



Scope for the CISS Controller's Annual Report

December 2022

Conferencia Interamericana de Seguridad Social
Inter-American Conference on Social Security
Conferência Interamericana de Seguridade Social

INTER-AMERICAN CONFERENCE ON SOCIAL SECURITY

SCOPE FOR THE CONTROLLER'S ANNUAL REPORT

This Document contains the scope for the Report submitted by the Controller's Office in the meetings of the Permanent Committee and the general Assembly held in September 2022 as per the request submitted by the members to elaborate on the information contained in the Report submitted in said CISS Assembly. It should be noted that such request was voiced during such meetings.

This Report responds to the requirements listed in Article 1 of the Inter-American Conference on Social Security (CISS) Bylaws. Such Report was submitted by the Interim Controller Mr. Nicolas Starck Aguilera, Chilean, appointed during the Permanent Committee Ordinary Meeting held on December 21st, 2021. Such Report is part of the Controller's Annual Report dated September 2022.

The works developed in these eight months revolved around the main activities listed below:

1. To follow up on the external audit process that, by law, must be completed with the support of specialized external firms.
2. To control the Conference's current financial management.
3. To implement an onsite internal audit system that is part of an interactive system – e.g. a combination of a remote controllership and onsite audit system, as required by the Bylaws.
4. To identify the Conference's risk areas that may affect CISS' institutional survival and to propose actions to avoid its negative effects.

The Conference's Financial Situation

For this matter, the Controller's Office management was implemented in three areas:

One: To streamline the process of external audit on the Financial Statements 2020 and 2021 that must be completed on CISS Financial Statements by statutory requirements.

In this regard, in 1Q22 and jointly with the General Secretariat, the service and selection requirements were defined for the company that would be responsible

for auditing the Financial Statements for 2020 and 2021. This responsibility was awarded to the Mexican office of firm Mazars, having received its Final Report on August 23rd.

In their reports, the external company's partners responsible for the review said that CISS Financial Statements "reasonably show the Inter-American Conference of Social Security's financial situation", except for a couple of exceptions related to the process of collecting the membership fees from the member institutions of CISS. Furthermore, based on the remarks made by the external audit, accounting adjustments have been made on the applicable fiscal years.

Two: Follow-up on the Conference's current financial situation.

Based on the analysis completed on the Financial Statements for this fiscal year, the results at the end of the first semester show a positive figure, accounting for 76% of the Conference's Assets. Such percentage, albeit high, will be eventually adjusted in a bearish manner during the second half of 2022.

In this regard, the Controller suggests that the Permanent Committee assesses the relevance of making efforts as to increase CISS Assets given its high chances of developing activities that may create income.

The approved annual income budget for 2022 reached USD \$5,174,578, out of which USD \$4,933,400 (95.3%) will be allocated to expenditure while USD \$241,178 will be allocated to surplus (4.7%). After comparing the authorized budget and the actual expenditure, the Budget structure was seen to be different to the Activity Statement structure. Therefore, a recommendation has been made to the General Secretariat to implement adaptations to the control tool as to ensure the Budget and the Activity Statement have the same structure and order that facilitate their efficient comparison.

It should be noted that, for expenditure, the main entry represents the payment for compensations of the Conference's full-time employees. Research projects and academic activities are also an important component of CISS service offer for the members and other institutions that would like to be part of this international organization. A good response for the challenge is to keep an eye-catching offer of activities where members can participate in, in an attempt to exceed the quality in the increasingly high competition CISS currently has, considering the

significant increase in the number of international organizations and institutions available, let alone university centers, that conduct research and teaching activities concerning different social security-related areas.

In furtherance of the financial management analysis for the current year, the Controller's Office believes it has been positive since surplus accounts for 40.8% of the gross income for the first half of 2022, despite the fact the expenditure happens every month.

For 2021 Financial Management, it is possible to observe that 84% accounts for two main entries of expenditure, such as salaries and wages paid to the Conference's employees and payments of rent for using the infrastructure provided to CISS, respectively. The latter was resumed in November 2021 and, as of the date of this Report, in 2022, payments have been to the Mexican Institute of Social Security (IMSS) accounting for USD \$1,076,415.

However, despite the relatively stable behavior of expenditure – which is obvious in an organization such as CISS –, the source of income is different based on the fact that most of the money entered the organization in April as a result of the membership fees being paid by the member institutions, including those present in the host country.

Therefore, it can be easily expected that the surplus seen until this date is applied and spent in the subsequent months.

From the analysis completed on the flows shown in the 2022 Profit and Loss Statement, the efforts made by the host country as to keep this international organization alive have obviously been key considering the number of contributions and the level of care given to the organization. However, it also evidences a high level of dependence. Therefore, this Controller's Office recommends that the Conference's Permanent Committee proposes and defines, via the CISS General Secretariat and CIESS Direction, a program with a series of initiatives that create new sources of income in conjunction with a smart organization of human technical resources with more efficient cost structures that have a positive impact on its results.

Moreover, to follow up on the tasks for the next fiscal years, the Controller's Office recommends that the units responsible for Management and Finances complete analyses to determine the unit costs of activities that are budgeted and performed as to evaluate and show a budget by areas and lines of activities.

For the Financial Position Statement, as of June 2022, the allocation of CISS assets accounts for receivables, membership fees receivable, standing for 75% of the Total Assets – i.e. USD \$4.6M.

Three: The internal control done by the Controller's Office, supported by the internal audit started since 2Q of this year.

In this area of control, it should be noted that, since 1Q22, the Conference has hired the services of an Internal Auditor with wide experience in these processes and social security and service organizations such as CISS. With the support of this External Audit Unit, the Controller's Office has studied some specific areas of expenditures and resources provided by different professionals, and analyzed the status of 2022 Financial Management.

In this regard, it should be noted that a big inconsistency in membership fees was seen in terms of income, as shown by the analysis of the financial period corresponding to the first half of 2022. This is because 78% of the fees originated from the fees paid by the institutions in the host country¹ while 13% came from the contributions resulting from other types of membership fees. A lower percentage (7.8%) came from activities such as courses, events, and research projects.

Such allocation shows how important the relationship between the Conference and the host country is, as well as the attention the Permanent Committee must pay to the form and content of such relation, which set the foundation for the Conference's operations in Mexico.

¹ At the end of the first half of the year, most of the income earned by the organization comes from membership fees. However, for the second half of the year, the invoicing came mainly from income resulting from research projects and other proprietary income. By the end of the year, the General Secretariat believes the income resulting from the members of the host country will account for 71% of the total income.

Risk Analysis for Areas Identified in the Conference's Financial Management

After reviewing the Conference's Financial Statements for 2021, there are many significant items that are worth noting in terms of risk, items that must be addressed and corrected in order to set new standards that preclude similar matters from ever happening in the future.

Financially speaking, it is necessary to admit that the Conference greatly depends on the good relations built between the international organization and the entity of the host country that the Government has tasked with addressing the operations with the Conference, the Mexican Institute of Social Security. Furthermore, the Conference shares the same directorial figure with such entity as the IMSS Director happens to be the Conference's Chairperson. That dual position of CISS Chairperson and IMSS Director must be cared for and protected by those who hold the position of Secretary General, particularly in terms of the decisions they make and the actions they take. This is important since these people are actually nominated by the host country – and are often part of their inner circles – whose actions may end up affecting their superior's role.

This care must come to fruition in the form of keeping high standards of formality in the decisions they make, which goes beyond the daily trust that might be put in these people. This is particularly relevant in terms of infrastructure. So much so that the decisions made by the Conference as well as any other decisions resulting from interests that are inconsistent with those of CISS would end up being funded by the Conference and affect all the financial results and the reputation of this international organization. The facts sustaining these Claims made by the Controller's Office are listed below:

1. Accrued debt after having suspended the payment of a lease that is binding to CISS as per the agreement executed by CISS and IMSS. As of the date of this Report and according to the Financial Statements, CISS is indebted to IMSS in an amount equivalent of USD \$3.18M due to the use of facilities and, unfortunately, the failure to pay the monthly rent. The source of such debt can be found in the decision made by previous administrations, as known by the then-incumbent CISS Controller's Office, to suspend the monthly payment in 2018, immediately after the 2017 earthquake (which, in turn, forced IMSS to temporarily use some sections of CISS facilities after IMSS facilities had suffered serious damages), and 2021 (when the current Secretary General and his team took office).
2. To move towards solving such debt, the current Secretary General has

implemented a series of different actions with the area responsible for IMSS infrastructure management. However, the situation remains unresolved even after nearly 1.5 years. This has resulted in a payment schedule being created that CISS can afford and can be guided towards still using the infrastructure via a mid or long-term bailment.

3. According to the background information obtained directly via the Controller's Office, the agreement is expected to set the payment of monthly installments for three years. (Please note that this figure may change based on the final negotiations that may take place). However, it is worth mentioning that the process has taken too long despite the fact that both parties being involved in the negotiation still have the same people in charge.

What does the Controller's Office suggest as to prevent these issues from happening in the future?

1. To prevent these types of situations within CISS from ever happening in the future, the Controller's Office deems necessary that a next update of the Financial Rules also includes the implementation of a list of responsibilities that the General Secretariat and the Controller's Office are to observe to the letter in connection to certain issues, including, but not limited to, changes in the rules whereby the relation with the host country (particularly in regards to the use or lease of infrastructure) must be informed and endorsed prior to their execution by a Risk Management Committee representing the Permanent Committee, namely CISS Chairmanship, given that the recurrent nature of these situations ends up affecting its role. Furthermore, it must be established that CISS Controller's Office may and will be precluded from endorsing or accepting decisions similar to those made that lacked the approval from CISS Risk Committee.
2. Use of resources made available to pay for the suspended lease of the infrastructure and eventually being used for purposes different from those originally envisioned. As a result of the situation discussed in the item above, this is a matter that took place a couple of years later since there was a balance that was apparently exceeding the corporate resources (a profit) during the administration of previous Secretary General Gibran Ramirez. With the approval of the then-incumbent Controller, such administration made the decision of using such surplus to fund a set of office refurbishments at a significantly high cost of MXN \$19,300,000.00 (or USD \$1,072,000.00 at an exchange rate of USD \$1 =

MXN \$18). While these funds contributed to completing a series of high-quality offices (a fact that is worth celebrating), that meant that all that surplus could not be used to pay for the “leasing” with IMSS. What is astonishing from the endorsement made by the previous Controller's Office administration is that, via a note addressed to the then Head of the Finance Department, it was allowed to allocate resources for purposes that such department deemed convenient without any attention being paid to the source of the resources or the existence of a significant liability due to “overdue leasing.”

3. The leasing of a house in Mexico City's downtown as alleged “CISS alternative headquarters” without there being the slightest operative need to do so as the pandemic had already hit the country by that time. This decision was made by the previous Secretary General Gibran Ramirez and formalized by the then-Chief Financial Officer Jorge Esparza without ever touching base with any other higher instance of the Conference and without demonstrating an operative rationale that was consistent with CISS' own purposes. Even more regrettably, this posed a high expenditure that accounted for MXN \$1,320,000 (or USD \$73,333 at an exchange rate of MXN \$18 = USD \$1) that was paid in advance and had to be included in the applicable Financial Statements as this was a long-term leasing.
4. The need for an independent Controller's Office to act in the face of Conference's executive management's actions. Risk Issue Four raised by the current administration, in addition to all the matters discussed above, is the fact that the actions of the previous Controller, who stepped down from his position in June 2021, a position that was supposed to be independent and ad-honorem as per the Bylaws, effectively performed works of internal audit that systematically earned him a monthly income of USD \$3,000. Such funds were directly transferred to the above Controller's bank account during the administration of previous Secretary General Gibran Ramirez. Such income resulted in a loss of autonomy to give opinions that could have prevented sensitive matters as those listed above from ever happening.
5. Therefore, with low autonomy, remote performance of duties, and lack of prompt access to the information, the Controller's position can create gray areas where executive directors with higher authority can deviate from sensible and mindful behaviors concerning the use of resources and the relations had with other entities such as IMSS.

Conclusions & Recommendations

The Report includes a set of Conclusions & Recommendations to make the Conference's financial management more effective. Such Conclusions and Recommendations are listed below:

1. **A Controller's Office that is Risk Management and Prevention-Oriented.** It is fundamental to exercise control through a risk-identification approach as such risks may come from goals, projects, and processes that are not planned, controlled or reported appropriately. In other words, the Controller's Office must go beyond simple standard controls.
2. **Remote Control, provided that the IT Tools and Technologies that contribute to an effective and prompt control are in place.** The tools available nowadays are not enough and cannot access the information stored in the Conference's Accounting and Management systems. Therefore, before this fiscal year ends, CISS should take a step further towards better accounting, budgeting, and financial control systems similar to those owned by multinationals. This is something all CISS members are supposed to have.
3. **A Supportive, Efficient, and Systematic Internal Audit.**
For the remainder of 2022, the Internal Audit Program must be perfected as to streamline the betterment of risk management, control, and governance processes via a systematic and orderly approach, providing the CISS high decision-making bodies with independent and unbiased information.

Improvement and Formalization of Processes, ISO Standards, and Documentation. The Conference is to formalize its administrative processes, as it has done it before. Such administrative processes have not seen enough updates in the latest years. Procedure Manuals must also be available as to have more support in terms of management standards. Moreover, we should make the decision to implement a project that helps us get an ISO Certification in 2023. Such project should also contribute to the professionalization of all internal processes as this will help mitigate the risk of dramatic changes being implemented every time authority figures change.

4. **CISS Information Management.**

Another issue that the Controller's Office has seen is that a formal

storage system where CISS operating, financial, and accounting information must be stored is not available. Such information is processed differently based on the incumbent Secretary General's view. The Controller's Office recommends that a future Risk Management Committee attached to the Permanent Committee defines the levels of essential information that should be kept as essential elements in the CISS historical records.

5. Chartered Management of Corporate Risks; Risk Management Committee; and Specific Decision-Making Shared with the General Secretariat.

This Controller's Office sees that it is necessary to update the Conference's control model in the hopes of identifying the main risk areas, defining inquiry and information requirements, and delivering an itemized report showing such requirements have been met for certain formal matters, especially when a new executive administration takes office. All of this will provide more transparency and continuity to this international organization's management. Decisions such as the suspension of the rent payment to IMSS were not countered by anything else but those decisions made by the Controller's Office.

For the proposal to push for a Chartered Controller's Office, it is possible to create a body that considers three related areas:

- a. The Controller's Office itself, as a body headed by a professional, appointed by the Conference, whose nationality is different from that of the Secretary General. Such professional will be responsible for exercising control in accordance with the standards that may be eventually updated by CISS.
- b. A Corporate Risk Management Committee, where the recommendation is that it is formed by three members of the Permanent Committee, with the possibility of one of the members being a representative of the host country as to represent such host country's interests.
- c. The General Secretariat, where decisions are made for certain critical matters, such as infrastructure leasing and agreements with the host country, after prior consultation with the Risk Management Committee and the Permanent Committee, in that order.

Final Recommendations

For this Interim Controller's Office – which was recently reelected unanimously for the next three years – completing its works remotely has been challenging, always remembering that this international organization has a huge commitment with the countries and peoples of the Americas, especially when the circumstances seen by the countries are exacting. All of this is a challenge for the Conference to be a true space of knowledge and experience sharing in different areas of social security. Some of those areas are close to the true essence of CISS, such as knowledge of the practices in social security and other areas, as well as other areas, such as methodologies concerning social, environmental, and sanitary disaster management.

The Interim Controller's Office would like to emphasize that the knowledge of social security and safety the Conference has is not something to be overlooked. It is rather its main asset. An asset that must be maintained and shared. Such asset should obviously be nurtured in the form of the applicable updates. All of this is possible by collecting the successful practices of its own member organizations and those of other specialists in different academic areas, professional centers, professions, trades, and areas of knowledge.

It must be recognized how challenging and exacting building and strengthening professional skills is for this is the Conference's armed wing that will eventually become the true continental gold standard in the area. In this regard, the Conference cannot afford to change them every now and then or whenever a new administration, be it CISS General Secretariat or CIESS Direction, takes office. Therefore, it is necessary to set a true professional pathway that includes incentives and acknowledgments that all technicians and specialists from Mexico and the Americas consider a dream come true.

To emphasize how important the lines above are, the disassociation of all professionals cannot be a seamless prerogative whenever a new Secretary General takes office for that would mean starting from scratch. They should respond to an assessment and Development Plan that holds them accountable for all the decisions that are made. Otherwise, the true meaning of Long Term in social security will be put into question. This issue must be dealt with more thoroughly by the Permanent Committee.

It is safe to say that that idea never crossed the founding fathers of this Conference's minds 80 years ago – the idea of discarding skills, expertise, and knowledge every so often. On the contrary, the Conference – along with its administration and directorial bodies – must make it their mission to continue making that dream come true for the benefit of all the peoples in the Americas.