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FAC Report

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Financial and Administrative Committee (FAC) Report Fiscal Year 2004-2005

The membership of the Financial and Administrative Committee currently consists of:

Argentina: Carlos Ereño
Brazil: Antônio Mac Dowell
Canada: Louis Grittani
Chile: Renato Quiñones
Cuba: Bárbara Garea
United States: Vanessa Richardson (Chair)

EC Chair: Adrián Fernandez

During the past year, the members from Brazil and Chile did not participate in the FAC.

The FAC met formally on one occasion during the past year – in São José dos Campos, Brazil in February/March 2005. In addition, Vanessa Richardson and Louis Grittani participated in the two site visits by KPMG (in July and August 2004) as part of the IAI External Review.

Site Visit July 13-16, 2004 São José dos Campos, Brazil

Louis Grittani and Vanessa Richardson

1. External Auditors (KPMG) review of the IAI's Internal Controls – The Auditor's review focused primarily on the Collaborative Research Networks (CRN) awards payments and receiveable, but also included internal control issues related to employee and procurement policies and procedures.
2. Project Management Manual -- The IAI Directorate agreed to provide a significantly revised version of the Manual by mid-August.
3. Core Budget Request Letter -- At the FAC meeting in Buenos Aires (June 28, 2004), the FAC had requested a copy of the letter that would be sent out to the Member Countries requesting their Core Budget contributions for the coming fiscal year. A draft of the letter was provided and comments were due to the IAI Directorate by July 30.
4. Employee Manual -- The first 13 pages of the document were reviewed in detail during the site visit and specific comments were also provided later in writing. The most significant issues to be addressed were --
 - * compensatory time (does the policy need to be revised?)
 - * Education Allowance (what are allowable costs?)
 - * Performance Appraisal Review system -- timing of reviews, external input, etc.

Site Visit
August 16-20, 2004
São José dos Campos, Brazil

Louis Grittani and Vanessa Richardson

1. The primary purpose of the trip was to meet with KPMG regarding the External Audit, which this year had two parts:
 - A. Management/Internal Controls and
 - B. Financial Statements

The draft Management Letter (from the July meeting) wasn't available until Monday, August 16. The draft document was reviewed with the Auditors and Directorate staff. On Friday, August 20, the Auditors were still reviewing several of the CRN awards and other financial statements.

The original plan was to have both reports (Management and Financial) finalized by September 30 to sent to the EC Chair, Adrián Fernandez.

Other FAC matters were discussed with the Directorate.

2. Louis Grittani and Vanessa Richardson provided Gustavo Necco and Silvio Bianchi with detailed recommendations regarding the revisions to the Employee Manual. Most of the comments dealt with issues that have previously been discussed with the Committee. As the Committee had agreed earlier, Louis Grittani would serve as the lead FAC member for the Employee Manual and proposed that the requested revisions be completed by September 30th, 2004. His plan was to share the revised document with the FAC and IAI Directorate staff for comment in early October, with the expectation that the Employee Manual be finalized by the end of the calendar year.
3. Louis Grittani and Vanessa Richardson met with Gustavo Necco and Paul Filmer (NSF Program Manager to review the Management Checklist.
4. Louis Grittani, and Vanessa Richardson met with Gustavo Necco, Silvio Biachi, Gerhard Breulmann, Eduardo Banus and Paul Filmer regarding the Project Management Manual. The IAI needs to develop policies and internal procedures for handling numerous aspects of the process.
5. Louis Grittani and Vanessa Richardson met with Silvio Bianchi to discuss other FAC issues.
 - A. Quarterly Reports will be provided to the FAC on the following schedule -- October 31, January 31, and April 30, with the preliminary year-end report by July 31 (essentially, the quarterly reports would be distributed within one month following the previous quarter's end).
 - B. The budget request for 2004/2005 will be updated to reflect more accurate estimates for travel and costs associated with the Director and Interim Director.

6. Gustavo Necco reported that the IAI staff performance appraisals should be completed by mid-September and that he will notify the EC Bureau of his recommendations (as per the Employee Manual).

**FAC Meeting
February 25-March 2, 2005
São José dos Campos, Brazil**

Present: Carlos Ereño, Bárbara Garea, Louis Grittani and Vanessa Richardson
Adrián Fernandez, EC Chair, participated in the meeting with KPMG
Antônio Mac Dowell and Renato Quiñones could not attend

The Agenda included:

- 2003/2004 External Audit (with KPMG and Adrián Fernandez)
- Planning for future External Audits (with KPMG and Adrián Fernandez)
- Salary Determinations for IAI Staff
- Employee Manual
- FY 2005/2006 Core Budget Request
- Alternative Core Budget Contribution Levels
- Review of FY 2004/2005 financial situation -- contributions and expenditures
- Situation with Local Staff Contracts
- Banking Situation
- Analysis of Indicators of Efficiency of Core Budget
- Project Management Manual (and CRN2 contracts)
- Management Checklist
- Other

Ereño, Garea, Grittani, Richardson and Fernandez met with Cleber de Araujo and Roberto Vilela Resende of KPMG and John Stewart, Silvio Bianchi and Anita Soares to discuss the **External Audits for 2003/2004 and 2004/2005**.

With regard to the **Financial Statements for June 30, 2004 and 2003**, KPMG provided a general overview of the findings. One of the problems in the 2003/2004 Report was the financial reporting of the Collaborative Research Networks (CRN) awards were not all close enough to the IAI fiscal year-end. The reporting dates of the projects' financial status reports were scattered throughout the year [based on their respective anniversary dates] making it difficult, from an accounting perspective, to determine the expenses, liabilities, etc. pertaining to that fiscal year. Various alternatives were discussed – including instituting an annual reporting requirement of April 30 for all awards -- and it was agreed that KPMG would review the draft contract for the new CRN-2 awards.

The weaknesses identified in the **Management Letter** were discussed and IAI Management provided an update on the actions and status of the each of the six areas addressed in the letter.

The issue of CRN-038 is still outstanding and the EC Chair is working with the Interim Director to get resolution by the CoP meeting in May 2005.

Plans for the **2004/2005 Audit** were reviewed with the following recommendations:

- Financial statements for Fiscal Year 2003/2004 would not be ‘restated’ using the new accounting principles adopted during the 2004/05 fiscal year
- A schedule with milestones will be developed for the 2004/2005 Audit with the final reports due in mid-November
- A “pre-audit” and Management review would be scheduled for April, using March 31, 2005 as an interim audit date to assess the progress made with respect to the implementation of internal procedures and to anticipate any issues
- The audit will be scheduled for August
- All draft financial statements and management letters will be dated and include a ‘version’ identification

The FAC met with the Interim Director to discuss a **proposal to compensate the international staff** for recent losses in purchasing power due to inflation in Brazil and a decline in the U.S. Dollar vis-à-vis the Brazil real. The FAC agreed with the Interim Director that this was a problem and that an immediate ‘temporary adjustment’ was necessary while a more permanent solution is reviewed by the FAC. The initial solution proposed by the FAC is to accept the 2% salary adjustment (the only other salary adjustment was a 3% increase effective July 1, 2002) and a temporary ‘post adjustment’ of 13%, using the change in the United Nations Post-Adjustment multiplier between June 30, 2002 (the month prior to the last salary adjustment) and January 31, 2005. The post-adjustment multipliers were 6.7 and 26.4, respectively.

ACTION: The FAC has charged itself with undertaking a study to review options for developing a salary scale and post adjustment policy for the IAI. This activity will be conducted in consultation with the new IAI Director and outside sources as the FAC deems appropriate.

The FAC reviewed the initial **Core Budget Request for 2005/2006** and asked for modifications and clarification. The FAC approved the final recommendation that incorporates a 2% salary adjustment, a temporary post adjustment of 13% for the international staff and total for the Contribution Level at \$1,015,000, up from \$945,000. It should be noted that Member Country Contributions have not increased since CoP VII in Mérida, Mexico in 2000.

The FAC strongly endorsed the need to increase to the IAI Core Budget to address salary adjustments of the staff. There has been only one adjustment to salaries of the international staff – a 3% adjustment in July 2002. Although the employment contracts provide for annual increases of up to 5%, other adjustments have been postponed due to the financial situation with Core Budget Contributions. There has been some improvement in the Core Budget Contributions over the past year and it is time that the efforts of the staff are recognized. In addition, there has been a serious erosion of the purchasing power of staff as a result of inflation in Brazil and a devaluation of the U.S. Dollar. The FAC felt that it was important that action be taken at this time to address these issues and send a positive message to the new Director that the IAI Member Countries are supportive of the efforts of the Directorate staff.

Louis Grittani led the review of the **IAI Employee Manual**. Two significant revisions to this version of the manual dealt with Compensatory Time and Education Allowances. The need for further revisions was identified. Louis Grittani and Silvio Bianchi will coordinate efforts to further improve the Manual.

Carlos Ereño led the discussion of **alternatives for Core Budget Contribution levels**. This was Action # 4 from Day 2 (June 30, 2004) from the Nineteenth Meeting of the Executive Council in Buenos Aires. The FAC had some suggestions about Carlos' documentation and the presentation to the EC. The timeline for this proposal would be that any proposal that the EC may consider adopting would need to be forwarded to CoP XII (May 2005) as a proposal with a possible action taken at CoP XIII in 2006. **The proposal is being submitted to the EC as an addendum to this report.**

The **status of the Core Budget as of January 31, 2005** was reviewed. The FAC asked that the presentation of the information be expanded for future reports.

On a related issue, Carlos Ereño presented the FAC with copies of OAS and UN documents dealing with payment and non-payment issues and measures to encourage the timely payment of quotas. Due to time constraints the FAC did not have time to fully discuss these strategies, but agreed that it was an important topic for future discussion.

The Financial and Administrative Officer reported on the **banking situation**.

The FAC also asked about a reference in a document about IAI 'investments.' The FAC was informed by the Financial and Administrative Officer that the IAI has taken advantage of short-term, risk-free investments.

The FAC met privately with the Interim Director to ask about the **situation with the local staff contracts**.

Bárbara Garea discussed the proposal for an **analysis of the efficiency of the IAI**. This was Action #7 from Day 2 (June 30, 2004) from the Nineteenth Meeting of the Executive Council in Buenos Aires. It was agreed that since most of the information will be available on the IAI website (as part of the new database), in IAI Director Reports or as part of the External Review being conducted by the American Association for the Advancement of Science (AAAS), there is no need for such an analysis at this time.

The **Management Checklist** (dated 9 February 2005) was reviewed. Progress was noted in several areas.

Since the **Project Management Manual** had not been revised to address the comments provided by NSF and FAC on 15 February 2005, it was decided to postpone approval of this item. Louis Grittani and Vanessa Richardson later met with John Stewart, Silvio Bianchi and Gerhard Breulmann to review NSF and FAC comments.

The **next meeting of the FAC** will be in Montreal on Sunday afternoon, May 1, 2005. Time and location to be determined.