



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



131st SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 27 septiembre 2002

Provisional Agenda Item 5.1

CE131/2 (Eng.)
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PAHO FINANCIAL RULES

Proposed Revision to the Financial Rules

1. Introduction and Background

At the 130th Session, the Executive Committee recommended (Resolution CE130.R4) that the 26th Pan American Sanitary Conference approve the Director's proposed revision to the Financial Regulations. The Conference approved the revised Financial Regulations (Document CSP26/19) without change during September 2002. The revisions to the Regulations are comprehensive and include conformity with the Regulations of the World Health Organization and compliance with United Nations system accounting standards.

The PAHO Financial Rules, which are governed by and flow from its Financial Regulations, are in need of revision since they are no longer consistent with the revised Regulations.

Financial Regulation 16.3 requires that the Financial Rules established by the Director and the amendments made by the Director to such Rules, shall be confirmed by the Executive Committee and reported to the Conference or Directing Council for its information.

2. Current Situation

Given the revisions to the Regulations, we completed a comprehensive review of the existing Rules, and proposed changes to the Rules for consistency with the Regulations. We also reviewed and analyzed the recent changes WHO made to its Financial Rules and to the extent practical and possible have considered them in the

proposed changes. Annexes A and B of this document set forth summary and rule by rule comparisons between proposed and existing Rules and Annex C contains the proposed revised Financial Rules.

3. Action by the Executive Committee

Should the Executive Committee agree with the proposed revision of the Financial Rules, it may wish to adopt a resolution along the following lines:

Proposed Resolution

THE 131st SESSION OF THE EXECUTIVE COMMITTEE,

Having considered the Director's presentation on the revisions proposed to the Financial Rules of the Pan American Health Organization in Document CE131/2; and

Taking into consideration that the revisions will provide consistency with the Financial Regulations adopted by the 26th Pan American Sanitary Conference and will provide greater conformity with the current Financial Rules of the World Health Organization,

RESOLVES:

To confirm the changes requested by the Director in the Financial Rules of the Organization as they appear in Annex C of Document CE131/2 and to forward the revised Financial Rules to, and for the information of, the 44th Directing Council.

Annexes

PAN AMERICAN HEALTH ORGANIZATION

Summary Comparison between Proposed and Existing Financial Rules

Rule I - Applicability and Delegation of Authority

Edited to reflect increased emphasis on the responsibility and accountability of officers who have been delegated authorities by the Director.

Rule II - The Financial Period

No Rules established.

Rule III - The Budget

Changed to include revised terminology in accordance with the revised Financial Regulations.

Rule IV - Regular Budget Appropriations

Consolidates the principles for the issue of regular budget appropriations. Rules on the availability of appropriations, disposition of unobligated and unliquidated balances, and on Member States assessments have been deleted as materials are included in the revised Regulations IV and VI. The responsibility for actual issuance of allotments has been delegated to the Chief of Administration.

Rule V - Provision of Funds

Introduces specific advance funding or other financing requirements for the issuance of allotments on extra budgetary activities. Clarifies that existing rules on allotments and obligations also apply to extrabudgetary funds.

Rule VI - Assessed Contributions

No Rules established.

Rule VII - Working Capital Fund

Editorial changes only.

Rule VIII - Miscellaneous and Other Income

No Rules established.

Rule IX - Funds

No Rules established.

Rule X - Custody of Funds

These Rules have been extracted from other areas and edited for clarity and elimination of redundancy with existing Regulations. They are presented here to provide linkage with the relevant Regulation.

Rule XI - Investment of Funds

A new Rule has been added which introduces the Investment Committee and sets forth its functions and responsibilities.

Rule XII - Internal Control

Clarifies that the primary responsibility for internal control is the Director rather than the Chief of Administration. Exception language on advance payments changed from "normal commercial practice" to "as where otherwise specified in these Rules". The requirements for advance (part and full) payments are provided. The previous Rules regarding deposits of funds in designated banks or institutions and progress payments have been deleted as being redundant. The approval for granting exceptions to the advance payment Rules, the authority to declare property as surplus, the authority to grant exceptions to competitive bids, and acceptance of other than the low bidder has been delegated to the Chief of Administration.

Rule XIII - Accounts and Financial Reports

Consolidates the Rules for accounts, budget and treasury reflecting modern accounting practices and United Nations system accounting standards. Adds new Rule covering self accounting units. Deletes previous Rules which provided detailed listings of periodic financial statements and Treasury accounts as being repetitive with the requirements of the United Nations accounting and reporting standards. Delegates authority for record and document destruction to the Chief of Administration. Clarifies that the Director is responsible for submission of financial reports and requires compliance with United Nations system accounting standards.

Rule XIV - External Audit

No Rules established.

Rule XV - Resolutions involving Expenditures

No Rules established.

Rule XVI - General Provisions

Reclassified with no change in substance. These Rules were previously shown under Article I - *Authority and Applicability*.

PAN AMERICAN HEALTH ORGANIZATION

Rule by Rule Comparison between Existing and Proposed Financial Rules

<u>Existing</u>	<u>Proposed</u>	<u>Explanation of Change</u>
<i>Authority and Applicability</i>		
101.1	101.1	Editing.
101.2	101.3	Editing.
101.3	116.1	Editing and reclassification.
101.4	116.2	Editing, clarification and reclassification.
101.5	101.2	Editing and clarification.
101.6	101.4	Clarification, including that delegations of authority are in writing and recipients of delegations are responsible and accountable for actions taken.
<i>Budget</i>		
102.1	103.1	Clarification, including reflection of revised terminology of revised Regulations.
102.2	-	Consolidated with 103.1 below.
<i>Appropriations</i>		
103.1	104.1	Consolidates the principles for the issue of regular budget appropriations.
103.2	-	Included in revised Regulation IV.
103.3	-	" " "
103.4	-	" " "
103.5	-	" " " 6.9.
<i>Allotments</i>		
104.1	-	Deleted requirement that allotment requests be submitted to the Director.
104.2	104.2&8	Changes responsibility for allotment procedures and issuance from the Director to the Chief of Administration.
104.3	104.3	Introduces specificity - that obligations must be established prior to incurring expenditures.
104.4	104.2	Responsibility for allotment issuance and procedures changed from the Director to the Chief of Administration.
104.5	104.9	Editing.

<u>Existing</u>	<u>Proposed</u>	<u>Explanation of Change</u>
<i>Obligations</i>		
105.1	104.5	Editing.
105.2	104.7	Editing.
105.3	104.8	Clarification and editing.
105.4	104.5/6	Clarification and editing.
105.5	104.8	Clarification and editing.
105.6	104.8	Editing.
105.7	104.9	Editing.
<i>Control of Expenditures</i>		
106.1	112.4	Clarification and editing. Also introduces requirement that advance payments are to be supported with documentation.
106.2		Deleted. Not necessary as progress payments are covered under the partial payment language of 112.4.
106.3	112.3	Clarification and editing.
.4		Deleted. Claim referral not deemed necessary.
106.5		Deleted. Staff member provisions not deemed necessary.
<i>Imprest Cash</i>		
107.1	112.6	Editing and clarification.
107.2	112.7	Editing and clarification.
<i>Advances</i>		
108.1-3	112.6	These Rules have been simplified and summarized.
<i>Management of Funds</i>		
109.1	112.2	Expands to indicate that Chief of Administration is responsible for internal controls.
109.2		Deleted. Not necessary. Repeats Regulation X.
.3	110.2/112.2	Simplified.
109.4	112.8	Editing and clarification.
.5	111.2	No change.
109.6	110.1	Editing and clarification.

<u>Existing</u>	<u>Proposed</u>	<u>Explanation of Change</u>
<i>The Accounts</i>		
110.1	112.2	Editing and clarification.
110.2-5	113.1	Consolidated and simplified. Details covered by UN standards.
110.6/7	113.3	Consolidated and authority for record destruction delegated to the Chief of Administration.
<i>General Accounts</i>		
111.1	113.5	Editing and clarification.
<i>Budget Accounts</i>		
112.1	113.5	Editing and clarification.
112.2	113.4	Editing.
<i>Treasury Accounts</i>		
113.1		Deleted. Subsumed in Rule XIII.
<i>Financial Statements</i>		
114.1	113.6	Deletes detailed listing of financial reports as being repetitive with UN accounting and reporting standards.
<i>Property</i>		
115.1	112.9	Clarification.
115.2	112.10	No change.
115.3	112.11	No change.
115.4	112.12	Authorized Chief of Administration to declare property as surplus instead of Director.
115.5	112.12	Consolidation.
115.6	112.13	Editing.
115.7	112.14	Editing.
<i>Procurement</i>		
116.1	112.16	No change.
116.2	112.15	Editing.
116.3	112.17	Authorizes Chief of Administration to make exception to competitive bidding and lowest bid awards rather than the
116.4	112.18	Director.

<u>Existing</u>	<u>Proposed</u>	<u>Explanation of Change</u>
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Internal Control

117.1	112.2	Clarification.
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Working Capital Fund

118.1	107.1	Clarification.
118.2	107.2	No change.
118.3	107.3	No change.
118.4	107.4	No change.

FINANCIAL RULES OF THE PAN AMERICAN HEALTH ORGANIZATION

Rule I - Applicability and Delegation of Authority

- 101.1 These Financial Rules are established in accordance with Financial Regulation 1.4.
- 101.2 The Director is responsible to the Pan American Sanitary Conference (hereinafter referred to as "Conference") or the Directing Council for the implementation of the Financial Rules in order to ensure effective financial administration, the exercise of economy and safeguard of the assets of the Organization.
- 101.3 These Rules apply uniformly to all sources of funds and all financial transactions of the Organization unless otherwise stated in these Rules.
- 101.4 Without prejudice to Financial Rule 101.2, the Director may delegate in writing, together with authorization for re-delegation to other officers of the Organization, such authority considered necessary by the Director for the implementation of these Rules including issuance of operational procedures. All designated officials shall be responsible and accountable to the Director for the exercise of any authority delegated to them.

Rule II - The Financial Period

(No Rules Established)

Rule III - The Budget

- 103.1 Biennial programs of work and budget proposals, and supplemental proposals if appropriate, reflecting all sources of funds and types of expenditure in such manner and at such times as may be required shall be consolidated and submitted by the Chief of Administration to the Director.

Rule IV - Regular Budget Appropriations

- 104.1 The appropriations approved by the Conference or Directing Council constitute an authority to issue allotments up to the amount voted to enable expenditures to be incurred for the purposes for which the appropriations were voted. The Director may determine the maximum amount of the appropriations that it would be prudent to make available for allotment taking into account the prospects for payment of assessed contributions and the available balance in the Working Capital Fund.

- 104.2 The Chief of Administration will ensure that allotments are issued in accordance with the amount set by the Director, the appropriation resolution and the policies of the Conference, Directing Council and the Executive Committee.
- 104.3 Allotments shall be issued in writing by the Chief of Administration to designated officials as authorization to incur expenditure.
- 104.4 Designated officials to whom allotments are issued are accountable to the Director for the correct use of the resources made available.
- 104.5 In order to incur expenditures, obligations must be established against allotments issued to designated officials.
- 104.6 Obligations may only be established by designated officials and must be supported by satisfactory documentation. All commitments or undertakings that create liabilities against the resources of the Organization must be represented by obligations that are established when the liability arises.
- 104.7 Obligations may be established only for the purpose indicated on the allotment and may not exceed the available amount in the allotment.
- 104.8 Proposals for expenditure, including procurement of goods and services, shall be rejected by the Chief of Administration if they do not comply with the Financial Regulations, these Rules and the following conditions:
- (a) funds are available
 - (b) the procedures of the Organization are being observed
 - (c) the financial situation of the Organization will not be prejudiced
 - (d) the purpose of the proposed expenditure is in the interests of the work of the Organization.
- 104.9 Revisions to an obligation shall be subject to the same procedures as the original obligation.

Rule V - Provision of Funds

- 105.1 In order to ensure that implementation of the regular budget is not prejudiced by the late receipt of Member States assessed contributions, the Director shall take into account the anticipated timing of receipt of assessed contributions and regular budget funding requirements.

- 105.2 In order for allotments to be issued for expenditures to be financed from sources other than the regular budget, advance deposits or other acceptable forms of financing must be available in amounts determined by the Chief of Administration and/or as specified in the agreement. These allotments will be administered in accordance with Rules 104.3 to 104.9 unless otherwise stated in these Rules.

Rule VI - Assessed Contributions

(No Rules Established)

Rule VII - Working Capital Fund

- 107.1 In addition to regular budget funding requirements, resources may be made available from the Working Capital Fund for unforeseen and extraordinary expenses.
- 107.2 The term "unforeseen expenses" means expenses arising from, or incidental to, the carrying out of a program in accord with the policies approved by the Conference or the Directing Council, which expenses were not foreseen when the estimates were made.
- 107.3 The term "extraordinary expenses" means expenses for items or objects outside the scope of the budget estimates, that is to say, outside the program on which the estimates were based.
- 107.4 The Chief of Administration shall be responsible for the preparation of information on the status of all commitments under the resolutions relating to unforeseen and extraordinary expenses to be submitted to the Executive Committee, and shall prepare the supplemental estimates required in connection therewith for submission to the Conference or Directing Council.

Rule VIII - Miscellaneous and Other Income

(No Rules Established)

Rule IX - Funds

(No Rules Established)

Rule X - Custody of Funds

- 110.1 Funds and securities in the custody of the Organization shall only be kept in banks and financial institutions designated by the Director or officials authorized by the Director.
- 110.2 The Chief of Administration shall be responsible for the management of all bank and financial institution accounts including investment and custody accounts.

Rule XI - Investment of Funds

- 111.1 Investment policies shall be drawn up in accordance with Financial Regulation 11.1. An Investment Committee, chaired by the Chief of Administration, shall assist the Director in formulating these investment policies. The Committee shall determine appropriate investment instruments and maturities, and shall monitor the performance of funds invested. In accordance with Regulation 10.2, the Committee may designate investment managers for the management of any or all of the funds in the custody of the Organization.
- 111.2 No interest will be payable on sums deposited with or retained by the Organization. Should any interest accrue on investments made on behalf of a third party, the amount of such interest will be paid only if so requested in advance and upon such conditions as may be agreed with the Director.

Rule XII - Internal Control

- 112.1 In order to ensure effective internal control within the Organization, in accordance with Financial Regulation XII, the Director shall establish measures, including (i) an internal audit mechanism, (ii) appropriate delegations of authority, (iii) segregation of duties and (iv) other measures that are consistent with best financial practice.
- 112.2 The Chief of Administration is responsible for establishing and maintaining an adequate internal control of the financial transactions and such other operations of the Organization as may be determined by the Director. The financial controls include the management, receipt and disbursement of all funds of the Organization and proper accounting thereof.

Payments

- 112.3 Payments shall not be made in advance except as where otherwise specified in these Rules. Payments shall only be made on the basis of satisfactory supporting documents duly certified by designated officials confirming that in accordance with the terms of the contract, the amount is correct and services have been rendered or delivery has been completed.
- 112.4 Where operationally justified and only on an exceptional basis, contracts or purchase orders may be entered into which require partial payment in advance prior to the delivery of goods or performance of services. Such practice shall be fully documented.
- 112.5 In order for any contract or purchase order to be entered into requiring full payment in advance, the official requesting such terms shall provide full justification and demonstrate why such payment terms are necessary in the interest of the Organization. All such payment terms shall be subject to approval of the Chief of Administration.
- 112.6 Designated officials may authorize advances to staff members and other persons in connection with the execution of official duties for PAHO and staff entitlements.
- 112.7 Imprest account holders are accountable for all funds under their responsibility.
- 112.8 Panels of signatories shall be designated by officials authorized by the Director. All payments from the Organization's bank accounts shall be signed by two officials of the appropriate panels. Where deemed necessary, in exceptional circumstances, the officials authorized to designate panels of signatories, may authorize the signature of payments by one official only, provided that there are adequate safeguards for the protection of funds.

Property, including Equipment and Supplies

- 112.9 The acquisition of land and buildings, together with improvements thereto shall be capitalized in the accounts. Any other property other than real property acquired by purchase shall be charged as expenditure. Property acquired under lease shall be capitalized or charged as expenditure in accordance with the terms of the relevant lease.

- 112.10 Property records containing full details will be maintained of all real property and non-expendable supplies and equipment, however acquired and from whatever source, with an acquisition cost over and above levels set by the Director.
- 112.11 An annual physical inventory shall be taken of all assets, supplies and materials in hand.
- 112.12 The Chief of Administration may declare property to be surplus if it is of no further use to the Organization and disposed of for the best possible return to the Organization including part-exchange, except when (i) the destruction will be more economical or is required by law or environmental considerations, or (ii) the best interest of the Organization will be served by disposal by gift or at nominal prices to a non-profit organization.
- 112.13 The proceeds from the sale of surplus property shall be credited to Miscellaneous Income except that, if an article is being replaced, the trade-in allowance or the proceeds from the sale of the replaced article shall serve to reduce the expenditure incurred in replacing the item.
- 112.14 Subject to the provisions of Financial Rule IV, goods and services may be provided to governments, specialized agencies, and other international organizations on a reimbursable or reciprocal basis on such terms and conditions as may be prescribed by the Director.

Procurement of Goods and Services

- 112.15 The Director shall establish policies and procedures for the purchase of property, services, supplies, equipment or other requirements and which shall set forth the requirements for invitation to tender and competitive bidding.
- 112.16 Contracts for the purchase of property, services, supplies, equipment or other requirements shall be entered into for and on behalf of the Organization only by duly authorized officials.
- 112.17 All purchases and other contracts shall be made on the basis of competitive bids, except when otherwise authorized by the Chief of Administration
- 112.18 Contracts are normally awarded to the lowest bidder. However, where it is considered to be in the interests of the Organization, the acceptance of a bid other than the lowest, or the rejection of all bids may be authorized by the Chief of Administration.

Rule XIII - Accounts and Financial Reports

- 113.1 The accounts shall comprise a consolidated general ledger of the Organization and subsidiary ledgers which shall include all financial transactions of the financial period in which they occur. All periodic and other financial statements shall be prepared from these accounts.
- 113.2 Subject to Financial Rule 101.3, the Director shall determine those parts of the Organization that shall be authorized to maintain their own accounting records, and which shall be consolidated periodically into the accounts of the Organization.
- 113.3 All financial transactions and statements shall be supported by documentation to be retained as an integral part of the official records of the Organization for such period or periods as may be agreed with the External Auditor, after which, on the authority of the Chief of Administration, such records and documents may be destroyed
- 113.4 Obligations and expenditures shall be recorded in accordance with a uniform system of classification.
- 113.5 The accounts (as defined in Financial Rule 113.1 above) shall record:
- (a) original appropriations voted by the Conference or Directing Council;
 - (b) appropriations after modification by any transfers;
 - (c) credits, if any, other than appropriations made available by the Conference or Directing Council;
 - (d) income;
 - (e) allotments issued;
 - (f) expenditure (obligations) incurred;
 - (g) liabilities, including unliquidated obligations;
 - (h) assets, including cash, investments, securities and amounts due to the Organization;
 - (i) unallotted balances;
 - (j) unobligated balances of allotments;
 - (k) unobligated balances of appropriations.
- 113.6 The Director shall submit interim and final financial reports, taken from the accounts referred to in Financial Rule 113.1, to the Executive Committee for review and comment no later than 1 June following the period covered. The Executive Committee will subsequently forward such reports to the Conference or the Directing Council. The reports shall be prepared in accordance with the United Nations System Accounting Standards, the Financial Regulations and these Rules and shall include such other information as may be necessary to indicate the financial position of the Organization.

- 113.7 Interim and final financial reports shall also disclose any ex-gratia payments and any losses of cash, supplies, equipment and other assets which have occurred during the period.

Rule XIV - External Audit

(No Rules Established)

Rule XV - Resolutions involving Expenditures

(No Rules Established)

Rule XVI - General Provisions

- 116.1 The Financial Rules established by the Director, and any amendments thereto, shall enter into force after confirmation by the Executive Committee.
- 116.2 In case of doubt as to the interpretation and application of any of the Financial Rules, the Director shall rule thereon.