

**INTER-AMERICAN INSTITUTE FOR
GLOBAL CHANGE RESEARCH**



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Report of the Financial and Administrative Committee

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Financial and Administrative Committee (FAC) Report

As of May 2007, the Financial and Administrative Committee (FAC) consisted of three members:

Brazil: Evair Sergio da Silva

Canada: Louis Grittani

United States of America: William Smith

Executive Council Chair: Maria Assuncao Faus da Silva Dias

IAI Financial and Administrative Officer: Rafael Atmetlla

Since reporting last to the Executive Council at its 23rd meeting December 2006 in Panama City, Panama, the FAC has formally met once. The minutes of our May 2-4, 2007 are presented below. The FAC was unfortunately not able to successfully arrange a meeting before, during or after the EC meeting in December, but Will and Louis did manage to discuss various issues, including the Contracting and Procurement Manual for a few hours. So, this May FAC meeting represented a great opportunity to get acquainted with each other and to refresh the IAI/FAC relationship.

IAI Financial and Administrative Committee Meeting Minutes
(May 2-4, 2007)
Sao José dos Campos, SP, Brazil

Present from the FAC: William Smith (USA), Evair Sergio da Silva (Brazil), Louis Grittani (Canada, via telephone)

Present from the IAI: Holm Tiessen (Director), Rafael Atmetlla (Financial and Administrative Officer [FAO])

The Financial and Administrative Committee (FAC) conducted its annual spring (from a North American perspective) meeting in the offices of the Inter-American Institute for Global Change Research (IAI) in Sao José dos Campos, Brazil. A variety of topics were discussed, although the timing of this meeting was principally dictated by the need for the FAC to meet, review and discuss the IAI's 2007/08 budget proposal ahead of the next set of institutional meetings (Executive Council and Conference of the Parties (EC/CoP)) which will take place in June in Manaus, Brazil, and which will include a vote to accept or reject the budget proposal. This meeting was the first formal FAC meeting on many fronts:

- the first for Will since he replaced Vanessa Richardson (the Committee's former chairperson) even though he's provided invaluable input to the Contracting and Procurement Manual since September;
- the first for our newest FAC member, Evair, and we certainly welcomed him and we look forward to his participation and contribution; and
- the first for Rafael as the IAI's new Financial and Administrative Officer who Louis had the pleasure of meeting last September during the interview process.

The last formal FAC meeting was in September 2006. In Panama City in December 2006 (the site of the last EC meeting), we were unfortunately not able to successfully arrange a FAC meeting before, during or after the EC meeting, but Will and Louis did manage to discuss various issues, including the Contracting and Procurement Manual for a few hours. So, this May FAC meeting represents a great opportunity to get acquainted with each other and to refresh the IAI/FAC relationship with the new players.

We tried to keep to the following proposed order of topics, but jumped around a bit in our discussions.

Relationship Between IAI and FAC:

- We want to ensure that the FAC and the IAI work productively and cohesively together towards the attainment of common goals. In the past, the FAC has been correctly accused of being too involved in the IAI's affairs, but at the time, we felt it was justified. Today, the IAI is much more stable and sound, both financially and administratively.
- Is it time to back off? Since September, there has not been much communication / interaction between the IAI and FAC, apart from routine correspondence, so from that

perspective, we have. Holm and Rafael appear to have a good handle on the organization's financial and administrative affairs and we feel quite confident that things are okay.

- Holm reiterated our responsibilities, which according to the FAC Charter, are:
 - Review and approve terms and conditions of IAI Directorate staff salaries and benefits;
 - Review and approve policies for cost of living and merit increases;
 - Recommend to EC changes to member country contributions;
 - Review financial accounts and cash flow against approved Core Budget, Programmatic Budget and Other Funds;
 - Review draft Core Budget prior to presentation to EC and CoP;
 - Review and approve changes to IAI administrative and financial procedures and manuals;
 - Assist the EC in the development of fiscal policies as related to the management of the IAI Research Program Grants; and
 - Other duties as assigned by the Executive Council.

- Holm validated our efforts and successes, and indicated that we should do whatever we need to do to fulfill our responsibilities

2006/07 Finances:

- We discussed the *Quarterly Status Report* (as of March 31, 2007) Rafael had issued before the meeting. After 9 months, the IAI has collected \$870K or 85% of its \$1,015K budget. Received during Q4 was Brazil's contribution (\$80K), and the IAI will request the USA's 2006/07 contribution incrementally. In total, just over 100% of core budget is expected to be collected.
- We had a discussion regarding timing of IAI requests for the USA's contribution. It was agreed that Will would look into the issue and report back to the FAC and IAI soon.
- IAI is making progress in soliciting funds from smaller countries. More work is needed in this area, but it looks promising.
- The solicitation efforts have become organization-wide. The effort is being conducted by the two other IAI officers as they incorporate it their own activities with various countries. Determining the proper country contacts has been a problem – the contacts sometimes change without notice.
- Effort still needs to be made to get smaller countries represented at the EC and/or CoP meetings; to get them engaged.
- Clarification is needed with respect to composition of "reserves" (IAI term for bank balances). The expectation is IAI will have about \$960K in the bank at the end of the fiscal year.
- At end of Q3, year-to-date expenses were 11% below pro-rated budget, however some of this variance will disappear in Q4 due to seasonality/timing of certain costs. With respect to travel costs, the Director is scrutinizing travel requests and has reduced his own travel activities. He encourages meeting participation via telephone / video conferencing over traveling whenever possible to reduce costs. Total 2006/07 core budget expenses are expected to be ~\$950K (vs. budget of \$1,015K).
 - Lower than budgeted relocation costs for former and present FAO
 - \$20K carryover in the Director's Fund related to Cuban activities in a CRN-2 project
 - audit contract was half the amount budgeted

- Bank charges/fees are projected to be ~\$20K, more than double the budget. Rafael found a simple solution that will apparently reduce it by half!
 - The information in Rafael's Q3 status report was an improvement from previous editions and we were quite pleased about this. We made suggestions to further improve the quality of the information to help us better understand the information being conveyed.
 - We suggested that a graph be produced showing the correlation between the core budget funds requested vs. collected vs. spent over the past several years.
 - We congratulated them on their efforts. The organization seems to be much more financially stable today than a few years ago, and several management improvements have been made.
- After CRN-1 closed, it was realized that ~\$190K would be unspent. A no-cost extension to November 30, 2007 has been granted by the US National Science Foundation to pay for synthesis and dissemination of CRN-1 program results.

2007/08 Budget Proposal:

- We reviewed the draft *Core Budget Request for Fiscal Year 2007/2008* document in detail. The budget proposal equalled, in total, the 2006/07 budget (that is, \$1,015K). It is understood that actual spending will be aligned with actual collections should that amount be lower through reductions discussed with the FAC.
- The budget discussion focused mainly on the Salary and Benefits (S&B) component as it is expected to rise to \$756K from \$730K. Main changes in this section of the budget include an increase in the post adjustment allowance (+\$32K); increases in housing, education and dependent's allowances mostly to compensate for exchange rate losses (collectively +\$18K); inclusion of pension payment for Program Manager (+\$11K); inclusion of the Training and Communications Assistant who was formerly paid with program funds (+\$11K); and removal of relocation, severance and unused annual leave costs because none of the international staff is expected to leave and be replaced (-\$62K).
- As the IAI obtains new program funding sources, efforts will be made to have these funds pay for some of the "overhead" of administering the program. As such, it is expected that the Training and Communications Assistant will be paid with non-core budget (external) funds, but to be conservative, a provision has been included in the core budget request for this cost.
- S&B will comprise 74% of the core budget - a level that the FAC accepts because there is a conscious decision not to increase contributions and all budgets for the various line items are quite reasonable. This fixed cost component's proportion of the core budget is increasing from 72% in 2006/07 and 68% in 2005/06. Uncontrollable exchange rate decline is the culprit.
- The exchange rate between the US dollar vis à vis the Brazilian real continues to decline and continues to cause problems for the international staff, whose salaries are denominated in US dollars. Since the post adjustment allowance was first paid in the 2005/06 budget (based on US dollar / Brazilian real exchange rate change since 2004), the rate continues to fall. Since Q1 2005 to Q1 2007, using the formula we had agreed to

at our September 2006 meeting, it has fallen another 21%. The total reduction since 2003 is 42%.

- No effect for inflation has been factored into the proposed post adjustment compensation in the 2007/08 core budget (which is hovering around 8% since 2005). Depending on when the international staff started working at the IAI (going back as early as 2003), the post adjustment in the 2007/08 budget will range from 13% (former rate based on change from 2003 to 2005) to 28% (based on change from 2003 to 2007), so that the organization and the employee will share the loss experienced.
- No merit increase since 2005/06's 2% raise
- The housing, education and dependent's allowances are all increased because of the decreasing exchange rate.
- The proposed travel budget is unchanged from 2006/07, restricting trips only to those absolutely necessary ("Priority 1"), and taking advantage of telecommunications, when practicable, to substitute for traveling. Only \$10K is earmarked for "Priority 2" trips. All program-related travel will be funded by the associated scientific program, not the core budget.
- The FAC expressed its reservation at the increasing proportion of the core budget dedicated to salaries and benefits, and noted that if the US dollar continues to weaken and additional sources of support are not found, an increase in the core budget may be necessary next year.

Contracting and Procurement Manual:

- Will and Louis completed the manual in late March. Rafael is in the process of making the manual available on their internal server and preparing some related documents to be electronically-friendly. Training is expected to take place within the next 1-2 weeks.
- This manual has been in the works for the past ~2 years so it will be extremely gratifying to see this file closed.

CRN-2 Program:

- Advances of year 1 funds were dispersed to the projects in June-September 2006. The first set of financial and technical reports will be due August 2007. The accounting of this money should not lead to any qualified audit report (like it did with CRN-1).
- CRN-2 pays for the Program Manager's (Ione Anderson's) salary on a sliding scale: 50% in 2006/07-2007/08, 40% in 2008/09, 0% in 2009/10.
- Rafael's travel related to this program will also be covered by CRN-2 funds. Site visits to grantee institutions by Rafael will be conducted in October 2007-March 2008 (to audit or check up on recipients' administrative practices). The original site visit audit was conducted by previous FAO before CRN-2 commenced.

Audit (September 2007):

- Audit of 2006/07 records to take place during first half of September 2007 by BDO Trevisan (year 2 of 3-year contract). They will be on site for one week. The FAC has been meeting with the auditors annually for the past 3 years.

- Historically, the IAI received a “Management Letter” from the previous auditor highlighting some observations, positive and negative, about the organization’s financial administration. Last year’s report by the new auditors was very vague and brief. We will need to remind auditors that we’d like something more substantial.

Other:

- Brazilian Government supported staff – contract covering 4 support staff is not negotiable until 2008. Holm is working with these staff members to polish their work descriptions to properly reflect their duties and qualifications (particularly the need to be tri-lingual). Currently, their pay is below market value for the qualifications needed. Core budget supplements their pay by \$22K to pre-reduction levels. The Director’s secretarial position is now occupied by Luciana Ribeiro and a volunteer funded by another organization (both working half-time) – this arrangement will be in place until October 2007. This arrangement is unsustainable.
- Employee Manual – minor changes or updates to the manual are being contemplated.
- Accounting Manual – This is the next manual to be revised. Although the revision has not yet begun, Rafael has set the end of calendar year 2007 as his completion date goal. Both Rafael and his assistant, Anita, will work on the manual. We offered our assistance and availability if required.