



Thirty-sixth Regular Meeting of the Executive Committee

Updating of the Financial Rules

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UPDATING OF THE FINANCIAL RULES

After reviewing the Financial Rules with a view to harmonizing them with recent resolutions of the Governing Bodies and generally accepted accounting principles, it was found that a series of rules required updating in this regard.

Following are the proposed modifications to the text of the rules concerned.

FINANCIAL RULES

Introduction

Current Text

This revised version of the Financial Rules incorporates all the amendments approved between 1986 and 2003 and goes into effect on the date of its publication.

Proposed Text

This revised version of the Financial Rules incorporates all the amendments approved between ~~1986~~2003 and ~~2003~~2015 and goes into effect on the date of its publication.

Analysis Section

This update of the Financial Rules incorporates changes contained in resolutions of the Governing Bodies to 2015.

FINANCIAL RULES

Chapter II – The Program Budget

Current Text

Rule 2.1 Structure of the Program Budget

2.1.3 Article 74 of the RPGD states:

The proposed Program Budget, as submitted, shall be broken down into the following objects of expenditure: international professional personnel, local professional personnel, and general services personnel; scholarships; official IICA staff member travel; documents and supplies; plant, equipment and furniture; general services; performance contracts; and other costs.

These categories are further defined as follows:

- 1) **International Professional Personnel:** Expenditures for staff members with either regular, trust, or temporary international professional appointments.
- 2) **Local Professional Personnel and General Services Personnel:** Expenditures for those employees who occupy local professional and general services positions.
- 3) **Scholarships:** All costs of fellowship students and research assistants, including travel.
- 4) **Official Travel for IICA Personnel:** All expenses for official travel for attending meetings, exercising supervision and coordination, recruiting, performing technical assistance missions, training and others.

Proposed Text

Rule 2.1 Structure of the Program Budget

2.1.3 Article 74 of the RPGD states:

The proposed Program Budget, as submitted, shall be broken down into the following objects of expenditure: International Professional Personnel, Local Professional Personnel, and General Services Personnel; scholarships; official IICA staff member travel; documents and supplies; plant, equipment and furniture, general services, performance contracts and other costs.

These categories are further defined as follows:

- 1) **International Professional Personnel:** Expenditures for staff members with either regular, trust, or temporary international professional appointments.
- 2) **Local Professional Personnel and General Services Personnel:** Expenditures for those employees who occupy local professional and general services positions.
- 3) **Training and Technical Events Scholarships:** *All costs of training and technical events for staff, the beneficiaries of cooperation, fellowship students and research assistants, including travel, participation and organization.*
- 4) **Travel for the Conduct of Official Business ~~Official Travel for IICA Personnel:~~** All travel expenses for the conduct of IICA's Official Business, including attending meetings, exercising supervision and coordination, recruiting, performing technical assistance missions, training and others.

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|---|---|
| <p>5) Documents and Materials: Includes costs related to publication and printing of publications and other internal IICA documents. Also includes costs of acquiring literature required to develop activities.</p> | <p>5) Documents and Materials <u>and Inputs:</u> Includes costs related to publication and printing <u>the production</u> of publications and other internal IICA documents. Also includes costs of acquiring literature and access to databases required to develop activities.</p> |
| <p>6) Building, Equipment and Furniture: All costs for purchase of fixed assets which can be included in inventory and/or rental of buildings, equipment and furniture for activities.</p> | <p>6) Building, Plant, Equipment and Furniture: All costs for purchase of fixed assets which can be included in inventory and/or rental of buildings, equipment and furniture for activities.</p> |
| <p>7) General Services: The necessary costs for operating offices and equipment and maintaining effective communication in the implementation of activities. This includes the leasing and maintenance of offices, including installations outside of Headquarters, communications, public services, security, repairs, maintenance and supplies for the operation of buildings, lands, and equipment.</p> | <p>7) General Services: The necessary costs for operating offices and equipment and maintaining effective communication in the implementation of activities. This includes the leasing and maintenance of offices, including installations outside of Headquarters, communications, public services, security, repairs, maintenance and supplies for the operation of buildings, lands, and equipment.</p> |
| <p>8) Performance Contracts: All costs involved in contracting the services of technicians or specialists outside of IICA to carry out a specific task within an approved Plan of Operation.</p> | <p>8) Performance Contracts <i>and Transfers:</i> All costs involved in contracting the services of technicians or specialists outside of IICA to carry out a specific task within an approved Plan of Operation, and <i>transfers to organizations included in the approved Program Budget.</i></p> |
| <p>9) Other Operating Costs: All costs which are not identified in the above-mentioned categories or line items.</p> | <p>9) Other Operating Costs: All costs which are not identified in the above-mentioned categories or line items.</p> |

Analysis Section

Based on the questions raised by the Member States during presentations of the Program Budget and the financial statements, the categories are described more precisely in the Financial Rules for the purposes of greater clarity on the objects of expenditures. The terminology included is the one currently in use and approved in the Program Budget resolutions.

FINANCIAL RULES

Chapter II – Program Budget

Current Text

Rule 2.3 Procedures for Preparing the Program Budget

2.3.4 The operating units of the Institute shall prepare their respective proposals within the limitations of the quota resources allocated to them. In doing so, consideration shall be given to the following:

- d. In preparing the Program Budget, income from the sale of goods and services shall be programmed as a contribution to the funding of the operating unit responsible for generating such income.

Proposed Text

Rule 2.3 Procedures for Preparing the Program Budget

2.3.4 The operating units of the Institute shall prepare their respective proposals within the limitations of the quota resources allocated to them. In doing so, consideration shall be given to the following:

- d. In preparing the Program Budget, income from the sale of goods and services shall be programmed as a contribution to the ***Institute's financing.*** ~~funding of the operating unit responsible for generating such income.~~

Analysis Section

According to Resolution IICA/JIA/Res.400(XII-O/03), “Modifications of the Financial Rules and the Rules of Procedure of the General Directorate on Miscellaneous Income,” adopted in 2003, the Miscellaneous Income Fund was created with the objective of covering the Institute’s financial needs.

FINANCIAL RULES

Chapter II – Program Budget

Current Text

Rule 2.13 Register and Control of Obligations

The Directorate of Administration and Finance will record and control obligations in accordance with the following provisions:

- a. Obligations to purchase goods and services which are pending at the end of each fiscal year shall form part of total expenditures for the fiscal year and shall be recorded as accounts payable at the end of the year.

Proposed Text

Rule 2.13 Register and Control of Obligations

The Directorate of Administration and Finance will record and control obligations in accordance with the following provisions:

- a. Obligations to purchase goods and services which are pending at the end of each fiscal year shall form part of total expenditures for the fiscal year and shall be recorded as accounts payable at the end of the year, *when the good or service has been received satisfactorily.*

Analysis Section

The extra phrase is included to comply with generally accepted accounting principles, which require that the good or service be received before the account payable and the expenditure are recognized.

FINANCIAL RULES

Chapter III – Financial Resources

Current Text

Rule 3.1 Classification of Funds

As described in Article 88 of the RPGD, the resources administered by the Institute are classified according to their source and purpose as follows:

- f. **Institutional Net Rate (INR) Fund.** Consisting of reimbursements from the administration of contracts with other institutions. The purpose of this fund is to finance the additional costs incurred by the Institute in the execution of these contracts and to contribute to institutional pre-investment activities.

Proposed Text

Rule 3.1 Classification of Funds

As described in Article 88 of the RPGD, the resources administered by the Institute are classified according to their source and purpose as follows:

- f. ~~**Institutional Net Rate (INR) Fund.**~~ **Indirect Cost Recovery (ICR) Fund.** Consisting of reimbursements from the administration of contracts with other institutions. The purpose of this fund is to finance the additional costs incurred by the Institute in the execution of these contracts and to contribute to institutional pre-investment activities.

Analysis Section

It is proposed that the use of the term “Institutional Net Rate (INR)” be replaced with the term “Indirect Cost Recovery (ICR)” utilized by other organizations, such as the Organization of American States (OAS).

FINANCIAL RULES

Chapter III - Financial Resources

Current Text

Rule 3.5 Institutional Net Rate (INR)

3.5.1 The Institute shall charge an Institutional Net Rate (INR) to cover the Institute's costs of participation in externally funded projects. For each project, the Director General shall negotiate a rate that: a) does not fall below the minimum rate recommended in the study referred to in Rule 3.5.2, and b) is sufficient, in light of estimates of other INR to be negotiated during the corresponding time period, to assure that the average INR charged for all projects during the given period cover the Institute's additional administrative and technical management costs resulting from its participation in externally funded projects.

Proposed Text

Rule 3.5 ~~Institutional Net Rate (INR)~~ *Indirect Cost Recovery (ICR)*

3.5.1 The Institute shall charge *a rate for Indirect Cost Recovery (ICR) in order* to cover the Institute's costs of participation in externally funded projects. For each project, the Director General shall negotiate a rate that is: a) ~~does not fall below the minimum rate recommended in the study referred to in Rule 3.5.2~~ *fair and representative of the real costs*, and b) is sufficient, in light of estimates of other ~~INR rates~~ *INR percentages* to be negotiated during the corresponding time period, to assure that the average ~~INR~~ *percentages* charged for all projects during the given period cover the Institute's additional administrative and technical management costs resulting from its participation in externally funded projects.

Analysis Section

The objective of the proposed change is to make the text consistent with Resolution IICA/CE/Res. 556 (XXXII-O/12) "Recovery of the Indirect Costs of Externally Funded Projects - Institutional Net Rate (INR)."

FINANCIAL RULES

Chapter III - Financial Resources

Current Text

Rule 3.5 Institutional Net Rate (INR)

3.5.2 An annual study shall be done to ensure that the Institute's INR is commensurate with the actual costs of administering external resources. This study shall be reviewed by the external auditors.

Proposed Text

Rule 3.5 ~~Institutional Net Rate (INR)~~ Indirect Cost Recovery (ICR)

3.5.2 An annual study shall be done to ensure that the Institute's ~~INR~~ ICR is commensurate with the actual costs of administering external resources, ~~This study shall be reviewed by the external auditors.~~ *in accordance with the methodology and criteria adopted in Resolution IICA/CE/Res.556(XXXII-O/12), to establish the minimum ICR applicable to projects and other externally funded cooperation activities, with due regard for the exceptions established in the aforementioned document. The study shall take into account the criteria of competitiveness, proportionality and the net neutral approach established in the methodology, in order to fix a rate that is fair and representative of actual cost*

Analysis Section

The resolution on the recovery of indirect costs, based on an external study carried out as stipulated by the Executive Committee and Board, establishes the methodology approved for the annual study. Therefore, the rule is updated to reflect the fact that the methodology established is applied, instead of an analysis performed by the external auditors. The figures used will continue to be the audited ones.

FINANCIAL RULES

Chapter III - Financial Resources

Current Text

Rule 3.5 Institutional Net Rate (INR)

3.5.4. The Director General shall be authorized to receive contributions and donations and to sign agreements for external resources, provided the corresponding activities are consistent with IICA's objectives and programs. The Director General shall report all such agreements to the Executive Committee or the Board. Whenever such agreements exceed US\$500,000 annually, the Director General will notify members of the Executive Committee and provide a thirty-day comment period for their observations, beginning on the date of the letter of notification. These contracts must contain provisions for the estimated amounts necessary to cover IICA's Institutional Net Rate.

Proposed Text

Rule 3.5 ~~Institutional Net Rate (INR)~~ *Indirect Cost Recovery (ICR)*

3.5.4. The Director General shall be authorized to receive contributions and donations and to sign agreements *to obtain and use* for external resources, provided the corresponding activities are consistent with ~~IICA's~~ *the objectives and programs of IICA's Medium-term Plan*. ~~The Director General shall report all such agreements to the Executive Committee or the Board. Whenever such agreements exceed US\$500,000 annually, the Director General will notify members of the Executive Committee and provide a thirty-day comment period for their observations, beginning on the date of the letter of notification. These contracts must contain provisions for the estimated amounts necessary to cover~~ *an ICR sufficient to comply with Rule 3.5.1. Institutional Net Rate. The Director General shall present details of all the legal instruments signed during the year at the meetings of the Governing Bodies.*

Analysis Section

The section is updated using the term "ICR," linking the provisions regarding the ICR with the updated requirements set out in Rule 3.5.1., and eliminating the amount of funds involved in agreements regarding which the Director General is required to report. The current practice is for the Director General to present details of all the legal instruments signed during the year at the meetings of the Governing Bodies.

FINANCIAL RULES

Chapter IV – Accounting and Financial Control

Current Text		Proposed Text	
Rule 4.5	Rates of Exchange	Rule 4.5	Rates of Exchange
4.5.1	Cash on hand, income and expenses in currencies other than dollars shall be translated into United States dollars in order to facilitate reconciliation at Headquarters and preparation of financial statements.	4.5.1	Cash on hand, income and expenses Monetary assets and liabilities in currencies other than dollars shall be translated into United States dollars in order to facilitate reconciliation at Headquarters and preparation of financial statements.
4.5.2	For accounting purposes, income and expense transactions shall be converted at the legal market rate of exchange most favorable to the Institute on the date that the transaction occurs. Cash on hand at the end of each month shall be converted at the rate of exchange offered on the legal market.	4.5.2	For accounting purposes, income and expense transactions shall be converted at the legal market rate of exchange most favorable to the Institute on the date that the transaction occurs. Cash on hand at the end of each month shall be converted at the rate of exchange offered on the legal market.
4.5.3	Exchange gains and losses will be recorded monthly and accumulated for the fiscal year. If the net result is a gain, it shall be considered miscellaneous income. If a loss results, it shall be charged to the current fiscal year's appropriations.	4.5.3	Exchange gains and losses will be recorded monthly and accumulated for the fiscal year. The If the net result is a gain, it shall be considered miscellaneous income. If a loss results, it shall be charged to the current fiscal year's appropriations.

Analysis Section

The purpose of the changes made to 4.5.1 and 4.5.2 is to expand the group of items whose value in United States dollars must be updated, including (in addition to cash on hand) others such as investments, accounts receivable, and accounts payable. The updating of the value of assets and liabilities is contained in 4.5.1 and the conversion of income and expense transactions in 4.5.2. In 4.5.3, the net result of the institutional exchange differential, whether a gain or a loss, is reflected in the Miscellaneous Income Fund.

FINANCIAL RULES

Chapter IV - Accounting and Financial Control

Current Text
Rule 4.10 Methods for Acquiring Goods and Services

Except as provided in Article 98¹⁴ of the RPGD, the Institute shall issue requests to the public for three or more written offers for any type of contract with a value of more than US\$30,000. The Director of Administration and two other designated officials shall serve on a Contract Review Board to open bids, review proposals, and determine the successful bidder. The Director General or his designee shall approve and sign for the Institute all contracts which result from the process. In order to comply with Article 92 of the RPGD, the Director General shall establish a procedure for the application of the bidding process and for the conduct of competitive methods of purchasing with the objective of attaining fair prices.

Proposed Text
Rule 4.10 Methods for Acquiring Goods and Services

Except as provided in Article 98 of the RPGD, the Institute shall ~~issue requests to the public for three or more written offers~~ **use competitive methods** for any type of contract with a value of more than US\$30,000. ***In order to comply with Article 98 of the RPGD, the Director General shall establish a procedure for the application of competitive purchasing methods with the objective of obtaining fair prices. In the case of public bidding processes, the office responsible for administration*** ~~The Director of Administration and other designated officials shall serve on a Contract Review Board~~ **Corporate Purchasing Committee** to open bids, review proposals, and determine the successful bidder. The Director General or his designee shall approve and sign for the Institute all contracts which result from the process. ~~In order to comply with Article 98 of the RPGD the Director General shall establish a procedure for the application of the bidding process and for the conduct of competitive methods of purchasing with the objective of attaining fair prices.~~

¹⁴ Article 98 of the RPGD states:

The purchase of equipment, office furniture and materials, general supplies, and service jobs shall be conducted by competitive methods.

The Director General may authorize exceptions for purchases of materials valued at less than US\$30,000 when he/she considers that the bidding method does not serve the interest of the Institute.

When the value of the purchases is US\$30,000 or more, the Director General may make exceptions to the use of the bidding method only under the following circumstances:

- a. Emergencies, such as disaster aid, repairs, and other actions that are urgently needed to protect lives or property; or
- b. Purchase of technical and scientific material to be used for projects approved by the Board and that are to be carried out in the Member States. In these cases, and according to the wishes of the Member States or the institutions, the purchases may be made by the General Directorate or, if the purchase will not be more expensive, by the national institution participating in the project.

The Director General shall inform the Committee of all purchases totaling US\$30,000 or more, for which the bidding method has not been used.

All purchases shall later be checked by the Office of Internal Auditing. (October 1997)

Analysis Section

To meet the requirement concerning competitive methods established in Article 98 of the Rules of Procedure of the General Directorate (RPGD), and also achieve the efficiency needed for current market prices and practices, the change proposes that the Director General determine the competitive methods to be used for purchases and contracts involving a cost of more than USD30,000.

FINANCIAL RULES

Chapter IV - Accounting and Financial Control

Current Text

Rule 4.16 Withdrawal and Transfer

The net book value of assets withdrawn from service shall be removed from the accounting records. Amounts realized from the sale of assets shall be recorded as miscellaneous income.

Proposed Text

Rule 4.16 Withdrawal and Transfer

The net book value of assets withdrawn from service shall be removed from the accounting records. Amounts realized from the sale of assets shall be recorded as miscellaneous income.

Analysis Section

There is no change to the English. However, the Spanish version of the rule contains text that should have been eliminated in the last update. This is now being corrected for the purposes of consistency.

FINANCIAL RULES

Chapter IV - Accounting and Financial Control

Current Text

Rule 4.17 Procedure for Disposing of Assets

4.17.1 The operating units shall determine which assets are obsolete and of no further use, and shall submit a request for their disposal to the Office of the Deputy Director General, through the established channels.

Proposed Text

Rule 4.17 Procedure for Disposing of Assets

4.17.1 The operating units shall determine which assets are obsolete and of no further use, and shall submit a request for their disposal to the ~~Office of the Deputy Director General~~ *office designated by the Director General*, through the established channels.

Analysis Section

The proposal is designed to streamline IICA's operations, reducing unnecessary procedures.

FINANCIAL RULES

Appendix A - Terminology Used in these Rules

Current Text

Disbursement: A payment of funds to satisfy a prior or current obligation and which depletes cash resources. An obligation and a disbursement may occur simultaneously. Synonymous with the terms "expenditure" and "payment."

Proposed Text

Disbursement: A payment of funds to satisfy a prior or current obligation and which depletes cash resources. An obligation and a disbursement may occur simultaneously. ~~Synonymous with the terms "expenditure" and "payment."~~

Analysis Section

This change is included because the term 'disbursement' is understood in the regulations as a cash outlay or payment. According to accounting principles, it should not be thought of as a synonym of 'expenditure,' however.