



# Organization of American States

## Office of the Inspector General



## 2011 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 Inspector General**

**January 1 to December 31, 2011**

**Table of Contents**

I. FROM THE INSPECTOR GENERAL.....	- 1 -
II. MANDATE.....	- 2 -
III. SUMMARY OF OIG ACTIVITIES.....	- 3 -
IV. ACTIVITY REPORTS.....	- 4 -
V. OIG PARTICIPATION AT MEETINGS.....	- 5 -
VI. EFFECT OF OIG RECOMMENDATIONS ON GS/OAS ACTIVITIES .....	- 5 -
VII. OIG CONCERNS VIEW AS GS/OAS OPPORTUNITIES FOR IMPROVEMENT .....	- 6 -
VIII. OIG STAFFING .....	- 7 -
IX. CONTINUING PROFESSIONAL EDUCATION AND PROFESSIONAL DEVELOPMENT ..	- 7 -
X. INDEPENDENCE .....	- 8 -
XI. RECOMMENDATIONS OF THE BOARD OF EXTERNAL AUDITORS.....	- 8 -

## **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 2011.

This report summarizes the work completed and initiated during 2011, resulting in ten audits, three investigations and one Online Risk Assessment of the GS/OAS Member States National Offices. In addition, the OIG reviewed five 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 areas of high risk and operations executed in the GS/OAS Offices in the Member States.

During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of the Hall of the Americas, Americas Magazine and the Inter-American Commission on Human Rights. In addition, the OIG reviewed the internal controls of the activities of the Offices of the General Secretariat in Haiti, Nicaragua, Guatemala, Bahamas, St. Kitts and Nevis, and Antigua and Barbuda to determine compliance with the established regulations and procedures of the OAS. With the collaboration of the Department of Legal Services, the OIG conducted investigations that led to significant improvements in the use of the Art Museum of the Americas, in the hiring of Temporary Conference Services and the review of medicals claims submitted for reimbursement to Carefirst Blue/Cross Blue Shield.

Throughout this reporting period, the OIG issued a total of forty-four recommendations, thirty-two resulted from audits, four from investigations and eight from the Online Risk Assessment to the GS/OAS National Offices. The recommendations resulted in an increased accountability and higher adherence with GS/OAS rules and regulations; facilitated the identification of operational processes that needed improved internal controls, and promoted organizational efficiency and effectiveness. Those recommendations were classified: 27 as High Risk, 14 as Medium Risk and 3 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 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.

The majority of OIG recommendations prior to 2010 have been implemented or closed; however, as of the date of this report the remaining recommendations are still in process. Of the 2006 recommendations, 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 improvement of the website of the Portal

of the Americas. In 2010, seventy-five recommendations were issued of which all of them are currently being reviewed for completion and implementation.

As of the date of this report, the forty-four recommendations issued in 2011 are still under review. 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 audited dependencies 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 our 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, distribution of draft audit reports prior to the Secretary General's approval, discussions on operational activities, as well as planned business processes, review 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 2011 either by phone or e-mail through the established hotline; instead complaints that resulted in investigations, were communicated directly to the Inspector General. The OIG plans to promote the use of the hotline to encourage those who wish to report questionable financial and administrative practices. This would facilitate the OIG in utilizing a centralized reporting mechanism to produce statistical data, track and classify the complaints.

## II. Mandate

The General Standards to govern the operations of the General Secretariat in accordance with its Article 117 of 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 2011 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. In addition, review of activities executed in the GS/OAS National Offices were considered in order to accommodate cyclical selection.

This report summarizes the work completed and initiated during 2011, resulting in ten audits, three investigations and one Online Risk Assessment of the GS/OAS National Offices. During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of the Hall of the Americas, the Americas Magazine and the Inter-American Commission on Human Rights. In addition, the OIG reviewed the internal controls of the activities of the Offices of the General Secretariat in Haiti, Nicaragua, Guatemala, Bahamas, St. Kitts and Nevis, and Antigua and Barbuda to determine compliance with the established regulations and procedures of the OAS. Also an Online Risk Assessment of the GS/OAS National Offices was conducted to gather information regarding operational and administrative practices in order to assess compliance with rules and regulation governing the GS/OAS. Our investigations led to significant improvements in the use of the Art Museum of the Americas, in the hiring of Temporary Conference Services and the review of the medicals claims submitted for reimbursement to BlueCross BlueShield.

**Table No. 1  
Summary of OIG Activities during 2011**

Activity	Number	Audit Name	Recommendation Status	High	Medium	Low	Grand Total
Audit	2	I-A Commission on Human Rights	OPEN	0	0	1	1
	3	Rental of the Hall of the Americas	OPEN	3	2	1	6
	4	Americas Magazine	OPEN	7	2	1	10
	5	GS/OAS Haiti	OPEN	3	2	0	5
	6	GS/OAS Nicaragua	OPEN	0	0	0	0
	7	GS/OAS Guatemala	OPEN	3	0	0	3
	8	GS/OAS Bahamas	OPEN	1	1	0	2
	9	GS/OAS St. Kitts and Nevis	OPEN	2	1	0	3
	10	GS/OAS Antigua and Barbuda	OPEN	1	1	0	2
	<b>Audit Total</b>				<b>20</b>	<b>9</b>	<b>3</b>
Investigation	01	Use of the Art Museum for personal event	OPEN	0	0	0	0
	02	Allegations against DCMM Staff Member	OPEN	3	1	0	4
	03	BCBS Medical Claims	OPEN	0	0	0	0
<b>Investigation Total</b>				<b>3</b>	<b>1</b>	<b>0</b>	<b>4</b>
Assessment	01	2011 Online Assessment National Offices	OPEN	4	4	0	8
<b>Assessment Total</b>				<b>4</b>	<b>4</b>	<b>0</b>	<b>8</b>
<b>TOTAL</b>				<b>27</b>	<b>14</b>	<b>3</b>	<b>44</b>

Throughout this reporting period, the OIG issued a total of 44 recommendations, 32 resulted from audits, 4 from investigations and 8 from the Online Risk Assessment to the GS/OAS National Offices. Those recommendations were intended to address accountability, adherence with GS/OAS rules and regulations and to strengthen the internal controls of operational processes. Those recommendations were classified: 27 as High Risk, 14 as Medium Risk and 3 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 to obtain an agreement with the findings and to arrive at a 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 auditees' comments and observations were taken into account prior to finalizing the audit reports. OIG has observed that this practice allows for greater transparency, acceptance of audit findings and 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, 2011 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 2011, the OIG, on few occasions, participated as observers during meetings of the Permanent Council 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 that may impact internal controls, that includes the Selective Bid and Contract Awards Committee.

The OIG greatly appreciates the collaborated effort of representatives from the Department of Legal Services in addressing matters that, in the opinion of the Inspector General, pose the 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 2011 have made it possible to recover the amount of USD 69,064.63, as a result of unsubstantiated medical claims. In addition, the GS/OAS received a financial restitution in the amount of USD 10,000 to defray expenses linked to an investigation.

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:

- Strengthening the procedures for the Rental of the Hall of the Americas.
- Continuous improvement of the internal controls and procedures aimed to establish adequate supervision and oversight during the execution of projects of the Inter-American Commission on Human Rights.
- Identifying priority goals aimed to improve the financial condition and management of the Americas Magazine. Guidelines for the efficient use of their resources.
- Improved internal controls in the hiring of Temporary Conference Services.
- Improvements of the internal controls in the following offices:
  - GS/OAS Haiti
  - GS/OAS Guatemala
  - GS/OAS Bahamas
  - GS/OAS St. Kitts and Nevis
  - GS/OAS Antigua and Barbuda
- Improved internal controls in the BCBS medical claim reimbursement procedures including proactive assistance from the Special Investigations Unit of BCBS.

**Table No. 2**  
**Number of Open Recommendations at the end of 2011**

<b>Year</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Grand Total</b>
2006	2	2	0	4
2009	6	4	1	11
2010	44	23	8	75
2011	27	14	3	44
<b>Grand Total</b>	<b>79</b>	<b>43</b>	<b>12</b>	<b>134</b>

### **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:

- Need for enterprise-wide communication policies to achieve efficient and effective information management that supports program delivery, is consistent, and fosters informed decision making and collaboration across Units, Departments, Secretariats and National Offices.
- Need to implement clear guidelines and policies for all phases of the project cycle for improved internal controls and proper oversight.
- Need to evaluate current IT governance to determine whether it complies with COBIT governance framework.
- Records of exceptions to GS/OAS rules should be maintained in a database for reporting to the stakeholders of the Organization, to assess the budgetary impact and to produce indicators.
- The OASES is meant to be an integrated system and yet, as seen in several OIG audit reports, many business processes are not integrated.
- Need to establish clear policies for “UNCLAIMED FUNDS.”
- Need to develop policy setting standards.
- Need for an Enterprise Risk Management (ERM) framework.
- Training for the GS/OAS Offices in administrative functions, including the Budgetary and Financial Rules, particularly for 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 2011, 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.

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 using electronic tools, standardization to ensure consistency in the audit practice and quality assurance in the work of the OIG continues to present difficulties for the OIG in fulfilling its mandate to maintain significant and timely audit coverage throughout the General Secretariat, as well as to provide adequate review of projects administered by the GS/OAS.

The Board of External Auditors expressed concern regarding the timeliness of the audit work conducted by the OIG and indicated that the activities of the OIG should remain proportionate and aligned with available resources. The Board of External Auditors also commented on the OIG staffing and budget, and continued reaffirming 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 Office of the Inspector General are members of the Institute of Internal Auditors.

Efforts to provide training to OIG staff members are undertaken to maintain their skill levels, to 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 date of this report, two OIG staff members have become 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 2011, the OIG received a budget of USD 22,000 for training of which USD 23,168 was spent. Internal auditors are required to perform engagements with proficiency and due professional care and this includes having sufficient knowledge to evaluate the risk of fraud. As such, 41% of the

funds utilized towards training were aimed towards acquiring knowledge of the principles of fraud and audit evidence and documentation. As a result, three of the OIG staff members became Certified Fraud Examiners in 2011.

## **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.”*

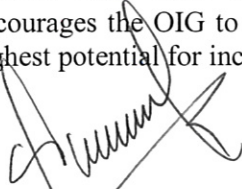
In addition, Executive Order 95-05 established that the OIG shall have full technical autonomy and the broadest managerial autonomy.

## **X. Recommendations of the Board of External Auditors**

The Board of External Auditors issued unqualified "clean" opinions for the 2011 financial statements of the entities of the General Secretariat. Nonetheless, the statements reflect the use of modified cash basis accounting standards, which the Board believes are not optimal. 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 Board of External Auditors issued ten recommendations to the different dependencies of the General Secretariat. In addition, the Board issued three recommendations to the OIG reaffirming the need for an external peer review, timely completion of the work plan and a plan for improve operations to be presented.

The OIG continues to address the concerns expressed by the Board of External Auditors and reviews those areas of concern to the extent resources allow. The 2011 report of the Board encourages the OIG to continue to focus on areas with a high degree of risk and/or those with the highest potential for increasing efficiency, economy, and effectiveness within the OAS.

A handwritten signature in black ink, appearing to read 'Oscar Chavera', written in a cursive style.

**Oscar Chavera**  
**Former Acting Inspector General**  
**October 31, 2012**