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ANALYSIS OF THE RISK MANAGEMENT FRAMEWORK FOR VOLUNTARY CONTRIBUTION-FUNDED PROJECTS AT THE PAN AMERICAN HEALTH ORGANIZATION

Pan American Health Organization

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Introduction

PAHO retained an independent consultant¹ to prepare this report, per the request of our Governing Bodies, according to the following Terms of Reference: "Review, refine, and present for consideration of the 58th Directing Council [highest governing body] risk assessment and management criteria and frameworks, as set forth in document CE166/6, as well as a decision-making matrix based on types and levels of risk related to new technical cooperation projects funded by voluntary contributions, in consultation with an external, independent subject matter expert." We are pleased to present the report to the Executive Committee and look forward to discussing its findings and recommendations.

The Pan American Health Organization (PAHO) provides technical cooperation in public health policy and programs for countries in Latin America and the Caribbean. Part of this support is of an emergency nature, e.g., assistance to fight COVID-19. Such support is provided under a separate set of rules not applicable to regular Voluntary Contribution-funded projects, and as such not the focus of this study. At the same time, responding to COVID-19 may put countries' ongoing regular healthcare services at risk. PAHO's activities can help offset any such risk, and it is in this context that the above referenced analysis is taking place. It is hoped that this report will contribute to satisfactory progress on improving PAHO's Risk Management Framework for Voluntary Contribution-funded Projects, for the ultimate benefit of PAHO's beneficiaries.

The Consultant's analysis is based on the Terms of Reference (ToR) provided by PAHO (see Annex 1). The report outline follows the order of the individual tasks specified in the ToR; however, the recommendations are provided within the respective task areas right after the observations on strength and weaknesses, to enhance the readability of the report. Some of the Recommendations are labeled 'quick wins'; others will take more time to implement. All recommendations are also summarized in section E.

A. Document Review of Existing Frameworks

The recently developed *Project Management Standard Operating Procedure for Voluntary Contributions* provides a sound framework for the design of projects funded by such contributions (henceforth referred to as VCs, of which National Voluntary Contributions are a subcategory).

Its strong points include:

- The project cycle (identification phase, development phase, initiation, implementation & monitoring and closure) is well defined, together with the concomitant key documents required in each phase.

¹ Ms. Marie-Renee Bakker, until recently a World Bank staff member in Washington D.C. Ms. Bakker's experience at the Bank spans board work, design and implementation of development projects, analytical & advisory activities and corporate assignments, including on organizational performance/risk management.

- The use of a logical framework approach is advised and the results chain and associated metrics are well defined. The SMART indicators concept is proposed for development of the metrics. These are all best practice approaches.
- The Legal Department is involved early on to provide advice on type of legal agreement to be used for each project funded by a VC.
- Roles and responsibilities of key actors, like the Grant Coordinator and the Entity Manager who approves project related actions, are clearly defined.
- The External Relations, Partnerships and Resource Mobilization (ERP) Department manages an organization-wide *ex ante* internal peer review process² of all VC project proposals, reviews all draft legal agreements for these projects, monitors implementation of all VC projects and highlights those that may be at risk based on delays in utilization, and maintains an electronic VC award depository containing all the key documents pertaining to each VC project.

Observations about potential weaknesses:

- The ERP Department Director explained the framework is currently not mandatory; this is a deliberate choice as levels of operational capacity throughout PAHO are not the same, allowing for a gradual adoption of all the elements of the framework (learning by doing) over time. In his view, good progress was made during the last two years of getting PAHO operational units and staff familiar with the framework. At the same time, there are still 12 separate policies on VCs in effect and while these are to be subsumed into the framework, this has not yet been done. Additionally, there is no policy on National Voluntary Contributions (NVCs), providing proper safeguards against potential conflicts of interest (since donor and recipient are the same).

Recommendation 1: To ensure Grant Coordinators and their supervising Entity Managers are aware of all the applicable policy requirements concerning VCs and no elements of these policies are inadvertently missed, it is recommended to integrate the framework and separate VC policies into one document that has the status of a policy, covers NVCs explicitly and whose use is mandatory [requires time to complete, set specific completion deadline, e.g. six months].

- The same rules appear to apply to all VC projects irrespective of size or complexity. This may unduly overburden the Grant Coordinator and Entity Manager roles for smaller/lower risk projects, and may have the unintended side effect of them not being able to devote enough time to designing and overseeing implementation of larger/higher risk projects.

Recommendation 2: The new integrated policy framework for VC projects should be adjusted to include a simplified version of the rules for small/low risk projects to free up capacity to strengthen the risk focus on large/complex projects [requires time, set specific completion deadline, e.g. six months].

- Some of the manuals or frameworks referred to in the framework appear to be from entities external to PAHO. For example, reference is made to a World Health Organization (WHO)

² This review is in the nature of a strategic alignment and process compliance review, as is evident from the checklist ERP uses. Although it touches on risks, it is not intended to be a comprehensive risk assessment.

Evaluation Practice Handbook, a United Nations Office on Drugs and Crime (UNODC) Evaluation Handbook, and a WHO Project Management Glossary.

Recommendation 3: all of PAHO's manuals should be under the direct control of PAHO, so management can ensure they are updated as and when needed and that all documents can be easily found in one central repository [some of these could be quick wins, where the policy of another organization can be adopted as is as a PAHO policy; others will require more time. Prepare an inventory of all manuals and an action plan for quick/medium term conversion].

- There is reference in the framework to the need for large/complex projects to have strong project governance, with dedicated committees established for this purpose. In many cases, the need for these governance structures, including a definition of the specific function and the level of authority assigned to each, is explicitly mentioned in the project's legal agreement. However, there appears to be no clear-cut set of criteria to determine which projects require such governance, which puts potentially too much onus on individual staff in the organization to take mitigating actions (e.g., ERP staff doing the *ex-ante* VC project review, Legal Counsel preparing the legal agreements).

Recommendation 4: Develop and apply a set of criteria to identify which VC projects are high risk and hence require stronger project governance [quick win]. Criteria could include project size (e.g., > \$10m, > \$5m if Country Office-managed, all projects with extraordinary procurement activities (e.g., ambulance procurement, hospital construction, short duration projects with large value procurement to be completed within e.g. 1 year) and projects with fraud/corruption concerns.

Recommendation 5: Introduce the project cycle concept for all high risk VC projects with, at a minimum, corporate level reviews taking place at project concept/development stage, before negotiations on the legal agreement start and at mid-term during implementation. These reviews should be chaired by the reconstituted Project Support Unit (see Recommendation 14), attended by the responsible Technical Unit and Country Office Directors, and also include representation from ERP, the Legal Counsel's Office and Administration/the Risk Management Adviser. Workday's Project Management Module should be used to document the process including through the use of workflow [requires time to develop, set specific completion deadline, e.g. six months].

- The Legal Department's involvement is referenced *ex ante* only. In practice this early involvement does not always happen, which creates problems when a VC with unusual features comes to the Legal Counsel at a late stage in the project preparation process, when donors are often keen to get the legal agreements signed as soon as possible because of disbursement deadlines they face internally. At the same time, other key actors in VC projects do not always have timely access to legal agreements once signed, creating last minute challenges and sometimes system issues during project implementation, with quick fixes potentially introducing new risks.

Recommendation 6:

Add Legal Counsel to the membership of the Enterprise Risk Management Standing Committee (ERMSC) when VC project risk is discussed [quick win]. See also Recommendation 7.

Expand the electronic VC award depository to include all signed legal agreements, procurement and audit documentation, peer review comments etc. and make the repository accessible to all staff with appropriate limitations on access to documents of confidential nature. (i.e., fully operationalize the intended ‘one stop shop concept’) [quick win].

The Enterprise Risk Management (ERM) Policy was adopted in 2018 and a Risk Management Adviser has been tasked with a secretariat function to help implement the policy.

Its strong points include:

- Management appears committed to risk management, as evidenced by recently completed and ongoing initiatives to create a proper Enterprise Risk Management system, as described in the 2019 Annual Report by the PAHO Director.
- ERM by design applies to all PAHO units including country offices, is integral to normal organizational business processes and decision making, and calibrated and aligned with PAHO’s Strategic Plan and program of work.
- Management acknowledges the need to fund risk management activities at the corporate level.
- The ERM builds on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) methodology also utilized in the Standard Operating Procedure (SOP) on Internal Controls, which helps underpin the risk management process.
- An ERM Standing Committee (ERMSC) chairs semi-annual risk discussions, supported by an ERM Adviser and ERM focal points at cost center level. ERMSC members are appointed by the Executive Management Team (EXM), and Internal Oversight and Evaluation Services (IES) and Ethics (ETH) are observers on the ERMSC.
- There is regular risk reporting to the PAHO Director and Audit Committee.
- The ERM policy identifies key risks (strategic, reputational, financial, operational, technical and external/force majeure). There is a well-defined risk matrix, and an online Risk Register is available to all staff that captures the results of risk assessments (including of VC projects). The Executive Committee is getting regular reports on the highest rated risks.
- EXM, unit manager and staff responsibilities in the risk management process are clearly defined. Training for risk management is emphasized to ensure all staff understand PAHO’s attitude to risk, their own role in managing risk and how risks should be formally managed and reported.
- There are clearly specified roles for internal audit, external audit and the Audit Committee (which reports to the Executive Committee) in assessing the effectiveness of risk management. Internal audit can also suggest specific risks to be considered for inclusion.

Observations about potential weaknesses:

- VC project risk is missing as a risk category (although under budget risk “Failure to implement projects funded with VC contributions in a timely manner in accordance with the signed agreement” is mentioned – but this is just one component of VC project risk).

Recommendation 7: Include project risk for all high risk VC projects (selected per the criteria referenced above) in the Enterprise Risk Management process and require Grant Coordinators and their Entity Managers to work with the Risk Management Adviser to include corresponding risk ratings and risk attributes in the centralized Risk Register maintained by the Advisor, so EXM is made aware early of the risks as part of the regular risk reporting already in place [quick win].

- Key risk metrics are not defined.

Recommendation 8: develop a set of key risk metrics shared throughout the organization with clearly defined targets and updated regularly for progress achieved. The focus should be on the highest level risks including VC project risks [requires time to complete, as wide consultation is needed to determine the metrics, e.g. one year].

One risk metric in particular may be helpful, namely VC funding as % of flexible funding. Any percentage approaching or exceeding 50% can serve as a warning signal for excessive dependency on such funding, which is not under PAHO's control and in case of a sudden drop, may create undue business continuity risk [quick win].

- Governing body engagement on risk issues is limited (other than through the Audit Committee). There is no indication that the outcomes of organization-wide risk reviews, VC project risk assessments and risk reports are shared by EXM with the governing bodies on a systematic basis.

Recommendation 9: From a risk management perspective, it is best practice to ensure early and continuous engagement of the governing bodies in risk issues, particularly in taking on new high risk projects or activities. This can, but does not necessarily have to be through formal approval of such projects or activities, but should at a minimum include Technical Briefings providing information on risk issues on a regular basis and constructive discussions with EXM and key staff on what is done to manage/mitigate key risks. These could be included as a regular agenda item for the Audit Committee, which meets twice annually and reports to the Executive Committee [quick win].

For the VC project portfolio, details about the overall portfolio in general (e.g., its size, breakdown by type, donor, recipient, etc.) and high risk projects in particular should be shared regularly with the governing bodies (e.g., risk ratings, project-specific risk assessment findings, implementation delays and actions taken to address any problems (such as project restructuring or cancellation, any fraud and corruption concerns or Ethics investigations, etc.). This information could be added to the existing data on VC projects in the unaudited annex to the annual financial report. Under the relevant agenda item at the Executive Committee, members should be able to ask questions and engage in constructive discussions with operational staff responsible for the highest risk VCs [quick win].

- Staff are expected to self-identify risks and report these up the line. This may not always be easy to do since they are in a hierarchical relationship with their manager. The culture of the organization may also not yet have evolved enough to make all staff willing and able at all times to speak up when they become aware of an as of yet unidentified risk.

Recommendation 10: Include provisions in the ERM Policy on alternative reporting channels staff can use for this purpose, e.g. through the Risk Management Advisor, the Compliance Officer or the

Ethics Officer. It should also be possible for staff who do not formally 'own' a particular risk to report on that risk through the aforementioned channels in a confidential manner [quick win].

The *SOP-1.8.1-Comply-with-Internal-Control* has been in effect since April 2018.

Its strong points include:

- Use of the three lines of defense model – front line staff, risk management staff, and internal audit.
- Adoption of the COSO methodology, with a strong focus on compliance monitoring, training and communication.
- Clearly identified key staff in the organization who are responsible for maintaining the internal control framework, all the way up to the Director of the organization.
- Annual reports audited by a rotating independent external auditor, with International Public Sector Accounting Standards (IPSAS) clearly articulated as the applicable accounting standards, supplemented internally with recurring assurance/certification letters from business units.
- Realistic expectations are set that clarify that risk cannot be eliminated altogether no matter how strong the framework, yet the spirit of the framework is clearly to pay continuous attention to, and underline the importance of, the internal control (IC) framework.

Observations about potential weaknesses:

- There is no mention of an organization-wide committee comprising all the key players in the IC framework to meet on a regular basis to discuss the findings of a regular reviews of the key metrics/action steps needed to ensure the right internal controls are in place and complied with at all times.

Recommendation 11: Set up a dedicated Internal Control committee for this purpose or modify the terms of reference of the existing ERMSC to include this mandate. Meetings of the committee could also serve to exchange information about compliance issues on a regular basis across the organization [quick win]. One could go one step further (as several other development organizations have done) and hold annual COSO workshops throughout the organization including with staff in the field, as they are most likely to be aware of problems on the ground. COSO questionnaires are typically distributed beforehand and summarized by an assigned moderator to ensure the views of individual business units are properly collated for sharing with management [requires some time to set up, e.g. 3 months].

- There is no explicit mention of the role of systems in enforcing hard controls and underpinning soft controls with up to date and widely available risk information. The Project Management Information System (PMIS) may play this role, but without a comprehensive review of how the system operates it is not possible to assess its contribution.

Recommendation 12: Management should revise the Standard Operating Procedure on Internal Controls to cover implementation of the Internal Auditor's recent recommendations on this topic,

and include references to show how corporate systems support internal controls [will take time to complete, e.g., 1 year].

- There is reference to a WHO e-manual on internal controls.

See Recommendation 3.

- There is duplication between the SOP for IC and the ERM policy. This concern was also raised by the Audit Committee (see Annex 2) together with other internal control related issues requiring remedial action.

Recommendation 13: The ERM and IC policies should include tight cross references, and duplication between the two should be eliminated to provide greater clarity about the respective roles of IC and risk management/monitoring and how the underlying processes interrelate [will take some time as it may require rewriting some part of both policies and must await the new integrated VC policy, e.g. 1 year].

B. High level analysis of the levels of risk associated with current VC projects

Multiple portfolio level reports were provided by the Financial Resources Management (FRM) and ERP departments on the VC portfolio. These reports provide information on projects by status (still ongoing or completed), start and end date, type, donor, grant amount paid-in, recipient, commitments and expenses, name of the grant coordinator, and corporate and grant coordinator comments on their status among other details.

Based on FRM reports (which date back to 1976), as of end June 2020 there were 223 VC projects still active for a total committed amount of US\$1.16 billion, of which US\$339 million remained to be disbursed. Of this undisbursed amount, there are 7 projects with a balance of more than US\$10 million remaining: the Smart Hospitals project (US\$ 32.6 million), the Guatemala Malnutrition project (US\$ 21.7 million) and 5 NVC projects for Brazil totaling US\$69.2 million.

The Risk Register that operates in support of the ERM policy and process does not comprehensively cover all VC projects, since the use of the register is voluntary. The register includes (since 1976) 46 VC projects for a total amount of \$435.5 million, representing about a quarter of the total VC project amount in US\$ terms.

For the projects that are voluntarily included in the register, there is clearly added value in terms of risk information, as also evidenced by the review done of the risk documentation for the above mentioned DOM/GTM projects (see Section D below).

Interviews with high level staff in Technical Units, one Country Office and the Risk Management Adviser confirmed that the use of the Risk Register varies significantly between cost centers (e.g., all of Argentina's VCs are included irrespective of size, while the Brazil Country Office reportedly does not as a matter of course want to include any of their projects). The Smart Hospital Project and the Guatemala Malnutrition project are both included in the Risk Register.

Additionally, it is apparent that some (but not all) Technical Units have strong internal portfolio management processes in place where Administrators and Project Coordinators work closely together to prepare monthly reviews for the Director on the state of his/her overall portfolio, including not only financial aspects (captured by the compliance processes in place, including ERP's monitoring of utilization levels), but also strategic aspects related to project implementation quality (e.g., results achieved, procurement problems, etc.). These reports are discussed in within-unit meetings between the director and staff, but are not surfaced to the Director or the Executive Committee.

Recommendation 14:

- *A Project Support Unit existed in the past that oversaw and guided project management and implementation in operational units, with a focus on strategic issues and portfolio quality. This type of central oversight function is very common in development finance institutions, and should be recreated to ensure consistent strong focus on project implementation throughout the PAHO organization. The Project Support Unit should report directly to PAHO's Deputy Director [will take some time to complete, e.g., 3 months].*
- *Reports should be prepared on a regular basis by the Project Support Unit (e.g., monthly for EXM, quarterly or semi-annually for the Executive Committee) that provide an overview of the status of the overall VC portfolio from a strategic/portfolio quality perspective. For these reports, clear-cut definitions and metadata for the information provided should be developed to ensure a consistent understanding across the organization of their content (e.g., what type of VC funding arrangements are included³, whether the data are stock or flow data⁴, etc.). This information should be combined with the earlier referenced recurring VC project risk reporting to EXM and the Executive Committee [will take some time to complete, e.g., 3 months].*

Another issue that surfaced in reviewing the composition of the overall VC portfolio is the historically large magnitude of NVC projects in Brazil to allow faster implementation of ongoing government-funded support programs. While this approach may be warranted in crisis situations, PAHO could consider establishing criteria to determine whether PAHO's value-added to the projects justify the use of PAHO's resources.

Recommendation 15:

- *The topic of the historically large magnitude of NVC projects in some countries (e.g., Brazil) may warrant a discussion at the Executive Committee. There is reputational risk for PAHO in this practice that the Executive Committee should be made aware of and discuss/provide guidance to the organization on how to deal with this issue going forward.*

PBU's End of Biennium Reports on NVCs for the last two biennia are shared with the governing bodies together with the budget proposal. Particularly the latter reports (see Annex 3) make it clear that the NVC portfolio can be rather skewed, with a small number of very large projects and a large number of small projects.

³ E.g., PAHO Voluntary Contributions, National Voluntary Contributions, PAHO Emergency Preparedness and Disaster Relief. WHO Voluntary Contributions were not reviewed.

⁴ FRM and Risk Register reports provide mostly stock data, while ERP and PBU reports provide mostly flow data.

Recommendation 16: Consider introducing an upper limit to the portfolio of active VC projects in individual countries at any point in time. Alternatively, include NVC projects into the budget so both they and all other VC projects are subject to the budget process's resource allocation discipline.

C. Spot checking of selected projects to determine whether PAHO implemented its own risk management framework during the approval process

A review was done of the available documentation for 8 projects selected by PAHO staff for this purpose:

Award	Sponsor	Fund	Total Amount	Award Status	Scope of Review
002146 USAID-PAHO Umbrella Grant 2016-2021	US Agency For International Development (USAID)	PAHO Voluntary Contribution	\$31,040,305.00	Active	Review of Project Documentation, No Risk Assessment Available
049129 Strengthening Climate Resilient Health Systems in the Caribbean	European Commission	PAHO Voluntary Contribution	\$7,724,028.75	Active	Review of Project Documentation, No Risk Assessment Available
278017 Integrated Health Services for Adolescent Girls and Women in the Greater South of Haiti	United Nations Population Fund (UNFPA)	PAHO Voluntary Contribution	\$2,584,618.25	Active	Review of Project Documentation, No Risk Assessment Available
555001 Trans Fat-Free Americas Project	The International Union against Tuberculosis and Lung Disease, INC d/b/a Vital Strategies	PAHO Voluntary Contribution	\$1,058,075.50	Active	Review of Project Documentation, No Risk Assessment Available
556001 Psycho-social Support Services in the British Virgin Islands	Government of British Virgin Islands	National Voluntary Contribution	\$354,088.00	Active	Review of Project Documentation, No Risk Assessment Available
049125 Programa de Apoyo al Sistema de Atención Primaria en Salud para la Reducción de la Desnutrición Crónica en Guatemala	European Commission	PAHO Voluntary Contribution	\$21,612,030.17	Active	Review of Project Documentation and Risk Assessment
140070 Smart Health Care Facilities in the Eastern Caribbean Phase II	UK Department For International Development (DFID)	PAHO Voluntary Contributions	\$56,659,297.87	Active	Review of Risk Assessment Only
068008 Convenio de Cooperación Internacional entre el Ministerio de Salud Pública y Asistencia Social (MISPAS) y la Organización Pan-Americana de la Salud (OPS/OMS)	Ministerio de Salud Pública y Asistencia Social de la República Dominicana	National Voluntary Contribution	\$29,829,276.29	Active	Review of Risk Assessment Only

The findings indicate there are many strong elements in all of the projects' documentation, but there is a lack of consistency in what is covered.

Strong elements include:

- All projects for which project documentation was reviewed had the Legal Agreement signed by a high level PAHO official.
- Peer review notes are available for all projects reflecting (broad) consultation in the internal review process (for the larger projects), and the final project descriptions and what was done with the comments are recorded in most cases (especially for the larger projects).
- Comprehensive descriptions of activity by outcome and corresponding budget amounts are also present in all cases, except for one project where part of the funds were repurposed after implementation start for COVID-19.
- In the case of Vital Strategies (a non-governmental organization - NGO) the Legal Counsel's office did a FENSA (Framework of Engagement with Non State Actors) review and documented the same to ensure the NGO is an acceptable partner.
- The three risk assessments using PAHO's ERM process that were reviewed all included risk matrices using PAHO's risk taxonomy, evidence of risk training or workshops delivered locally to involved officials, and in the case of the 'Smart Hospitals Project' extensive progress reports and additional risk assessments undertaken together with the donor.

Observations about potential weaknesses:

- In the one case where both the project documentation and the risk assessment were available, the risk assessment was not reflective of the peer reviewers' comments on risks.
- One specific challenge for PAHO in managing the VC portfolio is that the Legal Agreements are different in almost all cases, either determined by the donor – e.g., USAID (U.S. Agency for International Development), EU (European Union) and DFID (UK Department for International Development) agreements differ materially in several respects, or the recipient in case of NVC – as opposed to there being a standard legal agreement or set of minimum legal requirements to be included across all VC projects driven by PAHO. For example, USAID requires an Environmental Review, and DFID requires a mid-term review undertaken by independent consultants they hire. The negative list activities (what is not eligible for financing) are different for different donors and projects as well. Contracting parties were required only in one case to report on any sanctions they are subject to, and insurance requirements were specified also in only one case. Ex post procurement certification letters were required in one case, while public disclosure of contracts larger than 15 million EURO was required in two other cases. Reporting requirements were prescribed in detail in some projects, including public disclosure thereof on dedicated websites, but not mentioned in other projects.

This diversity of approaches – while undoubtedly enhancing flexibility for PAHO to work with many different counterparts/donors on a quick turnaround basis, also brings with it some inherent risks to PAHO. The compliance monitoring burden for PAHO is significant and may become unmanageable as the portfolio of VC projects grows in size and complexity.

Recommendation 17:

- *Ask Legal Counsel to propose as a matter of course a set of standard clauses to be included in all Legal Agreements (e.g., on sanctions, insurance, procurement certification, public disclosure requirements, etc.) [will require some time to complete, e.g. 6 months].*

- *Ask the Compliance Adviser to undertake systematic compliance reviews – beginning with high risk VC projects - to ensure obligations described in the various different Legal Agreement types are continuously complied with [will require some time to initiate, e.g. 3 months; a deadline should be set for completing the review for the overall active portfolio of high risk VC projects, e.g. 6 months].*
- *Introduce Annual Certification Letters for the Grant Coordinators and their Entity Managers on compliance with the negative lists for the grants under their supervision [quick win].*

D. Interviews with key officials involved in the risk assessment process

This report was prepared by the Consultant (who is independent from PAHO) under the general coordination of Mr. Gerald Anderson. The following PAHO staff were interviewed:

- Mr. Gerald C. Anderson, Director of Administration (AM)
- Ms. Veronica Ortiz, Administrative Operations Advisor (AM)
- Ms. Carolina Bascones, Advisor, Enterprise Risk Management (AM/ERM)
- Ms. Cristina Drouet-Zurita, Administrative Technician, (AM/ERM)
- Ms. Mary Blanca Rios, Compliance Advisor (AM)
- Dr. Heidi Jimenez, Legal Counsel (LEG)
- Mr. Alberto Kleiman, Director, External Relations, Partnerships & Resource Mobilization (ERP)
- Mr. Ian Stein, Senior Advisor (ERP/RM)
- Ms. Christina Marsigli, Advisor (ERP/RM)
- Mr. Dean Chambliss, Director, Planning and Budget (PBU)
- Ms. Diana Quintero Cuello, Chief of Budget (PBU)
- Mrs. Linda Kintzios, Treasurer and Senior Advisor, Financial Resources Management (FRM)
- Mr. David O'Regan, Internal Auditor (OIA)
- Dr. James Fitzgerald, Director, Health Systems and Services (HSS)
- Dr. Ciro Ugarte, Director, PAHO Health Emergencies (PHE)
- Dr. Marcos Espinal, Director, Communicable Diseases and Environmental Determinants of Health (CDE)
- Ms. Soledad Amira, Administrative Officer (CDE)
- Ms. Pilar Huerta, PAHO/WHO Representative in Honduras

All interviews took place virtually (through Microsoft Teams) during the period between July 12 and July 31, 2020 and were mostly one-on-one. The spirit in which the discussions took place was very constructive, and any information requested as a follow-up was provided promptly. PAHO officials all took time to explain in detail how their internal processes work, in some cases touching on items outside of the scope of the review to clarify differences between flexible funds and VC funds. Live demonstrations were also provided on the Risk Register and PMIS system, which were very helpful. In response to a question asked of all interviewees, what their view was on what needs changing in response to member concerns, many helpful comments and suggestions were made. These are reflected in this report, indicating a high level of internal buy-in to the change process required to address the concerns at hand and implement the recommendations.

The Internal Auditor noted he is also doing an independent review of VC project risk management, to be completed around the same time as this review. There likely will be a fair amount of consistency between the two reviews.

E. Overview of Recommendations

Recommendation 1: To ensure Grant Coordinators and their supervising Entity Managers are aware of all the applicable policy requirements concerning VCs and no elements of these policies are inadvertently missed, it is recommended to integrate the framework and separate VC policies into one document that has the status of a policy, covers NVCs explicitly and whose use is mandatory [requires time to complete, set specific completion deadline, e.g. six months].

Recommendation 2: The new integrated policy framework for VC projects should be adjusted to include a simplified version of the rules for small/low risk projects to free up capacity to strengthen the risk focus on large/complex projects [requires time, set specific completion deadline, e.g. six months].

Recommendation 3: all of PAHO's manuals should be under the direct control of PAHO, so management can ensure they are updated as and when needed and that all documents can be easily found in one central repository [some of these could be quick wins, where the policy of another organization can be adopted as is as a PAHO policy; others will require more time. Prepare an inventory of all manuals and an action plan for quick/medium term conversion].

Recommendation 4: Develop and apply a set of criteria to identify which VC projects are high risk and hence require stronger project governance [quick win]. Criteria could include project size (e.g., > \$10m, >\$5m if Country Office-managed, all projects with extraordinary procurement activities (e.g., ambulance procurement, hospital construction, short duration projects with large value procurement to be completed within e.g. 1 year) and projects with fraud/corruption concerns.

Recommendation 5: Introduce the project cycle concept for all high risk VC projects with, at a minimum, corporate level reviews taking place at project concept/development stage, before negotiations on the legal agreement start and at mid-term during implementation. These reviews should be chaired by the reconstituted Project Support Unit (see Recommendation 14), attended by the responsible Technical Unit and Country Office Directors, and also include representation from ERP, the Legal Counsel's Office and Administration/the Risk Management Adviser. Workday's Project Management Module should be used to document the process including through the use of workflow [requires time to develop, set specific completion deadline, e.g. six months].

Recommendation 6: Add Legal Counsel to the membership of the Enterprise Risk Management Standing Committee (ERMSC) when VC project risk is discussed [quick win]. See also Recommendation 7.

Expand the electronic VC award depository to include all signed legal agreements, procurement and audit documentation, peer review comments etc. and make the repository accessible to all staff with appropriate limitations on access to documents of confidential nature. (i.e., fully operationalize the intended 'one stop shop concept') [quick win].

Recommendation 7: Include project risk for all high risk VC projects (selected per the criteria referenced above) in the Enterprise Risk Management process and require Grant Coordinators and their Entity

Managers to work with the Risk Management Adviser to include corresponding risk ratings and risk attributes in the centralized Risk Register maintained by the Advisor, so EXM is made aware early of the risks as part of the regular risk reporting already in place [quick win].

Recommendation 8: develop a set of key risk metrics shared throughout the organization with clearly defined targets and updated regularly for progress achieved. The focus should be on the highest-level risks including VC project risks [requires time to complete, as wide consultation is needed to determine the metrics, e.g. one year].

One risk metric in particular may be helpful, namely VC funding as % of flexible funding. Any percentage approaching or exceeding 50% can serve as a warning signal for excessive dependency on such funding, which is not under PAHO's control and in case of a sudden drop, may create undue business continuity risk [quick win].

Recommendation 9: From a risk management perspective, it is best practice to ensure early and continuous engagement of the governing bodies in risk issues, particularly in taking on new high risk projects or activities. This can, but does not necessarily have to be through formal approval of such projects or activities, but should at a minimum include Technical Briefings providing information on risk issues on a regular basis and constructive discussions with EXM and key staff on what is done to manage/mitigate key risks. These could be included as a regular agenda item for the Audit Committee, which meets twice annually and reports to the Executive Committee [quick win].

For the VC project portfolio, details about the overall portfolio in general (e.g., its size, breakdown by type, donor, recipient, etc.) and high risk projects in particular should be shared regularly with the governing bodies (e.g., risk ratings, project-specific risk assessment findings, implementation delays and actions taken to address any problems (such as project restructuring or cancellation, any fraud and corruption concerns or Ethics investigations, etc.). This information could be added to the existing data on VC projects in the unaudited annex to the annual financial report. Under the relevant agenda item at the Executive Committee, members should be able to ask questions and engage in constructive discussions with operational staff responsible for the highest risk VCs [quick win].

Recommendation 10: Include provisions in the ERM Policy on alternative reporting channels staff can use for this purpose, e.g. through the Risk Management Advisor, the Compliance Officer or the Ethics Officer. It should also be possible for staff who do not formally 'own' a particular risk to report on that risk through the aforementioned channels in a confidential manner [quick win].

Recommendation 11: Set up a dedicated Internal Control committee for this purpose or modify the terms of reference of the existing ERMSC to include this mandate. Meetings of the committee could also serve to exchange information about compliance issues on a regular basis across the organization [quick win]. One could go one step further (as several other development organizations have done) and hold annual COSO workshops throughout the organization including with staff in the field, as they are most likely to be aware of problems on the ground. COSO questionnaires are typically distributed beforehand and summarized by an assigned moderator to ensure the views of individual business units are properly collated for sharing with management [requires some time to set up, e.g. 3 months].

Recommendation 12: Management should revise the Standard Operating Procedure on Internal Controls to cover implementation of the Internal Auditor's recent recommendations on this topic, and include

references to show how corporate systems support internal controls [will take time to complete, e.g., 1 year].

Recommendation 13: The ERM and IC policies should include tight cross references, and duplication between the two should be eliminated to provide greater clarity about the respective roles of IC and risk management/monitoring and how the underlying processes interrelate [will take some time as it may require rewriting some part of both policies and must await the new integrated VC policy, e.g. 1 year].

Recommendation 14:

- *A Project Support Unit existed in the past that oversaw and guided project management and implementation in operational units, with a focus on strategic issues and portfolio quality. This type of central oversight function is very common in development finance institutions, and should be recreated to ensure consistent strong focus on project implementation throughout the PAHO organization. The Project Support Unit should report directly to PAHO's Deputy Director [will take some time to complete, e.g., 3 months].*
- *Reports should be prepared on a regular basis by the Project Support Unit (e.g., monthly for EXM, quarterly or semi-annually for the Executive Committee) that provide an overview of the status of the overall VC portfolio from a strategic/portfolio quality perspective. For these reports, clear-cut definitions and metadata for the information provided should be developed to ensure a consistent understanding across the organization of their content (e.g., what type of VC funding arrangements are included⁵, whether the data are stock or flow data⁶, etc.). This information should be combined with the earlier referenced recurring VC project risk reporting to EXM and the Executive Committee [will take some time to complete, e.g., 3 months].*

Recommendation 15:

- *The topic of the historically large magnitude of NVC projects in some countries (e.g., Brazil) may warrant a discussion at the Executive Committee. There is reputational risk for PAHO in this practice that the Executive Committee should be made aware of and discuss/provide guidance to the organization on how to deal with this issue going forward.*

Recommendation 16: Consider introducing an upper limit to the portfolio of active VC projects in individual countries at any point in time. Alternatively, include NVC projects into the budget so both they and all other VC projects are subject to the budget process's resource allocation discipline.

Recommendation 17:

- *Ask Legal Counsel to propose as a matter of course a set of standard clauses to be included in all Legal Agreements (e.g., on sanctions, insurance, procurement certification, public disclosure requirements, etc.) [will require some time to complete, e.g. 6 months].*

⁵ E.g., PAHO Voluntary Contributions, National Voluntary Contributions, PAHO Emergency Preparedness and Disaster Relief. WHO Voluntary Contributions were not reviewed.

⁶ FRM and Risk Register reports provide mostly stock data, while ERP and PBU reports provide mostly flow data.

- Ask the Compliance Adviser to undertake systematic compliance reviews – beginning with high risk VC projects - to ensure obligations described in the various different Legal Agreement types are continuously complied with [will require some time to initiate, e.g. 3 months; a deadline should be set for completing the review for the overall active portfolio of high risk VC projects, e.g. 6 months].
- Introduce Annual Certification Letters for the Grant Coordinators and their Entity Managers on compliance with the negative lists for the grants under their supervision [quick win].

Washington, D.C.

August 18, 2020

Annex 1 – TERMS OF REFERENCE

Analysis of the Risk Management Framework for Voluntary Contribution-funded Projects at the Pan American Health Organization

PAHO is seeking a consultant in the area of Risk Management to prepare a report requested by our governing body according to the following Terms of Reference: "Review, refine, and present for consideration of the 58th Directing Council [highest governing body] risk assessment and management criteria and frameworks, as set forth in document CE166/6, as well as a decision-making matrix based on types and levels of risk related to new technical cooperation projects funded by voluntary contributions, in consultation with an external, independent subject matter expert."

PAHO's implements voluntary contribution projects at a volume of approximately \$120 million annually, mostly funded by government entities, the European Union, international organizations such as GAVI, and a few private foundations (e.g., Gates and Warren Buffet). PAHO has well developed and documented frameworks in place. The engagement would consist of (a) a document review of our existing frameworks, (b) high level analysis of the levels of risk associated with our current projects, based on business intelligence reports that we would provide from our system, (c) interviews with key officials involved in the risk assessment process, (d) spot checking of selected projects to determine whether PAHO implemented its own risk management framework during the approval process, and (e) a set of recommendations for any identified quality improvements to the process.

PAHO will need to finalize the resulting document (maximum of 5 pages plus data and supporting documents as annexes) by mid-August, in order to translate and publish in four languages by early September.

Annex 2 – Recent Audit Committee (AC) Recommendations

LIST OF RECOMMENDATIONS from the 2018 Annual Report of the Audit Committee:

Recommendation 1. The Committee recommends that the Bureau design and undertake a comprehensive evaluation of the added value resulting from the Mais Médicos project. The evaluation should include the lessons learned for PAHO as an organization.

Recommendation 2. The Committee recommends that management give high priority to implementing automatic bank reconciliation and calculation of correct exchange rates.

Recommendation 3. The Committee recommends that the Bureau give priority to establishing explicit linkage between the internal control framework and the ERM program.

Recommendation 4. The Committee recommends that management take concrete actions to address the gaps identified in the report Information Security Controls Assessment.

Recommendation 5. The Committee recommends that the Bureau initiate an assessment of compliance of the SOP with the COSO model internal control framework.

Recommendation 6. The Committee found that audit observations in the Haiti Internal Audit report indicated a lack of sufficient central monitoring on the part of PAHO Headquarters to detect and take corrective measures when an office is not in compliance with basic management procedures and controls. The Committee recommends that the Bureau strengthen its monitoring role.

Recommendation 7. The Committee recommends that the Bureau take account of the Committee's comments and recommendations on the draft terms of reference for the Investigations Office and the draft post description for the Chief Investigator. These comments are based on good practices for investigative functions within the UN system.

Recommendation 8. The Committee recommends that the Bureau revise the wording of the Statement of Internal Control so that it more adequately discloses the Organization's main risks and specifies how they are being mitigated.

LIST OF AC COMMITTEE RECOMMENDATIONS from the 2019 Annual Report of Audit Committee

Recommendation 1. Concerning the PMIS development, the Committee requests the management to submit a roadmap beyond 2019 with milestones and additional information on progress made.

Recommendation 2. The Committee recommends that the Terms of Reference of the Investigations Office be revised taking into account its comments including the details of a) the procedures for the intake for allegations; b) the reporting lines of the Investigations Office; and c) follow-up on action taken as a result of investigations findings and submit the revised Terms of Reference for its review.

Recommendation 3. The Committee recommends that the Bureau fully integrate the cybersecurity actions into the business continuity and that the ITS department of PASB develop metrics for each compliance issue detected in the assessment, determining the level of risk exposure based on the metrics established, with periodic monitoring and reporting to EXM. These metrics should be reflected in the revised IT Security Policy and Procedure framework.

Recommendation 4. The Committee recommends that IES further develop its methodology for the selection of country offices to be audited, and submit to the Committee an explanatory paper detailing the methodology. In doing in so, IES should consider using a weighted and data driven approach in the risk analysis, including also explanatory narratives of how the conclusions are reached in the table format presentation.

Recommendation 5. In revising the evaluation policy, the Committee strongly recommends to align the policy with the UNEG standards and norms in particular with respect to a)the process for developing and deciding on the evaluation plan; b)the approval of the plan (by the Director/Governing body); c)approval of the Terms of Reference/methodology of the evaluation to be conducted; and d)quality assurance of the reports, bearing in mind that PAHO is a member this group. Furthermore, the Committee recommends that PAHO submit the draft evaluation policy for a peer review (UNEG) before resubmitting the policy to the Committee.

Recommendation 6. The Committee recommends that management synchronize the chart of accounts with the program budget and planning cost structure or create a system that can process both.

Annex 3 – Program Budget Reports on NVCs

Program Budget 2016-2017, End Of Biennium Report National Voluntary Contributions, Available and Implemented

Government	Available	Implemented	Available by PAHO Programmatic Category					
			Category 1	Category 2	Category 3	Category 4	Category 5	Category 6
Government of Brazil	117,372,765	112,174,018	19,392,110	4,478,105	18,908,073	62,038,431	4,947,874	7,608,173
Government of Colombia	14,144,837	14,084,995	2,003,428	7,457,424	2,662,124	493,780	780,961	747,120
Government of Argentina	3,115,293	3,102,562	-	-	142,112	2,317,245	30,990	624,946
Government of Dominican Republic	2,626,680	2,626,680	-	-	-	-	2,626,680	-
Government of Mexico	1,923,128	1,836,226	64,016	208,465	-	1,650,647	-	-
Government of Peru	1,411,670	1,404,289	-	-	-	-	-	1,411,670
Government of Costa Rica	520,181	205,966	-	439,991	-	80,190	-	-
Government of Ecuador	560,337	560,337	471,918	-	-	88,419	-	-
Government of Trinidad and Tobago	304,890	45,634	-	65,800	109,370	117,500	12,220	-
Government of Chile	123,729	123,729	-	-	-	123,729	-	-
Government of Uruguay	121,118	121,118	-	121,118	-	-	-	-
Government of Paraguay	98,285	98,285	-	-	-	-	98,285	-
Government of Panama	81,624	80,938	-	-	-	81,624	-	-
Government of Guatemala	2,480	2,480	-	-	-	-	-	2,480
Subtotal	142,407,016	136,467,255	21,931,472	12,770,902	21,821,678	66,991,564	8,497,010	10,394,389

Source: PMIS and End of Biennium Report 2016-2017

Program Budget 2018-2019, End Of Biennium Report National Voluntary Contributions, Available and Implemented

Government	Financed in Biennium 2018-2019*	Implementation	Available by PAHO Programmatic Category**						To be carried over to 20-21
			Category 1	Category 2	Category 3	Category 4	Category 5	Category 6	
Brazil	205,213,129	109,791,250	23,975,047	4,095,598	18,635,896	53,713,287	3,163,880	8,151,545	93,477,877
Colombia	1,370,750	1,279,441	167,714	328,660	440,733	177,431	79,376	85,526	91,309
Argentina	3,072,855	1,655,751	114,851	22,152	35,598	1,480,739	2,761	-	1,416,753
Dominican Republic	25,514,146	15,024,133	-	-	-	-	15,024,133	-	10,490,013
Mexico	2,280,796	2,270,748	-	33,744	1,776,980	245,981	214,044	-	10,048
Peru	-	-	-	-	-	-	-	-	-
Costa Rica	2,343,966	739,001	386,572	176,004	-	359,741	-	-	1,421,650
Ecuador	52,810	52,810	48,870	-	-	3,940	-	-	-
Trinidad and Tobago	371,278	303,036	-	65,800	88,328	141,819	7,089	-	68,242
Chile	13,085	13,083	-	-	-	13,083	-	-	2
Uruguay	92,946	88,700	-	74,107	-	14,594	-	-	4,246
Paraguay	104,028	43,389	43,389	-	-	-	-	-	60,639
Panama	2,176,325	530,263	390,864	-	-	386,658	-	-	1,398,803
Guatemala	614,592	142,894	2,094	-	20,921	119,880	-	-	471,698
British Virgin Islands	313,352	148,627	-	156,533	-	-	-	-	156,819
Total NVCs 2018-2019	243,534,058	132,083,127	25,129,401	4,952,597	20,998,456	56,657,152	18,491,283	8,237,070	109,068,099

*Financed includes the total amounts that have been signed during the biennia, even when amounts are to be carried over for next biennium.

** Available corresponds to the total amounts that were distributed and ready to use in the system.

Source: PMIS, Award Management Report and End of Biennium Report 2016-2017

LIST OF ACRONYMS

AC	Audit Committee
AM	Administration
CDE	Communicable Diseases and Environmental Determinants of Health
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DFID	Department for International Development (of the UK)
DOM	Dominican Republic
ERM	Enterprise Risk Management (process)
ERMSC	Enterprise Risk Management Standing Committee
ERP	External Relations, Partnerships and Resource Mobilization
ETH	Ethics (office)
EU	European Union
EXM	Executive Management Team
FENSA	Framework of Engagement with Non-State Actors
FRM	Financial Resources Management
GAVI	Gavi, the Vaccine Alliance
GTM	Guatemala
HSS	Health Systems and Services
IC	Internal Control
IES	Internal Oversight and Evaluation Services
IPSAS	International Public Sector Accounting Standards
ITS	Information Technology Services
LEG	Legal (Office)
NGO	Non-Governmental Organization
NVC	National Voluntary Contribution
OIA	Internal Auditor
PAHO	Pan American Health Organization
PASB	Pan-American Sanitary Bureau
PBU	Planning and Budget
PHE	PAHO Health Emergencies
PMIS	PAHO Management Information System
SMART indicators	Indicators that are Specific, Measurable, Achievable, Relevant and Time-bound
SOP	Standard Operating Procedure
ToR	Terms of Reference
UNEG	United Nations Evaluation Group
UNODC	United Nations Office on Drugs and Crime
USAID	U.S. Agency for International Development
VC	Voluntary Contribution
WHO	World Health Organization
Workday	a Global HR Management System (used by PAHO)