

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



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FAC Report

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Financial and Administrative Committee (FAC) Report

The composition of the Financial and Administrative Committee (FAC) has remained unchanged over the last year or so. As of November 2007, the 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 (member ex-officio)

The FAC formally met once since last reporting to the Executive Council (EC) and Conference of the Parties (CoP) in Manaus, Brazil. The meeting took place at the IAI office in Sao José dos Campos, Brazil in September 2007 during the week of the IAI's external audit. The FAC has been meeting annually during this so-called 'audit week' for the past 3 years. In addition to our 'regular' FAC business, we meet with the team of external auditors to discuss our expectations and their preliminary findings.

An abridged summary of the September FAC meeting is on the following pages. Also, the FAC Charter is up for renewal by the Executive Council. The Executive Council must decide whether the committee will continue to operate, and if so, its composition. A copy of the current Charter trails the meeting notes.

Summary of IAI Financial and Administrative Committee Meeting
September 10-14, 2007
Sao José dos Campos, Brazil

Present from FAC: Evair Sergio da Silva, Louis Grittani, William Smith

Present from IAI: Holm Tiessen, Rafael Atmetlla

Present from EC: Maria Assunção Faus da Silva Dias

The following topics were discussed during the week:

- a) audit expectations and follow-up (discussion with auditors);
- b) country participation, representation and contributions;
- c) contracts for local staff;
- d) future budget requests;
- e) performance appraisals;
- f) reporting of cash flow / cash balance to National Science Foundation;
- g) CRN-2 tracking system;
- h) time and attendance system;
- i) drawdown of US Core Budget Funds;
- j) manuals – Contracting & Procurement, Employee Handbook, Accounting;
- k) questions for November 2007 Executive Council Meeting;
- l) management checklist review;
- m) quarterly report (as of June 30, 2007); and
- n) FAC renewal.

a) Audit Expectations and Follow-Up (discussion with auditors)

The FAC plus Rafael met with the three-person audit team from BDO Trevisan prior to beginning the audit. We discussed expectations on both sides for the audit – especially that a much more detailed Management Letter would be provided and that the auditors’ independence would be greatly improved if they did not have to depend on IAI staff for translation of documents (this concern was raised after last year’s audit). A sample Management Letter was again provided so that our expectations were clear.

At the end of the week, the auditors had not quite completed their field work, but were in a position to discuss a few points, including issues that would possibly be included in the Management Letter. A qualified audit report may be issued based on a couple questionable issues (related to the lack of information to verify the level of INPE’s in-kind contributions). In the end, it seemed that an unqualified (“clean”) audit report would be contingent upon receiving information from two banks and NSF (which should not be problematic), and INPE.

The FAC reminded auditors that the reports go to the FAC and EC Chair. The final audit report should be ready 10 days after the debriefing meeting with the FAC and IAI staff (by October 1 nominally). As of the time of writing, we have not received a copy of the audited financial statements and notes, and the Management Letter.

b) Country Participation, Representation and Contributions

The quality and quantity of country representation at the institutional meetings continues to be a perennial problem. Quorum is barely made at times; some representatives are from local embassies,

are uninformed about the IAI's business and cannot meaningfully participate. This must improve for the IAI to be more successful in the execution of its mandate.

Holm explained, on a country-by-country basis, their status with respect to the collection of annual core budget contributions – including arrears – and efforts to re-engage the member countries in IAI activities. Considerable attention and effort are given to this issue, resulting in noticeable progress on a number of fronts. “Building the bridge” between politicians and scientists seems to be effective in gaining support.

An ongoing issue with some countries is identifying the original contacts when the IAI agreement was initially signed at its inception – this is important so that the proper institutions are contacted.

Related to the Caribbean area, IAI is working with The Bahamas on climate & agriculture issues, which may prove to be a vehicle to bring more of the Caribbean in to the IAI. “Associate” status for The Bahamas and Trinidad could be an upcoming issue for discussion for the EC and CoP.

IAI is expanding its research funding base by approaching corporations and organizations to promote mutual interests. An agreement with a large Brazilian company is expected to be signed soon and the MacArthur Foundation is evaluating a proposal.

c) Contracts for local staff

We had an extensive discussion on this issue. A couple of years ago, INPE tendered the contract to hire and manage four local staff the Brazilian government is supporting as part of its host country agreement. The salaries of the four IAI positions were reduced in the new contract - it was awarded to the lowest bidder - because the position descriptions did not fully indicate the extent of the duties to be undertaken and the qualifications required (for example, the need to be tri-lingual). This contract for management of staff can be terminated by INPE and re-tendered, however, due to budget constraints, INPE is not willing at the moment. The EC Chair has been working to get the contract re-tendered, but the situation is difficult. The current contract expires in 2009 and will be re-bid then, in any case. The EC Chair will meet with the INPE Director during the last week of September to discuss the issue. There is no assurance that the old salaries will be reinstated, but bidders will be better informed about the positions to hopefully submit more reasonable (i.e. higher) bids. The host country agreement is for 4 full-time positions

d) Future Budget Requests

The IAI used to present 3-year budget proposals to the CoP, however during a transitional period between interim director, John Stewart, and the first couple years of present director, Holm Tiessen, only 1-year budgets have been presented. Now that Holm has been approved to remain as the director for another 6 years, the FAC believes it is time to revert back to the 3-year budget proposal. IAI will develop a 3-year budget proposal beginning with the 2008/09 fiscal year. The budget will still be presented annually for approval to the EC and CoP, but showing tentative plans for years 2 and 3 will provide the EC and CoP an opportunity to see and comment on IAI's plans well in advance of the need to approve the funding for those activities. Also, if country contribution increases are anticipated, this will provide a mechanism for providing ample notice to the member countries.

e) Performance Appraisals

Holm discussed the existing performance appraisal system and issues with it, and plans for an ongoing “improvement dialog” (FAC terminology) leading to more of a coaching atmosphere. Documentation of this will be important to maintain records of performance and staff improvement.

The FAC discussed Gerhard Breulmann's 3-year renewal contract, and made minor suggestions and corrections. The present contract ends October 31, 2007.

f) Reporting of Cash Flow / Cash Balance to National Science Foundation

As a funding condition, IAI is required to report its cash flow / cash balance quarterly to the US National Science Foundation, via its *Federal Cash Transaction Report*. This report pertains only to the funding IAI receives from the US, for all purposes - core budget, CRN-2, etc. IAI's recent reports have indicated a very large "cash on hand" balance of NSF funds being held, which is not generally allowed under NSF rules. It was clear that there is a difference as to when the IAI reports money as being "expensed" to NSF vs. when the IAI recognizes an "expense" for accounting purposes. Following the meeting, Rafael contacted NSF's finance office with a proposed solution which was tentatively approved by NSF. While at NSF in October, Rafael met with NSF's finance staff and confirmed that the new reporting methodology would satisfy all NSF requirements. There is the potential for an audit by the National Science Foundation's Office of the Inspector General.

g) CRN-2 Tracking System

The FAC received a demonstration of the Excel-based system for tracking CRN-2 expenses and an array of financial information developed by Rafael. The FAC was very impressed with the ability the system brings to consolidate and summarize a large quantity of information on the CRN-2 awards. One question that came up was how IAI expects and verifies exchange rates to be reported by the grantees. Maintenance of the system could become an issue because of the complexity of some formulas - particularly if Rafael is not available to keep the system up-to-date. This tracking system will assist Rafael in completing the quarterly *Federal Cash Transaction Report* for US NSF.

h) Time and Attendance System

The FAC received a demonstration of the time and attendance system (activity report) currently under development by Marcelo Achite (Information Technology Manager). This is a significant in-house development effort which, if successfully executed, should be valuable in reducing computational errors. Its purpose is to move from a hard copy, paper system to an electronic one, and to ease / simplify the authorization of leave process.

i) Drawdown of US Core Budget Funds

IAI should be able to (going forward) spend the NSF funds in the year they are intended for, eliminating the arrears issue. This may take up to 3 fiscal years to get on top of as two years of US contributions exceed the total annual core budget. The US's core budget funds are available and easily accessible by the IAI. The US's arrears is the result of the funds not being requested by IAI, not the result of their unavailability by the US NSF. Therefore, the appearance of arrears is somewhat artificial.

j) Manuals - Contracting & Procurement, Employee Handbook, Accounting

Contracting & Procurement Manual: The manual is on the internal server and available for the employees to access. Minor updates to the requisition form are planned. FAC requested examples of procurements following the procedures outlined in the Manual. Rafael indicated that no major purchases had been made in the intervening time. Specific procurement examples were not discussed.

Employee Handbook: Some updates have been made, but latest changes (post allowance, housing allowance, education allowance, etc. that were part of the approved 2007/08 core budget) are not reflected at this time.

Accounting Manual: The first draft is anticipated by end of fiscal year 2007/08 (that is, June 2008). Work on the new manual has started but progress has been slow for various reasons, including short-term staff absences and heavy workload in anticipation on the annual audit. The FAC will not be able to help too much in its completion as the manual is very operational.

k) Questions for November 2007 Executive Council Meeting

The FAC anticipates the IAI requesting an increase in the core budget for the 2008/09 fiscal year.

Questions arose regarding how the core budget contribution schedule would be affected:

- Should the \$5K minimum contribution be preserved?
- Are future changes to countries' contributions in \$1K increments or should the entire contribution schedule be recalculated in \$1K increments? This stems from the decision made at the December 2006 Executive Council meeting in Panama City (23rd EC): "The EC endorsed the proposal of Argentina that, -in occasion of future adjustments in the contributions to the Core Budget-, the FAC and the IAI Directorate propose adjustments in 1000 USD steps."
- Should the new OAS schedule be used to determine the weights of each country's contribution, and if so, how often should the contribution weights be revised (decade, 5-years?)?

l) Management Checklist Review

The "Management Checklist" is essentially a list of administrative and financial tasks or issues that have needed to be addressed over the past few years. Work continues to progress as many of the tasks/issues; some have been "closed"; and others are ongoing. The issues we discussed that are considered to be ongoing are noted below.

- Personnel Files;
- Tracking System for Annual and Sick Leave;
- Mechanism for Request, Receipt and Acknowledgement of Country Contributions;
- External Audit Reports to be Sent to Executive Council Chair;
- Support for IAI Newsletter;
- IAI Awards Process;
- Improvements to Internal Controls; and
- Quarterly Financial and Administrative Reports.

m) Quarterly Report (as of June 30, 2007)

After much discussion, it appears that the IAI is on track to amass a cash (or cash + accounts receivable) balance of about \$1M US for the Core Budget. One FAC member expressed concern that a "free" cash balance of this magnitude could raise questions about why the US continues to pay the majority of IAI expenses while they hold cash from other sources. One resolution could be that IAI retains enough funds (a reserve) to properly "close the doors" (to fund liabilities in the event of closure) and uses the remaining surplus to support other activities as determined by IAI (e.g. coordinated outreach effort to re-engage inactive countries).

Holm raised the issue of IAI support for attendance at EC and CoP meetings. A past recommendation from the 2003 meeting in Boulder, USA was that if the EC and CoP decide that the IAI should provide these funds, these funds should be sequestered in a trust fund administered separately from the rest of the core budget. The FAC felt that no change in the current policy was appropriate (i.e. countries continue to pay to send representatives to IAI institutional meetings).

n) FAC Renewal

The FAC's charter, effective for periods of 2 years, is up for renewal when the Executive Council meets in November. The Executive Council must decide whether the committee will continue to operate, and if so, its composition. The EC Chair has recently issued a letter soliciting participation on the FAC, reminding EC members that the FAC is an administrative committee so that membership should favor individuals with background in budgeting, finance, audit, and administrative matters.

FINANCIAL AND ADMINISTRATIVE AD HOC COMMITTEE

January 2006

Charter: The Financial and Administrative Ad Hoc Committee (FAC) is charged with acting on behalf of the Executive Council in matters related to planning, preparation and implementation of IAI financial, administrative and project management issues. These responsibilities include:

- 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.

Composition and Mode of Operation: Membership is open to all EC member countries and is for a two years period, with the IAI Financial Officer as a member ex-officio. The Chair is elected by the members of the Financial and Administrative Ad Hoc Committee. The Charter and membership will be reviewed every two years.

The FAC will interact regularly with the IAI Directorate through the Director. If such consultations identify an issue regarding which the FAC and the Directorate cannot agree, the issue will be referred to the Executive Council or to the Bureau, whichever is most timely. The Financial and Administrative Ad Hoc Committee will report to the Executive Committee at each EC meeting.

Expenses for the attendance at Financial and Administrative Ad Hoc Committee meetings will be supported by the Directorate, based on need and availability of funds.

Membership: Brazil, Canada, United States