.7) and subsequently reaffirmed by Resolution CSP20.R32 of the 20th Pan American Sanitary Conference (1978).

Trust Fund projects are charged a program support cost on a percentage of the direct project cost incurred, and this income is credited to the Fund. Other activities include sales of publications, support to fellowships, and others. The Fund is used to provide support for indirect costs associated with non-budget activities or projects. Reimbursable Procurement is charged a service charge based on the value of procurement, and this income is also credited to this Fund.

14.6 Special Fund for Natural Disaster Relief

In accordance with Resolution CD24.R10 of the 24th Directing Council (1976), the Special Fund for Natural Disaster Relief was created to provide funds that can be used promptly by the Organization's Emergency Preparedness and Disaster Relief team.

14.7 Governing Bodies Authorized Fund

Noting the revised document on proposed uses of program budget income exceeding the authorized effective working Program and Budget for the financial period 2006-2007 (Document CD48/22), the 48th Directing Council resolved to establish the Governing Bodies Authorized Fund to fund proposed initiatives that will strengthen the Organization, that minimize added re-current costs, are sustainable within normal operations, and for which other funding resources are scarce or unavailable.

14.8 Special Fund for Health Promotion

At its 13th Meeting in 1961, the Directing Council established the Special Fund for Health Promotion, with the objective of strengthening the health program of the Americas.

14.9 Epidemic Emergency Fund

The Epidemic Emergency Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund is used as a revolving fund to advance monies to affected countries in the event of an epidemic outbreak or public health emergency. Advanced funds would be recovered from appeals and other forms of voluntary contributions received in response to the emergency.

14.10 Food Safety Five-Year Plan Fund

The Food Safety Five-Year Plan Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund supports food safety initiatives.

14.11 Pan American Sanitary Bureau Management Information System (PMIS) Fund

The Pan American Sanitary Bureau Management Information System (PMIS) Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. The PMIS fund was established for the implementation of enterprise resource planning (ERP) software for the Organization.

14.12 IPSAS Surplus Fund

The IPSAS Surplus Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund will be used to meet future unforeseen strategic and/or administrative initiatives. Future proposals for the use of this reserve may also include increases in any other existing funds.

14.13 Budgetary Surplus

The Financial Regulations, approved by Resolution CD49.R1 of the 49th Directing Council, 61st Session of the Regional Committee, stipulate that “Any balance of the Regular Budget appropriation not committed by the end of the current budgetary period, shall be used to replenish the Working Capital Fund to its authorized level, after which any balance will be available for subsequent use in accordance with the resolutions adopted by the Conference or Directing Council.”

14.14 Revenue Surplus

The Financial Regulations approved by Resolution CD49.R1 of the 49th Directing Council, 61st Session of the Regional Committee, stipulate that “Any excess of revenue over the Regular Budget appropriation at the end of a budgetary period shall be considered a revenue surplus and shall be available for use in subsequent periods to cover the unfunded portion of the Strategic Plan, as determined by the Director and with the concurrence of the Subcommittee on Program, Budget, and Administration”.

15. Revenue

	2017		2016 Restated	
	Gross Revenue	Net Revenue	Gross Revenue	Net Revenue
Revenue from Non-Exchange Transactions				
Assessed Contributions				
PAHO Assessed Contributions and Miscellaneous	96 368	96 368	96 368	96 368
Tax Equalization Fund	6 025	6 025	1 425	1 425
Subtotal	102 393	102 393	97 793	97 793
Voluntary Contributions				
Voluntary Contributions	51 371	46 890	30 330	27 713
Voluntary Contributions - National Voluntary Contributions	559 039	532 375	537 632	511 931
Voluntary Contributions - Emergency Preparedness and Disaster Relief	3 780	3 527	3 490	3 248
Special Fund for Program Support	31 398	31 398	28 568	28 568
Subtotal	645 588	614 190	600 020	571 460
Other Revenue				
AMRO Regular Budget	41 130	41 130	31 022	31 022
AMRO Voluntary Funds for Health Promotion	22 606	22 606	22 954	22 954
AMRO Special Account for Servicing Costs	12 031	12 031	9 043	9 043
Subtotal	75 767	75 767	63 019	63 019
Revenue from Exchange Transactions				
Procurement of Public Health Supplies				
Revolving Fund for Vaccine Procurement	619 143	611 958	589 110	582 273
Reimbursable Procurement on Behalf of Member States	3 990	3 838	4 114	3 956
Regional Revolving Fund for Strategic Public Health Supplies	69 823	69 025	93 295	92 236
Special Fund for Program Support	8 135	8 135	8 053	8 053
Subtotal	701 091	692 956	694 572	686 518
Other Revenue				
Income for Services	2 976	2 076	2 947	2 411
Expanded Textbook and Instructional Materials Program	3 870	3 360	4 118	4 027
Health Promotion	21	21	18	18
Provision for Termination and Repatriation Entitlements	3 422		3 448	
Provisions for Staff Entitlements	6 422		5 650	
PAHO Post Occupancy Charge	16 995		8 546	
After Service Health Insurance	5 201		2 135	
Master Capital Investment Fund	1 053	1 053	1 006	1 006
Special Fund for Program Support	947	947	503	503
Subtotal	40 907	7 457	28 371	7 965
Miscellaneous Revenue				
PAHO Assessed Contributions and Miscellaneous				
Interest Earned	19 022	19 022	12 937	12 937
Saving on or cancellation of prior periods' obligations			3 330	3 330
Valuation Gains and Losses	(4 313)	(4 313)	(581)	(581)
Investment Management Fees	(477)	(477)	(606)	(606)
Other Miscellaneous	278	278	97	97
Special Fund for Program Support	1 427	1 427	6 395	6 395
After Service Health Insurance ^{1/}			1 161	1 161
Provision for Termination and Repatriation Entitlements ^{1/}	119	119	235	235
Voluntary Contributions - Emergency Preparedness and Disaster Relief	1	1		
Subtotal	16 057	16 057	22 968	22 968
TOTAL REVENUE	1 581 803	1 508 820	1 506 743	1 449 723

^{1/}See Note 12.3 a

16. Expenses

	2017		2016 Restated	
	Gross Expenses	Net Expenses	Gross Expenses	Net Expenses
Staff and Other Personnel Costs				
International and National Staff	170 667	138 627	151 459	131 680
Temporary Staff	9 321	9 321	8 688	8 688
Subtotal	179 988	147 948	160 147	140 368
Supplies, Commodities, Materials				
Vaccines / Syringes / Cold Chain	602 107	594 921	572 584	565 747
Medications and Medical Supplies	71 899	70 950	94 856	93 639
Other Goods and Supplies	32 463	31 304	17 815	17 393
Subtotal	706 469	697 175	685 255	676 779
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization				
Equipment, Vehicles, Furniture ^{/2}	(723)	(723)	(127)	(127)
Intangible Assets ^{/2}	(655)	(655)	(338)	(338)
Depreciation / Amortization	2 237	2 237	2 384	2 384
Subtotal	859	859	1 919	1 919
Contract Services				
Contracts	137 836	137 836	111 802	111 802
Subtotal	137 836	137 836	111 802	111 802
Travel				
Duty Travel	54 438	54 187	40 360	40 155
Subtotal	54 438	54 187	40 360	40 155
Transfers and Grants to Counterparts				
Letters of Agreements ^{3/}	454 959	454 959	441 327	441 327
Subtotal	454 959	454 959	441 327	441 327
General Operating and Other Direct Costs ^{/1}				
Maintenance, Security and Insurance	17 900	17 900	15 935	15 935
Subtotal	17 900	17 900	15 935	15 935
Indirect Support Costs				
Program Support Costs	31 398		28 560	
Subtotal	31 398		28 560	
Total Expenses	1 583 847	1 510 864	1 485 305	1 428 285

^{1/} General Operating Expense and Other Direct Costs Include Lease Payments for \$2 503 288. (2016: \$2 395 086)

^{2/} the balance includes the capitalization of assets in the Statement of Financial Position

^{3/} In 2017 Letters of Agreement implemented by the Mais Medicos Program totaled \$436 655 834 (2016: \$422 697 856)

16.1 Restatement due to reclassification of expense transactions in 2016

During 2017, and as part of a quality control exercise, the Organization performed a comprehensive review of its transactions and their classification to the eight main expense lines on the Statement of Financial Performance which were originally established by PAHO when IPSAS were adopted in 2010 as the basis for preparation of the Organization's financial statements. As a result of this analysis, transactions have been reclassified to better represent the nature of the expense in 2016.

The main reclassification, in terms of materiality, concerned consultant contracts, contracts with employment agencies and stipend payments to employees from host governments collaborating at different Representation Offices at Country Level that were reported previously in Staff and Other Personnel Costs as Temporary Staff and now will be reported in Contractual Services.

Other reclassifications included reported transactions (i.e. office rent and other expenses related to office maintenance) from Supplier, Commodities and Materials to General Operating and Other Direct Costs; and from Staff and Other Personnel Costs to Travel related to travel expenses for Temporary Advisors (Consultants).

Impact on the Statement of Financial Performance	Restated	Original	Differences
Expenses			
Staff and Other Personnel Costs			
Temporary Staff	8 688	44 036	(35 348)
Supplies, Commodities, Materials			
Other Goods and Supplies	17 392	21 138	(3 746)
Contractual Services			
Contracts	111 802	80 303	31 499
Travel			
Duty Travel	40 155	36 247	3 908
General Operating and Other Direct Costs			
Maintenance, Security and Insurance	15 935	12 248	3 687
Total	193 172	193 172	

17. Comparison of Budget and Actual Amounts

The reconciliation between the actual amounts on a comparable basis in the Comparison of Budget and Actual Amounts and the actual amounts in the Cash Flow Statement for the year ended 31 December 2017 is presented below:

	31 December 2017			31 December 2016		
	Operating	Investing and Financing	Total	Operating	Investing and Financing	Total
Actual amount on comparable basis from Statement of Budget and Actual Amounts	(283 370)		(283 370)	(219 658)		(219 658)
Basis Differences						
Timing Differences						
Presentation Differences	1 705 198	(197 826)	1 507 372	1 599 951	(59 638)	1 540 313
Entity Differences	(1 286 548)		(1 286 548)	(1 334 610)		(1 334 610)
Actual amount in the Statement of Cash Flow	135 280	(197 826)	(62 546)	45 683	(59 638)	(13 955)

The budget and financial statements are prepared using a different accounting basis. The financial statements are prepared on an accrual basis and the Comparison of Budget and Actual Amounts is prepared on a cash basis. The chart above illustrates the actual amount of cash disbursements based on the budget, reconciled to the actual cash change in the Statement of Cash Flow.

Basis differences occur when comparing two different bases. There are no basis differences for the reconciliation of a cash budget position to a cash flow position. The Comparison of Budget and Actual Amounts reflects disbursements in comparison with the budget and does not include cash receipts; therefore, the cash receipts are reflected as a presentation difference. Entity differences are activities included in the financial statements and omitted from the budget.

18. Segment Reporting

18.1 Statement of Financial Position by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2017	Restated Total 2016
ASSETS							
Current Assets							
Cash and Cash Equivalents	65 740					65 740	128 286
Short Term Investments	359 795					359 795	239 705
Owed From Other Segments *		281 215	499 167	41 607	(821 989)		
Accounts Receivable	56 186	221 913	71 958	2 259		352 316	349 612
Inventories	704		7 306			8 010	8 896
Total Current Assets	482 425	503 128	578 431	43 866	(821 989)	785 861	726 499
Non-Current Assets							
LongTerm Investments	372 974					372 974	297 674
Accounts Receivable		140 031	80			140 111	148 873
Net Fixed Assets	104 859			2 497		107 356	108 376
Intangible Assets	38		893			931	763
Total Non-Current Assets	477 871	140 031	973	2 497		621 372	555 686
TOTAL ASSETS	960 296	643 159	579 404	46 363	(821 989)	1 407 233	1 282 185
LIABILITIES							
Current Liabilities							
Accrued Liabilities	3 945	8 338	4 231	6 424		22 938	13 175
Owed To Other Segments *	821 989				(821 989)		
Accounts Payable	5 521	2 119	376	327		8 343	62 352
Employee Benefits				2 812		2 812	10 970
Deferred Revenue		409 353	251 868			661 221	502 770
Total Current Liabilities	831 455	419 810	256 475	9 563	(821 989)	695 314	589 267
Non-Current Liabilities							
Accounts Payable	7 796					7 796	7 796
Employee Benefits				235 794		235 794	186 522
Deferred Revenue		219 549				219 549	216 125
Total Non-Current Liabilities	7 796	219 549		235 794		463 139	410 443
TOTAL LIABILITIES	839 251	639 359	256 475	245 357	(821 989)	1 158 453	999 710
NET ASSETS / EQUITY							
Fund Balances and Reserves							
Fund Balances	93 535	35	214 791	(217 135)		91 226	132 124
Reserves	27 510	3 765	108 138	18 141		157 554	150 351
NET FUND BALANCES and RESERVES	121 045	3 800	322 929	(198 994)		248 780	282 475

* Owed to/from Other Segments is due to PAHO holding pooled cash on behalf of other segments. This cannot be allocated directly to a cash segment. These are eliminated on consolidation.

18.2 Statement of Financial Performance by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2017	Restated Total 2016
REVENUE							
Revenue from Non-Exchange Transactions							
Assessed Contributions	96 368			6 025		102 393	97 793
Voluntary Contributions		614 190	31 398		(31 398)	614 190	571 460
Other Revenue	41 130	22 606	12 031			75 767	63 019
Revenue from Exchange Transactions							
Procurement of Public Health Supplies			701 091		(8 135)	692 956	686 518
Other Revenue			7 793	33 114	(33 450)	7 457	7 965
Miscellaneous Revenue	14 510	1	1 427	119		16 057	22 968
TOTAL REVENUE	152 008	636 797	753 740	39 258	(72 983)	1 508 820	1 449 723
EXPENSES							
Staff and Other Personnel Costs	91 733	14 587	28 744	44 924	(32 040)	147 948	140 368
Supplies, Commodities, Materials	8 122	17 301	679 171	1 875	(9 294)	697 175	676 779
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	1 896		(556)	(481)		859	1 919
Contract Services	34 924	84 339	10 506	8 067		137 836	111 802
Travel	16 579	34 580	2 854	425	(251)	54 187	40 155
Transfers and Grants to Counterparts	2 707	452 159	93			454 959	441 327
General Operating and Other							
Direct Costs	5 692	2 694	5 973	3 541		17 900	15 935
Indirect Support Costs		31 398			(31 398)		
TOTAL EXPENSES	161 653	637 058	726 785	58 351	(72 983)	1 510 864	1 428 285
NET SURPLUS/ (DEFICIT)	(9 645)	(261)	26 955	(19 093)		(2 044)	21 438

19. Losses, Ex-Gratia Payments and Write-Offs

In 2017 the Organization recorded the following accounting entries:

- \$6 274 was recorded as Losses/Damage of the PALTEX program as a result of physical inventory counts during annual visit to the points of distributions (2016: \$216).
- No write-off was recorded for letters of agreement not implemented by the recipient institutions (2016: \$147 148).
- No write off was recorded for uncollectable debts from staff, former staff, and retirees of the Organization (2016: \$68 963).
- No write off was recorded for other small amounts (2016: \$2 791).
- \$447 800 were recorded as Administrative waivers for letters of agreement (2016: none).
- \$400 was recorded as Ex-Gratia Payments (2016: none).

20. Cases of Fraud and Presumptive Fraud

In 2017, a total of 81 cases of fraud, theft and loss of property were reported. The PALTEX program had three cases involving the loss or theft of textbooks totaling \$11,386.78. This amount was recovered in full from the point of sales locations in question. Thus, the Organization suffered no net loss relating to the PALTEX program in 2017.

There were 41 cases involving the loss or theft of PAHO property from PAHO personnel in the country offices and Headquarters. The total net loss to the Organization of this lost or stolen property was \$24,830.18.

Finally, there were 37 cases involving the misuse of PAHO purchasing or travel credit cards committed by people outside the Organization. In these cases, the fraudulent charges, amounting to \$2,436.95, were reimbursed by the financial institutions concerned.

21. Related-Party and Other Senior Management Disclosure

Key management personnel are the Director, Deputy Director, Assistant Director, and Director of Administration, as they have the authority and responsibility for planning, directing, and controlling the activities of the Organization.

The aggregate remuneration paid to key management personnel, as established by the United Nations International Civil Service Commission (ICSC), includes: gross salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effects shipment costs, income tax reimbursement, and employer pension and current health insurance contributions. These remunerations are provided in conformity with the standards established by the ICSC and are applicable to all United Nations personnel.

Key management personnel are also qualified for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified.

Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund (UNJSPF).

21.1 Key Management Personnel

Key Management Personnel	2017	2016
Number of Positions	4	4
Compensation and Post Adjustment	761	772
Entitlements	302	258
Pension and Health Plans	255	240
Total Remuneration	1 318	1 270
Outstanding Advances against Entitlements	2	-

22. Events after Reporting Date

The Organization's reporting date is 31 December of each year. On the date of signature of these accounts by the External Auditor, no material events, favorable or unfavorable, have occurred between the date of the Statement of Financial Position and the date when the financial statements have been authorized for issue that would have impacted these statements.

23. Provisions

As at 31 December 2017, the Organization had not recognized any provisions.

24. (Recognition)/De-recognition of Liability through Reserves

The de-recognition of the Staff Health Insurance (SHI) liability to Reserves was the result of a 4% increase in first-tier rates of contribution to the SHI Fund during 2017 that served to mitigate the regional deficit for active staff, which rose overall due to higher costs for medical claims. The regional deficit is covered by second-tier contributions (15% of the first-tier rate, increased to 30% for November and December 2017) from active staff, in accordance with paragraph F.3 of the WHO Staff Health Insurance Rules. The excess of second-tier contributions over the amount required to fund the regional deficit is reflected in the increase of the SHI reserve balance. The total de-recognition for 2017 was \$63 971. The SHI reserve in the amount of \$ 4 477 988 was transferred to WHO during 2017 to be recorded as PAHO SHI assets in accordance with a Memorandum of Understanding with WHO that was concluded in November 2016.

25. In-Kind Contributions

Host governments and cooperating partners at the country level provide different in-kind contributions, which are utilized by the Organization's Country Offices for their general and daily operations. These contributions are not recognized in the Organization's financial statements due to the complexity of standardizing a fair value throughout all the Organization's Country Offices. In-kind contributions received by the Organization include personnel, office premises, office services, and use of office equipment.

Country Office or Center	Services Received In-Kind			
	Personnel	Office Premises	Office Services	Office Equipment
Argentina	X			
Bahamas	X	X	X	
Barbados	X	X	X	
Belize	X		X	
Bolivia	X			
Brazil				
Chile	X	X		
Colombia				
Costa Rica	X	X	X	
Cuba	X			
Dominican Republic	X	X		
Ecuador	X			
El Salvador	X			
Guatemala	X			
Guyana	X	X	X	
Haiti	X			
Honduras	X			
Jamaica	X		X	
Mexico	X			
Nicaragua	X	X	X	
Panama	X	X	X	
Paraguay	X			
Peru				
Suriname	X	X	X	
Trinidad and Tobago	X	X	X	
Uruguay	X		X	
Venezuela				
PANAFTOSA	X	X	X	X
BIREME				
CLAP	X			

26. Restatement of 2016 Balances

The restatement of the Financial Statements is due to two major changes

- Reclassification of expense transactions for expenses reporting. This change is discussed in note 16.1.
- Adoption of IPSAS 39, this change is discussed in note 12.3.a.

Report of the External Auditor



TRIBUNAL DE CUENTAS
DE ESPAÑA

The Pan American Health Organization
Long Form Report on the 2017 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 EUOSAI 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 2017 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, 2017; 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.

1.2. Overall Results of the Audit

- 2 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).
- 3 The audit opinion confirms that these financial statements: present fairly, in all material respects, the financial position as at December 31, 2017 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 2016 Long Form Report are set out in Annex B.
- 6 The 2017 financial statements correspond to the sixth 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 (CO) and governance matters.

9 In the Brazilian CO we have specifically analyzed the management of the *Mais Medicos* project during 2017, 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, the implanted IT tools for Project management continue to improve 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 updating the Invoice Verification System IT application and its integration with the Cuban doctors' database, the capability of the Cuban doctors' database, as well as the classification of related expenses.

10 In regard to lawsuits against the *Mais Medicos* project, at the end of January 2018, there were 159 pending trials filed by 198 Cuban doctors. The doctors are demanding extra free time in their contracts and to achieve equal working conditions, compared to the other doctors employed in the same project. However, other lawsuits at the Brazilian Labor Court ended without any impact to the project. Moreover, the Brazilian Federal Supreme Court resolved favorably the constitutionality of the project.

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

11 The Pan American Sanitary Bureau Management Information System (PMIS) was launched in January 2016. For the second time, the PAHO'S 2017 Financial Statement has been produced using the Workday System (WD). The Organization continues devoting to it great efforts and the overall perception of the usefulness of the System and the quality of data produced is improving. However, we consider that there are still some weaknesses and enhancements that should be addressed.

12 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.

13 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 2017, the net value of current and non-current liability reached 238.61 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 was signed in order to unify and simplify the future management of the SHI Fund's overall liabilities and to enable a transfer of PAHO ASHI assets to the WHO SHI Fund that would enable a more efficient management of such assets. Since January 1, 2017, the Organization has changed its accounting policy to recognize employee benefits in accordance with IPSAS 39, which replaced IPSAS 25.

2. Financial review

- 14 The Director's Comments on the Financial Statements provide a comprehensive analysis of the financial performance of the Organization for 2017. 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.
- 15 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 2017, the second year of the budgetary biennium, PAHO had a deficit of 2.0 USD million. The net result for 2016 was 21.4 USD million, thus 2017 result represents a major change to the previous year. The main causes of this change are detailed below.
 - Total revenue increased by 4% from 1.450 USD million in 2016 to 1.509 USD million in 2017.
 - The total revenue from the Procurement of Public Health Supplies increased slightly by 0.9%, to 693.0 USD million, compared to 686.5 USD million in 2016. 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 45.9% of the overall balance of revenues.
 - Revenue generated by Voluntary Contributions also increased this year by 7.5% compared to the previous year, up to 614.2 USD million in 2017. These contributions were the second source of revenue in 2017, and represented over 40.7% of the total revenue.
 - Miscellaneous Revenues decreased this year from 23.0 USD million at the end of 2016 to 16.1 USD million. Miscellaneous revenues mainly include foreign currency revaluations, interest earned, exchange rate gains and losses.
 - PAHO's expenses increased in 2017 by 5.8% from 1,428.3 USD million in 2016 to 1,510.9 million as at December 31, 2017.
 - Procurement expenses (supplies, materials and commodities) increased by 3% from 676.8 USD million in 2016 to 697.2 USD million in 2016. These expenses were the first source of expenditure, which represented 46.1% of the total expenses.
 - The disbursements in grants and transfers to counterparts have also increased by 3.1%, from 441.3 USD million in 2016 to 455.0 USD million in 2017. The 96.0% of this amount corresponds to *Mais Medicos* project (436.6 USD million in these types of payments in 2017).
 - Staff and other personnel costs have increased by 5.4%, from 140.4 USD million in 2016 to 147.9 USD million in 2017.
 - The total cost of depreciation and amortization has reached the amount of 0.9 USD million in 2017. However, the depreciation was 2.2 USD million and the difference of 1.4

USD million included the capitalization of assets disclosed in the Statement of Financial Position. In 2016 this expense accounted for 1.9 USD million.

- Travel costs have increased by 34.9%, from 40.1 USD million in 2016 to 54.2 USD million in 2017. Contract services have increased from 111.8 USD million in 2016 to 137.8 USD million in 2017 (by 23.3%). It needs to be underlined that comparability of net expenses between 2016 and 2017 were strongly affected by a reclassification of expenses as explained in Note 16.1 to the 2017 Financial Statements.
- PAHO's total current assets have increased by 59.4 USD million, from 726.5 USD million to 785.9 USD million in 2017.
- Short term investments increased from 239.7 USD million in 2016 to 359.8 in 2017. Current Account Receivables also increased from 349.6 USD million in 2016 to 352.3 USD million in 2017.
- The current account of receivables from voluntary contributions rose by 4.8%, from 208.1 million USD in 2016 to 218.2 in 2017.
- The Long Term Investments, which are expected to be adequate to meet PAHO needs disclosed as long term liabilities, were 373.0 USD million in 2017. This was 25.3% more than in 2016 when those investments totaled 297.67 USD million.
- Mainly due to 2017 amortization, the value of Property, Plant and Equipment has decreased from 108.4 USD million in 2016 to the current 107.4 USD million.
- PAHO's current liabilities increased from 589.3 USD million in 2016 to 695.3 USD million in 2017.
- Employee benefits, current and non-current liabilities have increased by 20.8%. Thus, the amount of 197.5 USD million shown in 2016 rose to 238.6 USD million at the end of 2017. It needs to be underlined that comparability of final balances of employee benefits between 2016 and 2017 were affected by the restatement imposed by the introduction of new IPSAS 39, which replaced IPSAS 25. The details of this restatement are presented in Note 12.3.a 1 to the 2017 Financial Statements.
- PAHO has got sufficient financial resources to meet its obligations; 248.8 USD million in Fund Balances and Reserves; however, this amount is lower by 11.9% than in 2016.

3. Country Offices

3.1. Introduction

- 16 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 2017 (including the *Mais Medicos* project) were approximately 632 USD million (2016: 632 USD million), which constituted a significant part of PAHO's reported activity. Therefore, we carried out on-the-

spot visits to obtain an assurance on the locally managed operations, the incurred expenditure and the control mechanisms of these offices.

- 17 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.
- 18 During 2017 we visited the CO in Brazil, Peru and Chile. 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, addressing the weaknesses detected. It was the eighth consecutive year that external auditors have visited the CO in Brazil, this Office being accountable for the largest part of PAHO's expenditure.
- 19 In addition, in the course of the audit procedures carried out in Headquarters (HQ) we reviewed relevant documentation regarding the activity of the CO.

3.2. *Mais Medicos* Project

- 20 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 more years (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 13, 2018 the 11^o *Termo do Ajuste* was signed, which will be in place until April, 2023.

The total implementation, in terms of financial resources, of the Project since its beginning amounted to 2,317 USD million (6,80 BRL million) as of December 2017, out of which at least 489.8 USD million were disbursed in 2017 (1,561.7 BRL million).

- 21 We analyzed the PAHO management process of the *Mais Medicos* project in 2017, both in Headquarters and in the CO in Brazil. We acknowledge that the Project's framework remains strong; all the posts created to support it were in place, the implemented IT tools for Project management continue being improved and most of our recommendations were in progress of implementation or had already been addressed. Besides, the Brazilian Federal Supreme Court resolved favorably the constitutionality of the project. However, we still found some areas for improvement.
- 22 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, we noticed several cases in which doctors, who were on leave or who had already ended their participation in the program, were reflected in this tool as if they were still in active employment during the months following the end of their engagement. These errors

were corrected in the following months.

- 23 The database still can be improved as regards the supporting documentation. We detected cases where new registrations or withdrawals were either made without the corresponding documents or without attaching the corresponding documents to the database, in particular copies of scanned passports or documentation sustaining disengagements from the program.

Besides, in relation to the “*Incident Management Module*”, we noticed that some modifications are needed in order to implement various doctors’ related incidents more effectively. In particular, the typology and classification of those incidents should be redesigned and, ideally, it should take the form of a list of categories with embedded expandable subcategories.

- 24 In 2017 the Invoice Verification System (IVS) revealed several problems, mainly caused by events unforeseen during the development of this IT system. These include lawsuits, reinstatement or extension of doctors’ contracts, new arrivals, etc. The Information Technology Department has reported a considerable amount of difficulties in reacting to these incidents, due to the architectural features of the system.
- 25 In our Brazil Country Office Reports for previous years (2014-2016), we observed identified that the *Mais Medicos* project operations, amounting to at least 5,6 USD million, that were funded through sources different from those indicated in *Termo de Cooperacao* 80.
- 26 In 2017, more Cuban doctors filed lawsuits related to the *Mais Medicos* project. The main claim of those lawsuits is to receive extra free time in their contracts and to achieve equal working conditions, compared to other doctors employed in the same project. On the basis of the documentation received we estimate, that on the day of the audit visit, there were 159 pending trials affecting, in total, 198 doctors.

Recommendation 1: We recommend revising the relevant control procedures thoroughly and implementing an ex post payment review process to detect all indispensable adjustments that must be made on a monthly basis. We also recommend performing a regular data cross checking between the accounting periods to ensure that all reconciliations are carried out with due care.

Recommendation 2: We recommend updating the data in the COLPADI database with all relevant supporting documentation related to new registrations and withdrawals in order to improve the quality of the information registered therein. Besides, we recommend upgrading the functionality of the Incidents Management Module in order to properly identify and register various incidents related to the doctors’ employment.

Recommendation 3: We recommend either updating the Invoice Verification System application or migrating the existing data to a new and modular system in order to enable the collection of information about all kinds of situations (and respective procedures) that may occur in the future regarding the *Mais Medicos* project. In addition, such a solution should be completely integrated with the COLPADI database.

Recommendation 4: We recommend avoiding using general grants or budget lines to fund activities which are used within the scope of *Mais Medicos* project. Besides, we recommend specifying in all official documents and financial reports the total amount related to Mais Medicos Project, distinguishing between payments funded by TC 80 or others TCs.

Recommendation 5: We recommend continuing the close monitoring of relevant decisions of the Brazilian courts related to the Cuban doctor's claims. At the same time, the contingency plan must be continually updated accordingly to the development of the projected situation.

4. Governance Matters

27 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

28 In 2010 the 50th Directing Council formally authorized a process of modernization of the Pan American Sanitary Bureau (PASB) and approved the implementation of PAHO's Management Information System (PMIS), an Enterprise Resource Planning (ERP) computer system. The implementation started in the beginning of 2014. After two years, at the beginning of 2016, the PMIS was launched, replacing the existing obsolete Information Technology (IT) system.

29 The further development of this new IT tool continued mainly in 2016 and was subsequently followed by a fine-tuning phase carried out in the current financial period in 2017. The total implementation cost of the ERP reached 23 million USD; however, this amount does not include the value of work done internally by PAHO staff nor the further improvements made after the official closure of the PMIS implementation in April 2016.

4.1.2. Audit Review

30 At the day of the audit visit the system had been already in operation for two financial periods, but its fine-tuning was still an on-going process. It needs to be noted that thanks to the fact that in 2016 and 2017 PAHO made an important effort to accomplish the full implementation and fine tuning process, the system operations can be considered stable and predictable. Notwithstanding the above, it is a complex system which is prone to unforeseen errors. Therefore, the continuous checks and controls on all operational levels are indispensable.

31 Similarly to the audit procedures carried out in 2016, during the audit of 2017 Financial Statements, auditors paid attention to the performance of the ERP system. The PMIS data processing was still identified as a risk area, therefore additional audit procedures were adopted to evaluate the correctness and regularity of transactions registered therein. Apart

from the risk areas identified in our Long Form Report for 2016, the audit program included also additional checks related to the budget reporting, as the financial closure coincided with a 2016-2017 budgetary biennium closure.

- 32 As a results of this audit work, we detected a series of weaknesses which still need to be addressed:
- a. Similarly to the previous system, the preparation of the 2017 PAHO Financial Statements was a process that required a lot of workload, manual operations and off-system-data manipulation.
 - b. Another area affected by the lack of reliable reporting was the treasury. The reports available in the system did not allow for rapid and precise bank reconciliations. This deficiency was offset with manual reconciliation procedures. This is an important limitation to an Organization that manages over 60 bank's accounts in multiple countries.
 - c. The system still offers a rather basic functionality as regards the revaluation of foreign currencies. Taking into account that the Organization accounts for 24 different currencies and carries out operations in 30 countries, the implications of this fact negatively affected the accounting calculations.
 - d. The system alerts, error messages, reports, PAHO Standard Operating Procedures and other related documentation, are still available exclusively in English. There are roles in the system, in particular in CO, fulfilled by non-English speaking personnel.

Recommendation 6: We recommend increasing efforts to limit the off-the-system data manipulation to the indispensable.

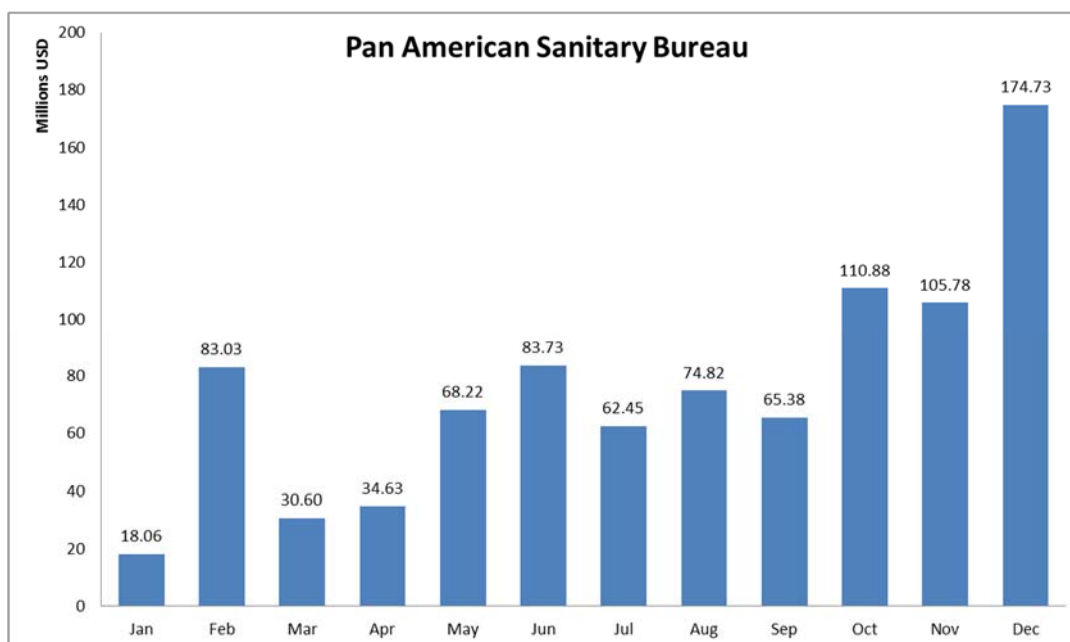
Recommendation 7: We highly recommend introducing a reliable bank reconciliation report in the system. The report should be used regularly to reconcile all banks' accounts on a monthly basis, comparing data obtained from banks with the ledger entries.

Recommendation 8: 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 9: 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 instructions may diminish their usefulness and contribute to erroneous data input.

4.2. Increase of expenses at the end of the biennium

- 33 For the biennium 2016-2107 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.
- 34 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 during the last three months of 2017. A similar observation was reported in the Long-Form Report of the External Auditor for the years 2013 and 2015, corresponding to the end of the previous bienniums.
- 35 Having excluded the Human Resources operations (payroll) for the purpose of this analysis, we found that the disbursements in December (174.7 USD million) represented 329.4% of the monthly average level of the expenditure of the first half of 2017 (53.0 USD million). During the last quarter of 2017, Pan American Sanitary Bureau spent 391.4 million USD in total, a similar figure to that of the sum of expenses incurred during the 6 previous months (April-September, 389.2 million USD). The details are presented in the chart below.



- 36 We noticed that close to the biennium end, Directors and the PWRs increased disbursements in order to meet their expenditure targets.
- 37 While it is a common practice that budget-based Organizations tend to increase their expenditure at the end of the budgetary period (and PAHO is not an exception in this regard), we do not think that this common practice can be considered a good and adequate way to reach

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.

the budgetary objectives efficiently, since we consider that such behavior can pose 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 2018-2019, developing tools within the new budgetary scheme to avoid the accumulation of expenses at the end of the biennium.

5. Follow up of prior year recommendations

- 38 In our report for 2016 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.
- 39 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

- 40 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 11, 2018



Ramón Álvarez de Miranda García

President of the Spanish Court of Audit

Annex A. - Summary of Audit Recommendations

Recommendation 1: We recommend revising the relevant control procedures thoroughly and implementing an ex post payment review process to detect all indispensable adjustments that must be made on a monthly basis. We also recommend performing a regular data cross checking between the accounting periods to ensure that all reconciliations are carried out with due care.

Recommendation 2: We recommend updating the data in the COLPADI database with all relevant supporting documentation related to new registrations and withdrawals in order to improve the quality of the information registered therein. Besides, we recommend upgrading the functionality of the Incidents Management Module in order to properly identify and register various incidents related to the doctors' employment.

Recommendation 3: We recommend either updating the Invoice Verification System application or migrating the existing data to a new and modular system in order to enable the collection of information about all kinds of situations (and respective procedures) that may occur in the future regarding the Mais Medicos project. In addition, such a solution should be completely integrated with the COLPADI database.

Recommendation 4: We recommend avoiding using general grants or budget lines to fund activities which are used within the scope of Mais Medicos project. Besides, we recommend specifying in all official documents and financial reports the total amount related to Mais Medicos Project, distinguishing between payments funded by TC 80 or others TCs.

Recommendation 5: We recommend continuing the close monitoring of relevant decisions of the Brazilian courts related to the Cuban doctor's claims. At the same time, the contingency plan must be continually updated accordingly to the development of the projected situation.

Recommendation 6: We recommend increasing efforts to limit the off-the-system data manipulation to the indispensable.

Recommendation 7: We highly recommend introducing a reliable bank reconciliation report in the system. The report should be used regularly to reconcile all banks' accounts on a monthly basis, comparing data obtained from banks with the ledger entries.

Recommendation 8: 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 9: 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 instructions may diminish their usefulness and contribute to erroneous data input.

Recommendation 10: We recommend improving the scheduling of the implementation of the Program and Budget for the biennium 2018-2019, developing tools within the new budgetary scheme to avoid the accumulation of expenses at the end of the biennium.

Annex B. - Implementation of Prior Year Recommendations

We reviewed management's implementation of recommendations made in our 2016 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 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.</p>	<p>Colpadi is implementing process-flow changes regarding the registration of doctors' data into the database system. The data entry function, currently performed by the IPCs, will be delegated to a MMTU centralized administrative team (one-point data-entry), and the IPCs should perform data quality controls for their respective states' cooperative doctors. This new operating process will improve quality and accuracy of data entry and will relieve IPCs from an important administrative burden, especially for the IPCs that manage states with a high number of project's cooperative doctors.</p> <p>Concerning the capability of the incidents module and the homogenization of incidents typologies, the MMTU's Administrative and Operational responsible focal points held a Colpadi's Developers Workshop in March 2017, which defined new functionalities to be incorporated in the database (pre-deployment data entry automatization). These audit recommendations were also discussed with the Cuban's Colpadi technicians in order to be included in its Colpadi development action plan. The results were:</p> <ul style="list-style-type: none"> • The incident typologies were reviewed and aligned with the Invoice Verification System requirements; • The "Doctors' check-in process module" was further developed into two new sub-processes: Pedagogical and documentary management. <p>Colpadi is implementing process-flow changes regarding the registration of doctors' data into the database system. The data entry function, currently performed by the IPCs, will be delegated to a MMTU centralized administrative team (one-point data-entry), and the IPCs should perform data quality controls for their respective states' cooperative doctors. This new operating process will improve quality and accuracy of data entry and will relieve IPCs from an important administrative burden, especially for the IPCs that manage states with a high number of project's cooperative doctors.</p> <p>Update as of 30 September 2017</p> <p>Besides the system improvements, there is a Task Force composed by MMTU and ADM-BRA (IT, Finance, M&E) that is in the process of implementing an action plan for achieving two main objectives:</p> <ol style="list-style-type: none"> 1. Improving COLPADI's work-flows and data entry registry in order to standardize its processes and minimize data inconsistencies. <p>In this process it will be undertaken the database data-cleaning and data-update, as well as, the introduction of new attributes required by the project evolution (Marriage and Judicial Demands status).</p> <ol style="list-style-type: none"> 2. Diagnosis of IVS's functionalities, in order to detect 	<p>CLOSED (RAISED IN 2017 LFR)</p>

	<p>potential changes in its business rules, data consistency and verification with COLPADI's data and definition of new IVS's information needs.</p> <p>This action plan is expected to be completed by the end of December 2017.</p>	
<p>Recommendation 2</p> <p>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.</p>	<p>The Dropouts' management process is as follows:</p> <ol style="list-style-type: none"> 1. Decentralized International PAHO Consultant (IPC) and MoH (State Advisors) informs of the dropout cases to the PAHO centralized National Consultant (NC); 2. The NC sends an Official Letter to the MoH and Cuba Embassy communicating the dropouts; 3. Mais Medicos Technical Unit (MMTU) secretary updates IVS's attached documentation and calculates individual exact dates worked before the dropout to ensure invoice accuracy; 4. Centralized IPCs update Colpadi database, according to information provided by the NC; 5. The NC double-checks the accuracy of Colpadi's updated information (besides the MoH and Cuba Embassy's own controls). <p>The slight discrepancy among different register systems information could have been caused by the change and transition of IPCs' functionalities and responsibilities that took place during December 2016 to January 2017 (Exiting IPCs' end-of-mission process and incoming IPCs' pre-deployment and check-in process). Nevertheless, this process has been closely monitored and the information in Colpadi and IVS was rechecked and updated by the Officer responsible for MMTU's Operations in close coordination with the NC.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>
<p>Recommendation 3</p> <p>We recommend avoiding using general grants or budget lines to fund activities which are specifically within the scope of Mais Medicos project.</p>	<p>The actions to be executed in the MMP's semester are defined in a semi-annual work plan (PTS) elaborated for each TC/TA. The TC/TA can have synergy and complementary actions and allow inter-programmatic work.</p> <p>TC80 is funding the activities related to PHC defined in Mais Medicos, but other TCs can also fund activities if they are more properly aligned to (ex. TC67: indigenous people).</p> <p>As the payment related to housing and food to indigenous districts' doctors could not be done by TC 80 due to the MM Program governmental directives PAHO paid them through TC 67 as an extra-ordinary process.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>
<p>Recommendation 4</p> <p>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.</p>	<p>The Office of Legal Counsel (LEG) continues working closely with PWR-BRA and the Brazilian Ministry of External Relations to monitor the status of the various legal challenges related to the Mais Medicos program. Moreover, LEG has submitted to the Ministry of External Relations information and legal arguments in support of the Organization and the Mais Medicos program for use in defending PAHO and the program before the various judicial bodies currently reviewing pending claims. Finally, LEG is working closely with PWR-BRA to ensure that an effective contingency plan is in place in the event one is needed.</p> <p>Update as of 30 September 2017</p> <p>PWR-Brazil maintains a current list of all cases, their status and their outcomes.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>

<p>Recommendation 5</p> <p>We recommend assigning a specific business unit or a team responsible to the horizontal and systematic control.</p>	<p>A Compliance Officer, responsible for this function, has been established and a Compliance Advisor appointed.</p>	<p>CLOSED</p>
<p>Recommendation 6</p> <p>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.</p>	<p>A list of reports was drafted and available to users. The list was prepared on basis of input through the PMIS Governance process and the Administrators' network. The list is currently being reviewed and updated by a Cross Functional Team to streamline and improve reporting and include modified and newly developed reports.</p> <p>Update as of 30 September 2017:</p> <p>A Report/Dashboard Streamlining Working Group has been established to cleanup, prioritize and standardize reports and dashboards. The Working group will be tasked with eliminating redundancy in reports, reduce the number of reports by consolidating requirements and ensuring that Cost Centers provide input through their designated focal points (Currently being identified by each Cost Center). Action taken:</p> <p>Implementation of "PMIS Useful Reports" Dashboard in Workday that identifies the most useful reports by business area: General Reference, HR, Planning and Budget, Procurement, Finance and Expenses (still under discussion), and Learning.</p> <p>Implementation of PAHO PMIS Administrator Dashboard Worklet (to be available soon as an 'applications' menu item), which will provide dashboards that present information mainly useful to Report administrators and Cost Center focal points Implementation of several dashboards that consolidate useful information related to the subject: Compliance Travel Analysis, Entity BWP, HCM Data, PAHO Performance Analysis, RFV Country Fulfillment & Finances, Bank Reconciliation.</p> <p>In addition, since April 30 2017 ITS has closed 131 tickets related to PMIS reports: new reports, enhancements, additional prompts, etc.</p>	<p>CLOSED</p>
<p>Recommendation 7</p> <p>We recommend increasing efforts to limit the off-the-system data manipulation to the minimum.</p>	<p>Cross Functional Teams have been established for Biennium closure, obligations, and Payroll with the purpose of limiting or eliminating off-system manipulation.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>
<p>Recommendation 8</p> <p>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.</p>	<p>The Department of Financial Resources Management (FRM) is working with Collaborative Solutions and WD experts to have a comprehensive Book to Bank report to allow a clear identification of pending/outstanding transactions.</p> <p>Update as of 30 September 2017:</p> <p>FRM has been working with Collaborative Solutions on a redesign of the Book to Bank Report in order to improve the information provided in the automated reconciliation reports. In addition, PAHO has been working with Workday Product Managers on the issues identified with regard to banking and cash management reports.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>
<p>Recommendation 9</p> <p>We recommend updating the system to enable proper calculation of exchange differences and automatic</p>	<p>An SRS request has been submitted and has been escalated to a Workday Case. A revised program for the revaluation of bank accounts has been provided and is in the process of being tested. Revaluations for other ledger accounts will</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>

<p>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.</p>	<p>continue to be manual (e.g. voluntary contribution receivables and deferred revenue). An analysis of other ledger accounts with significant local currency exposure is in process to determine revaluation requirements and disclosures on the financial statements.</p> <p>Update as of 30 September 2017:</p> <p>Although the outcome of the SRS for the revaluation of bank accounts improved the Workday calculations we continue to have discrepancies between the two methodologies. Therefore, we believe that the calculation for the revaluation of the bank accounts will be manual for the 2017 closure. The disclosures will reflect the different treatment of the revaluation for BLC company. The analysis and valuation for other balance sheet accounts will continue to a manual process.</p>	
<p>Recommendation 10</p> <p>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.</p>	<p>Collaborative Solutions has provided a document titled "Accounting Dates in Workday" which helps clarify the use and impact of dates in the various Workday business processes. We are also instructing users to initiate and authorize transactions within the same period to limit the impact of exchange fluctuations.</p> <p>Update as of 30 September 2017:</p> <p>FRM will provide additional training in the fourth quarter of 2017. All cost centers were notified of the need to complete transactions within the same financial period.</p>	CLOSED
<p>Recommendation 11</p> <p>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.</p>	<p>An analysis of priorities is completed on a regular basis. This is based on Business Owners and users' recommendations.</p> <ul style="list-style-type: none"> -Continuous efforts to streamline business processes. - Cross Functional Teams established to fine tune processes. -PMIS governance process to manage priorities and streamlining of business processes. 	CLOSED
<p>Recommendation 12</p> <p>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.</p>	<p>Workday business processes, especially those related to human resources and procurement, require attachment of multiple forms and other documentation. Standardization will be achieved by:</p> <ol style="list-style-type: none"> 1. Eliminating excess forms that have been integrated in PMIS processes, thereby eliminating any requirement to attach these forms. 2. Converting into electronic templates those forms that cannot be eliminated or integrated in PMIS. PAHO personnel have been trained and instructed to sign forms electronically, thus eliminating the need to print out and store paper and electronic versions of forms. 3. For frequently used Workday processes, reducing the number of required attachments. Now for events management and travel, only one document, the Event Management Template, will be attached to related Workday processes. 4. Reviewing the current PAHO/WHO E-Manual policies V.1.2, Archives Management, and V.1.3, Records Management, which specifies that the Organization's Enterprise Resource Planning (ERP) system is the "official repository for records" supporting ERP business 	CLOSED

	<p>transactions.</p> <p>5. Provide specific guidelines and instructions for some transactions and processes.</p> <p>Update as of 30 September 2017:</p> <p>Currently Worker Documents allow filtering by Category and sorting by Upload Date, which allows “easy content and period recognition of the files”.</p> <p>HRM and PRO should be included in the “Responsible for Action” column since the response says “especially those related to human resources and procurement”.</p> <p>FRM created a LOA SharePoint site and each Cost Center has a folder to create and archive the LOA documents (signed document, reports, memo, etc.) and the link is available in the LOA Additional Data in Workday.</p> <p>To handle this process, FRM requested the Cost Centers’ administrators to nominate LOA Focal Points to access the SharePoint and be available for training. In addition, a list of mandatory documents/names has been developed to record all the attachments in Workday.</p>	
<p>Recommendation 13</p> <p>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).</p>	<p>PMIS Business Owners have reviewed and suggested the following course of action:</p> <ul style="list-style-type: none"> --FRM has developed an annotated Trial Balance detailing custom validations, required worktags, and other controls. --introduction of stronger budget controls so that the scope of accounting errors will be reduced; --reduction of ad hoc transactions and introduction of budget check for p-cards in WD 29 will further reduce scope for errors. --FRM to identify additional custom validations that could further reduce potential for errors. --PBU and FRM to prepare analysis of unused or redundant PPT worktags from 16-17. --PBU will prepare list standard projects for 18-19. --PBU will prepare guidance on creation of new PPT worktags for 2018-19, advising limit of 2-3 PPT’s per project. --Biennial Closure CFT to Review draft PPT worktag list in preparation for 2018-2019 budget configuration, with a view to significantly reducing the # of active worktags. --for 20-21 budget, PBU will prepare a recommendation on the level at which to transact (potentially at a higher level than PPT). <p>Note that automatic disabling of combinations for activities transactions is not technically feasible.</p> <p>Update as of 30 September 2017:</p> <p>FRM is currently working on a reduction in the amount of spend categories, in order to improve expenditure reporting. Action taken:</p> <p>There are 240 custom validations configured in PMIS at this time. Some examples of custom validations include the following:</p> <p>008 - Grant required on Sponsor Funds and Grant can only be used - on Sponsor Funds.</p>	<p>CLOSED</p>

	<p>This validation ensures that every time someone uses a Sponsor Fund, they must include a Grant in the transaction. Conversely, when the user selects a non-sponsor fund (e.g. ACP), they are not allowed to add a Grant to the transaction.</p> <p>013 - Ledger Account 6700 on the Actuals Ledger requires a Fund, Cost Center, Project Plan Task, and Spend Category.</p> <p>This validation ensures that when creating Accounting Journals hitting ledger 6700, the user includes all of the mandatory information.</p> <p>100 - Inactive Worktags exists.</p> <p>This validation prevents users from transacting against inactive worktags.</p> <p>Finally, it is important to note that we also have validation conditions in the Business Process that help users enter correct information. One example are the validations configured on the Projects BP that require any new Projects created in PMIS to be linked to 18-19, to have a certain nomenclature (18ITS...), to have a Project Manager assigned, etc.</p> <p>Regarding closure, 40 validations were configured for the purpose of closure, and they were mostly related to the enforcement of dates and worktags depending on whether the funds were linked to the Mirror structure or the PB structure. In order to be able to identify them, a special nomenclature was developed and the acronym BG (biennium gold) was added to each of the validations. These validations were configured in the following business processes: Purchase Order and Change Order, Supplier Contract and Supplier Contract Amendment, Supplier Invoice, Spend Authorization, Expense Reports, and Budgets, and they were built in a way that did not have to be lifted (for the most part) after the transition to the new biennium. Below are some examples of custom validations configured as part of the closure.</p> <p>BG001 - For 16/17 PPT under Program and Budget or POC Fund, Document Date must be on or before December 15 (Purchase Order)</p> <p>BG002 - For 18/19 PPT, Document Date must be after December 15 (Purchase Order).</p> <p>BG020 - If your trip starts in 2018 and is under Program and Budget of POC Funds, 16/17 PPT's are not allowed (Spend Authorization)</p> <p>BG023 - Expense Reports submitted in 2017 cannot use 18/19 PPT (Expense Report)</p> <p>BG033 - 18/19 Project Plan Tasks are not allowed in 2016/2017 (Budget Amendments)</p> <p>BG034 - 18/19 Outcomes are not allowed in 2016/2017 (Budget Amendments)</p> <p>--PBU will prepare a list standard projects for 18-19 Action taken:</p> <p>During operational planning for 18-19 a list of P/S by output</p>	
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	<p>was developed in close collaboration with the Categories and Program Areas Network to serve as references to entities when developing their BWP. Entities were able to select one of the recommended P/S identified for each output, modify or create their own. Additionally, entities were required to include a set of predefined P/S to reflect the work related to the development of risk mitigation plan, BWP development and monitoring, implementation of the HR and learning plans, and management of the entity's operations</p> <p>--PBU will prepare guidance on creation of new PPT worktags for 2018-19, advising limit of 2-3 PPT's per project</p> <p>Action taken:</p> <p>During the development of the BWPs 18-19 the only requirement was to create one PPT under each activity to allow transacting in PMIS. Entities were advised that other tasks could be added if necessary during implementation.</p> <p>--Biennial Closure CFT to Review draft PPT worktag list in preparation for 2018-2019 budget configuration, with a view to significantly reducing the # of active worktags.</p> <p>--for 20-21 budget, PBU will prepare a recommendation on the level at which to transact (potentially at a higher level than PPT)</p> <p>Action taken:</p> <p>Work towards the development of the new PB 20-21 will start at the end of 2018 and throughout 2019. Taking into consideration the new Strategic Plan 2020-2025 and PB 2020-2021 and the approved programmatic and budget structures, PBU will assess the feasibility of changing the level at which the Organization records transactions (currently the project plan task level - PPT).</p> <p>Note that automatic disabling of combinations for activities transactions is not technically feasible (not sure this is entirely true; we can build custom validations to prevent certain types of combinations of worktags, similar to what we built for the DFP).</p> <p>Update as of 30 September 2017:</p> <p>FRM is currently working on a reduction in the amount of spend categories, in order to improve expenditure reporting.</p> <p>Action taken:</p> <p>FRM reduced the spend categories from 926 to 240. The new list is published and updated on the FRM intranet page</p> <p>https://intra.paho.org/departments-offices/am/frm/Shared%20Documents/list%20of%20spend%20categories%202018.pdf</p>	
<p>Recommendation 14</p> <p>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.</p>	<p>We agree with the recommendation. By the end of the year PAHO plans to create a business case to analyze different options and related cost in order to reduce the current language barrier and its impact.</p> <p>Update as of 30 September 2017:</p> <p>Translating all messages to all four languages will require a significant effort and ITS can coordinate if Business Owners provide focal points. Due to other competing priorities, this has not yet been started.</p>	<p>CLOSED (RAISED IN 2017 LFR)</p>

<p>Recommendation 15</p> <p>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.</p>	<p>In concert with activities to monitor ASHI Fund assets as a member of the WHO Investment Committee, the Director of FRM will ensure that reports are provided by WHO in a timely manner to facilitate the preparation of annual financial statements.</p> <p>Update as of 30 September 2017:</p> <p>PAHO and WHO will coordinate reporting schedules based on the timing of information provided the actuary and investment partners.</p>	CLOSED
<p>Recommendation 16</p> <p>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.</p>	<p>In accordance with the Memorandum of Understanding on the Assets of the WHO Staff Health Insurance signed on 8 November 2016, PAHO will participate as part of the Secretariat in meetings of the WHO Investment Committee. PAHO has been provided with the 2017 schedule of meetings and the Director of FRM is tentatively scheduled to attend the first meeting in July 2017.</p> <p>Update as of 30 September 2017:</p> <p>FRM Director is invited to participate in the WHO Investment Committee meetings. The next meeting is scheduled for November 2017.</p>	CLOSED
<p>Recommendation 17</p> <p>PAHO should develop a schedule to reach a 100% funding of the ASHI liability in a period of time.</p>	<p>The 2017 actuarial study will determine the degree to which the full funding objective of the Plan aligns for WHO and PAHO, given the finance measures taken during 2017, including the transfer of PAHO ASHI assets to WHO, the ongoing transfer of monthly ASHI contributions collected through the payroll. Changes in SHI rules and the US TPA RFP in process should have a positive impact to improve the funding of the ASHI liability starting in 2018.</p> <p>Update as of 30 September 2017:</p> <p>The current policies will allow the organization to reach 100% funding of the ASHI liability within a prescribed period.</p>	IN PROGRESS