



Organization of American States

Office of the Inspector General



2010 Annual Report to the Permanent Council

This document is being distributed to the permanent missions and will be presented to the Permanent Council of the Organization.

Annual Report of the Office of the Inspector General

January 1 to December 31, 2010

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I. From the Inspector General

Pursuant to Article 121 of the General Standards for the operations of the General Secretariat, the Office of the Inspector General (OIG) is pleased to submit for consideration of the Permanent Council, the annual report on auditing activities corresponding to the year 2010.

This report summarizes the audit work conducted during the tenure of both former Inspector General from January 1, 2010 to July 31, 2010 and former Acting Inspector General from August 1, 2010 to December 31, 2010. The work completed and initiated during 2010, resulted in ten audits and three investigations. In addition, the OIG reviewed seven projects that were executed in the Member States, to ensure compliance with the agreements and to determine whether the objectives were accomplished. During the execution of its activities, the OIG focused mainly on operations of high risk and those with greater potential to improve the efficiency, effectiveness, and use of resources in the General Secretariat.

During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of Travel, Procurement Processes, Credit Cards used by the Department of Procurement, Payroll Processes, and the Tax Reimbursement Program. In addition, the OIG reviewed the Program of MAPP both at Headquarters and in Colombia, and reviewed the internal controls of the activities of the Offices of the General Secretariat in Saint Vincent and the Grenadines, Guyana, Mexico, and the Dominican Republic to determine compliance with the established regulations and procedures of the OAS. Our investigations led to significant improvements in the use of the Procurement Credit Cards and the operations of the GS/OAS in Haiti.

Throughout this reporting period, the OIG issued a total of seventy-five recommendations; sixty-six resulted from audits and nine from investigations. Management responses to those recommendations indicated increased accountability and higher adherence with GS/OAS rules and regulations; facilitated the identification of operational processes that needed improvement of internal controls, and promoted organizational efficiency and effectiveness. Those recommendations were classified: forty-four as High Risk, twenty-three as Medium Risks and eight as Low Risk. In addition, the OIG communicated directly with supervisors and provided appropriate recommendations regarding operational processes and issues towards the achievement of improved management controls.

The implementation rate for approved recommendations is a meaningful factor in the determination of the success of the auditing services provided by the OIG. The success and usefulness of the audit function depends on the value and importance that senior management places on that function and the way it is integrated into GS/OAS operational activities. The OIG recognizes the ongoing efforts of the General Secretariat to correct internal control weaknesses reported by the OIG and the initiatives undertaken to strengthen the internal control environment and the favorable responses from management.

The number of OIG recommendations prior to 2010, in their majority have been implemented or closed; however, as of the date of this report the remaining number of recommendations is as follows: from 2006, four recommendations are open from which two are as High Risk and two as Medium Risk. Those recommendations relate to operational processes that are dependent on the completion of long-term SAF transformation and modernization efforts; and from 2009, eleven recommendations are open and in various stages of implementation. Those recommendations primarily focused on the need for improvement in the OASES System and the

financial management of the Fellowships Program, as well as the management and web improvement of the Portal of the Americas.

The number of recommendations issued during 2010 reached seventy-five from which all are currently being reviewed for completion and implementation. Although the OIG has received favorable responses and action plans from management regarding the implementation of these recommendations, an effective follow-up mechanism for determining the status of these recommendations has been lacking. As a result, the OIG plans to incorporate new automated tools in an effort to establish new procedures to follow-up on recommendations so that the responses from the areas are consistent and the OIG can properly verify their status and the information can be accurately updated.

The OIG continues to work extensively to accomplish its goals as established in the GS/OAS Annual Operating Plan. In addition, proactive efforts undertaken by the OIG have facilitated and encouraged open communication with the General Secretariat. Those initiatives include: consultations during audit activities, the distribution of draft audit reports prior to the Secretary General's approval, discussions on operational activities, as well as planned business processes, reviews of operational procedures prior to their distribution and participation as an observer at various GS/OAS meetings.

Although the OIG maintains a hotline through which allegations of misconduct may be reported, no matters were brought to the attention of the OIG in 2010, either by phone or e-mail through the established hotline; however complaints that resulted in investigations, instead were sent directly to the Inspector General via e-mail or regular mail.

II. Mandate

The General Standards to govern the operations of the General Secretariat in accordance with its Article 117 states, *"The Office of the Inspector General shall be the dependency responsible for exercising the functions of financial, administrative, and operational auditing, for the purpose of determining the level to which the General Secretariat achieves the objectives of diverse programs and the efficiency and economy with which resources are used, as well as issuing recommendations to improve management of the General Secretariat.*

To achieve the aforementioned purpose, the Inspector General shall establish appropriate internal auditing procedures that reflect international best practices, to verify compliance with the standards and regulations in force, through critical, systematic, and impartial examination of official transactions and operational procedures related to the resources administered by the General Secretariat. To that end, the Secretary General shall issue an Executive Order regulating such activities."

The International Professional Practices Framework which provides the standards and mandatory guidance for internal auditing defines *internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."*

Executive Order 95-05 issued by the Secretary General on May 8, 1995 established the Office of the Inspector General as the dependency responsible for applying internal auditing procedures and performing the related functions, and also provided the declaration of responsibility, purpose and authority with respect to internal audits and the composition of the Office of the Inspector General. The purpose of the Office of the Inspector General is to advise and assist the Secretary General and through him the Secretaries, Directors and other General Secretariat supervisory staff in the proper discharge of their responsibilities by providing them with appropriate analyses, evaluations, investigations, recommendations and comments on the activities reviewed. The Office of the Inspector General is responsible for performing a systematic review of internal management and accounting controls, for assisting in the strengthening of internal controls and for improving the efficiency of all GS/OAS secretariats, departments, programs, divisions, offices, units, activities and projects, both at Headquarters and in the Member States.

In accordance with the General Standards, audits are conducted with special emphasis on the proposals of the Board of External Auditors, particularly regarding the need to concentrate on areas of High Risk. Recommendations are provided for promoting economy, efficiency and effectiveness in the operations of the General Secretariat and to assist all levels of management in the prevention or detection of fraud and abuse.

Executive Order 05-08, Corr. 1 issued on April 14, 2005 outlines the General Secretariat's policy for encouraging the reporting of financial and administrative misconduct. This policy provides protection for whistleblowers, informants and witnesses from retaliation in the reporting of financial and administrative misconduct and is essential in the fight against fraud. The use of the OIG hotline is effective in providing an additional mechanism for reporting allegations of unethical behavior, misconduct, corrupt or fraudulent activities involving financial transactions processed by GS/OAS staff members and performance contractors.

III. Summary of OIG Activities

During the execution of its activities, the OIG focused mainly on operations of high risk and on those with greater potential to improve the efficiency, effectiveness and use of resources in the General Secretariat.

This report summarizes the work completed and initiated during 2010, resulting in ten audits and three investigations. During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of Travel, Procurement Processes, GS/OAS Credit Cards used by the Department of Procurement, Payroll Processes, and the Tax Reimbursement Program. In addition, the OIG reviewed the Program of the MAPP both at Headquarters and in Colombia, and reviewed the internal controls of the activities of the Offices of the General Secretariat in Saint Vincent and the Grenadines, Guyana, Mexico, and the Dominican Republic to determine compliance with the established regulations and procedures of the OAS. In addition, the OIG evaluated seven projects that were executed in the Member States, to ensure compliance with the agreements and to determine if the objectives were accomplished. Our investigations led to significant improvements in the use of the Procurement Credit Cards and the operations of the GS/OAS in Haiti.

Table No. 1
Summary of OIG Activities during 2010

Activity	Number	Audit Name	Recommendation Status	High	Medium	Low	Grand Total
Audit	01	GS/OAS Credit Cards Procurement Process	OPEN	9	2	0	11
	02	GS/OAS Office in St. Vincent & The Grenadines		0	0	0	0
	03	GS/OAS Office in Guyana		0	0	0	0
	04	GS/OAS Travel	OPEN	4	5	2	11
	05	GS/OAS Procurement Process	OPEN	10	2	1	13
	06	GS/OAS Payroll Process	OPEN	3	4	1	8
	07	GS/OAS Tax Reimbursement Program	OPEN	3	2	1	6
	08	MAPP/OEA - Colombia	OPEN	5	2	2	9
	09	GS/OAS Office in Mexico	OPEN		3	1	4
	10	GS/OAS Office in Dominican Republic	OPEN	2	2	0	4
Audit Total				36	22	8	66
Investigation	01	GS/OAS Procurement Credit Cards	OPEN	1	1	0	2
	02	OIG Incident Report on Anonymous E-mail	OPEN	1	0	0	1
	03	GS/OAS Office in Haiti	OPEN	6	0	0	6
Investigation Total				8	1	0	9
TOTAL				44	23	8	75

Throughout this reporting period, the OIG issued a total of seventy-five recommendations, sixty-six from audits and nine from investigations. Management responses to those recommendations indicated an increased accountability and higher adherence with GS/OAS rules and regulations; facilitated the identification of operational processes that needed improvement of internal control, and promoted organizational efficiency and effectiveness. Those recommendations were classified: forty-four as High Risk, twenty-three as Medium Risk and eight as Low Risk. The OIG discusses audit findings and recommendations with senior program managers during the final exit interview, in an effort to explain and obtain an agreement with the findings and to arrive at consensus in the method of implementation of the recommendations in a cost effective manner. This methodology and the distribution of the draft report for comments not only ensures the effectiveness of the OIG function but also confirms that audit findings and recommendations are communicated to senior management before submission to the Secretary General for approval. In several cases weaknesses were corrected and the auditees' comments and observations were taken into account prior to finalizing the audit reports. The OIG has observed that this practice allows for greater transparency, acceptance of audit findings and allows for the OIG to track the implementation of recommendations.

IV. Activity Reports

A summary of audit activities of the Office of the Inspector General for the calendar year ended December 31, 2010 is submitted separately to the Permanent Council in accordance with Article 121 of the General Standards and Executive Order 95-05 of May 8, 1995.

V. OIG Participation at Meetings

In 2010, the OIG, on a few occasions, participated as observers during meetings of the Permanent Council, Permanent Executive Committee of CIDI (CEPCIDI) and the Committee for Administrative and Budgetary Affairs (CAAP). However, selected OIG staff members participated as observers in various committee meetings and working groups of the General Secretariat, which may have an impact on internal controls that includes the Selective Bid and Contract Awards Committee. In addition, the Acting Inspector General participated in the Committee for Disposal of Surplus and/or Obsolete Assets (COVENT).

The OIG greatly appreciates the collaborated efforts of representatives from the Department of Legal Services in addressing the matters that, in the opinion of the Inspector General, pose significant risk to the Organization.

VI. Effect of OIG Recommendations on GS/OAS Activities

The implementation rate for approved recommendations is a meaningful factor in determining the success of the auditing services provided by the OIG. The success and usefulness of the audit function depends on the value and importance senior management places on that function and the way it is integrated into GS/OAS operational activities. The OIG recognizes the ongoing efforts of the General Secretariat to correct internal control weaknesses reported by the Office of the Inspector General and the initiatives undertaken to strengthen the internal control environment and the favorable responses from management.

OIG activities, during 2010, have made it possible to identify monetary losses in the amount of USD 15,733.72 from which the sum of USD 7,000 was recovered and the amount of USD 8,733.72 remains uncollected.

In addition, the OIG relies on actions taken by management to implement the recommendations. Based on the responses from Management, progress has been made in the following:

- New policies and procedures for the use of Procurement Credit Cards.
- Implementation of automated Travel Expense Claims and the corresponding update of the GS/OAS travel policies.
- Corporate agreements with local hotels to provide substantial discounts.
- Improvements in vendor management.
- Improved internal controls and update of policies regarding the administration of GS/OAS facilities.
- Improved management of the Tax Program and the adoption of a plan of action to audit those who received tax reimbursements.
- Improved internal control in the following offices:
 - GS/OAS Haiti

- GS/OAS Mexico
- GS/OAS Dominican Republic
- Improved internal controls in the hiring of freelance interpreters and translators and in the development of procedures and guidelines that apply to conference services.

Table No. 2
Number of Open Recommendations at the end of 2010

Year	High	Medium	Low	Grand Total
2006	2	2	0	4
2009	6	4	1	11
2010	44	23	8	75
Grand Total	52	29	9	90

VII. OIG Concerns View as GS/OAS Opportunities for Improvement

Although the General Secretariat continues its efforts to strengthen the internal control environment, and significant improvements and efficiencies in their operations, the OIG has concerns regarding the following:

- Performance of several manual processes increases the risk of errors and the tendency to have inconsistent application of processes.
- The internal controls over the Organization's Art collection.
- Consistency in the application of the Department of Human Resources' policies and procedures for hiring, promoting, and compensating employees.
- Transition from the Budgetary and Financial Rules to the International Public Sector Accounting Standards (IPSAS) requires cleaning up of the data, as well as a plan for clearly defined business processes in OASES.
- Availability of written procedural manuals for DFAMS processes.
- The recording of advances, including travel advances as expenditures instead of receivables.
- Delays in resolving UNCLAIMED FUNDS
- GS/OAS Offices in the Member States:
 - Inventory in the GS/OAS Offices in the Member States.
 - Training for the GS/OAS Offices in administrative functions, including the Budgetary and Financial Rules, particularly those entities that do not fall within the responsibility of the Coordinating Office for the Offices and Units of the General Secretariat in the Member States.

VIII. OIG Staffing

The resources available for the auditing activities of the Office of the Inspector General are mainly provided in the Program Budget of the Regular Fund. In addition, staff financing is complemented from the Indirect Cost Recovery Fund (ICR).

In 2010, OIG staff positions provided by the Regular Fund consisted of one (D01) the Inspector General (this position was vacated after the retirement of the long-term incumbent), two (P03) Auditors, two (P02) Auditors and one (P01) Junior Auditor. In addition, one (P02) Auditor and one (G05) Administrative Assistant were supplemented and financed with ICR funds. During 2010, the OIG also supplemented their work force with performance contractors and participated in the internship program.

The OIG is dedicated to make optimum use of available resources to accomplish results that add value to the services provided to the GS/OAS and the Member States. The lack of adequate resources for its strategic initiatives continues to present difficulties to the OIG in fulfilling its mandate for maintaining significant audit coverage throughout the General Secretariat, as well as adequate review of projects administered by the GS/OAS.

The Board of External Auditors expressed concern that the staffing for the OIG should remain commensurate with the increased level of program activity; however, they also indicated that the work plan of the OIG should be more realistic and aligned with available resources. In addition, the Board of External Auditors commented on the OIG staffing and budget, and reaffirmed the need for an external assessment of our auditing activities.

IX. Continuing Professional Education and Professional Development

In addition to its key role in enhancing skills and knowledge, continuing training empowers the OIG staff members to develop their careers with the goal of providing internal audit services of the highest quality to the OAS. All professional staff members of the OIG are members of the Institute of Internal Auditors.

Efforts to provide training to OIG staff members are undertaken to maintain their skill levels, keep up-to-date with developing trends in the professional practice of internal auditing and ensure that staff members are adequately trained and meet the required minimum annual continuing professional education credits. The OIG is committed to support OIG staff members to become certified and accredited in the auditing field and to develop the necessary skills to maintain their professional competencies. Thanks to this support, as of the day of this report, two OIG staff members have become Certified Fraud Examiners (CFE) and Certified Internal Auditors (CIA).

To meet the current demands of internal auditing, and the need to focus on risk management and value-based auditing, as well as compliance with regulatory mandates particularly from our Member States and donors, the OIG of the Organization of American States needed an effective training strategy and resources aimed at maximizing staff competencies and knowledge, consistent with the new and emerging trends.

In 2010, the OIG received a budget of USD 22,000 for training of which USD 23,545 was spent. Internal auditors are required to perform engagements with proficiency and due professional care. As such, 87% of the funds were utilized for training directed towards understanding

international financial reporting through classes on International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS).

X. Independence

The Office of the Inspector General (OIG) operates as an independent unit of the GS/OAS under the Compliance Oversight Management Bodies. The OIG internal audit activity falls under the responsibility of the Inspector General, who not only reports to the Secretary General, but also to the Permanent Council and to the Board of External Auditors, in accordance with the juridical system of the Organization. Despite its operational independence, the Inspector General relies administratively on the Secretary for Administration and Finance for assistance in establishing appropriate support during the use and administration of resources. The latest modifications of the General Standards to govern the operations of the General Secretariat through AG/RES.2754 (XLII-O/12) adopted at the second plenary session of the General Assembly on June 4, 2012 focused on strengthening the autonomy of the Inspector General and his relationship with the Permanent Council.

The General Standards to govern the operations of the General Secretariat in accordance with its Article 119 states the following: *“The Inspector General is responsible for carrying out the audit and investigation functions mentioned above. To that end, he shall enjoy the independence needed to initiate, perform, and report to the Permanent Council and to the Secretary General on the audits, investigations, and inspections required to ensure the correct use and administration of the Organization's resources and to safeguard its assets. The Inspector General shall also enjoy the necessary independence to report to the Permanent Council on the overall efficacy of the functions of the Office of the Inspector General and on the overall qualifications and performance of the staff and independent contractors providing services in the Office of the Inspector General.”*

Executive Order 95-05 established that the OIG shall have full technical autonomy and the broadest managerial autonomy.

XI. Recommendations of the Board of External Auditors

The Board of External Auditors issued unqualified "clean" opinions for the 2010 financial statements of the entities of the General Secretariat and stated that the Board is generally satisfied with the progress made by the General Secretariat in implementing its recommendations. The Board also noted that internal controls serve as the first line of defense in safeguarding assets, preventing and detecting errors and stated that, overall, the OAS internal control environment was generally effective.

The Inspector General continues to address the concerns expressed by the Board of External Auditors and reviews those areas of concern to the extent of resources allows. The 2010 report of the Board recognized the continuing achievements of the OIG despite limited resources and encouraged the OIG to continue its ongoing improvements and enhancing of the audit follow-up process so that adequate action is taken to implement open recommendations.


Oscar Chavera
Former Acting Inspector General
October 31, 2012