

ANNUAL REPORT OF THE OFFICE OF THE INSPECTOR GENERAL  
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2012

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

## Report from the Inspector General

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## **I. From the Inspector General**

Pursuant to the 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 2012.

This report summarizes the audit work conducted during the tenure of both former Acting Inspector General from January 1 to October 31, 2012 and the Inspector General from November 1 to December 31, 2012. The work initiated during 2012, resulted in three audits and two investigations.

During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of the GS/OAS Summits Secretariat, the Department of Human Resources' Benefits Section and the Department of General Services' Building Management and Maintenance Section. 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 and the Training and Certification Program for Drug and Violence Prevention, Treatment, and Rehabilitation (PROCCER) of the Inter-American Drug Abuse Control Commission (CICAD).

Throughout this reporting period, the OIG issued a total of thirteen recommendations, nine resulted from audits and four from investigations. 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: eight as High Risk, three as Medium Risk and two as Low Risk.

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 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, two recommendations are open from which one as High Risk and one 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, five 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. In 2010, seventy-five recommendations were issued of which sixty are currently being followed up for completion and implementation. In 2011, forty-four recommendations were issued and thirty-three are in various stages of implementation.

As of the date of this report, thirteen recommendations were issued in 2012 and all of them are still under review. The OIG is in the process of implementing a follow-up mechanism for determining the status of the outstanding recommendations so the responses received from the areas are consistent and the OIG can properly verify their status and ensure that the information is updated accurately.

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.

The use of the OIG hotline encouraging the reporting of financial and administrative misconduct has been effective in providing an additional mechanism for reporting allegations of ethical behavior, misconduct of staff member or corrupt or fraudulent activities, involving financial transactions processed by GS/OAS staff and performance contractors. Reports were issued on matters that were referred to the OIG in 2012 that were substantiated.

## II. Mandate

The General Standards to Govern the Operations of the General Secretariat of the Organization of American States in accordance with Article 117 states that, "*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, promulgated by the Institute of Internal Auditors, 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

This section summarizes the work initiated during 2012, resulting in two audits and one is still in process. During this period, operational audits conducted at Headquarters were focused to review and evaluate the activities of the GS/OAS Summits Secretariat, the DHR Benefits Section and the DGS Building Management and Maintenance Section. Our investigation reports were related to the Art Museum of the Americas and the Training and Certification Program for Drug and Violence Prevention, Treatment, and Rehabilitation (PROCCER) of the Inter-American Drug Abuse Control Commission (CICAD).

**Table No. 1**  
**Summary of OIG Activities during 2012**

Activity	Number	Audit Name	Report Status	High	Medium	Low	Grand Total
Audits	1	GS/OAS Summits Secretariat	Report Issued	—	1	1	2
	2	DHR Benefits Section	Report Issued	4	2	1	7
	3	DGS Building Management and Maintenance Section	Field Work In Process	—	—	—	—
<b>Audit Total</b>				<b>4</b>	<b>3</b>	<b>2</b>	<b>9</b>
Investigations	1	Art Museum of the Americas	Report Issued	—	—	—	—
	2	Training and Certification Program for Drug and Violence Prevention, Treatment, and Rehabilitation (PROCCER) of CICAD	Report Issued	4	—	—	4
<b>Investigation Total</b>				<b>4</b>	<b>—</b>	<b>—</b>	<b>4</b>
<b>TOTAL</b>				<b>8</b>	<b>3</b>	<b>2</b>	<b>13</b>

Throughout this reporting period, the OIG issued a total of thirteen recommendations, nine resulted from audits and four from investigations. Those recommendations were intended to address accountability, adherence with GS/OAS rules and regulations and to strengthen the internal controls of operational processes. The OIG discusses audit observations and recommendations with management during the final exit interview, in an effort to explain and to obtain an agreement with the observations 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 observations and recommendations are communicated to senior management before submission to the Secretary General for approval. In several cases, weaknesses were corrected and auditees' comments were taken into account prior to finalizing the audit reports.

#### IV. OIG Participation at Meetings

In 2012, on a few occasions, the OIG participated as observers during meetings of the Permanent Council and the Committee for Administrative and Budgetary Affairs (CAAP), as well 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. The OIG encourages department managers to consult with the Inspector General regarding operational matters that may present a potential risk to the Organization, the implementation of recommendations, or other operational issues related to the internal control environment, including proposals for changes in business processes and review of draft operational procedures. This process would contribute to improved internal communication and a satisfactory internal control environment within the General Secretariat.

#### V. 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.

**Table No. 2**  
**As of December 31, 2012 - Number of Open Recommendations**

Year	High	Medium	Low	Grand Total
2006	1	1	—	2
2009	3	2	—	5
2010	33	21	6	60
2011	19	12	2	33
2012	8	3	2	13
<b>Grand Total</b>	<b>64</b>	<b>39</b>	<b>10</b>	<b>113</b>

#### VI. 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 2012, OIG staff positions provided by the Regular Fund consisted of one (D01) the Inspector General (this position was vacant until November 2012), one (P05) Advisor, 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.

## **VII. 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 personnel of the Office of the Inspector General are members of the Institute of Internal Auditors.

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.

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.

In 2012, the OIG spent USD 34,589 on training the OIG personnel. 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. For this reason, the OIG utilized 41% of the funds on the training in Internal Audit Quality Assessment and the majority of the remaining funds were utilized towards training the auditors as fraud examiners and in conducting internal investigations.

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

The Board of External Auditors issued unqualified "clean" opinions for the 2010 and 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:

- To perform a full organizational review of OIG operation and provide the Board with an action plan.
- Reaffirm the need for an external peer review.
- To report to the Permanent Council annually by March 31 on the status of completion of the planned audits for the previous years, the status of management actions regarding outstanding audit recommendations and the proposed plan for the new fiscal year.

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. During the last quarter of 2012, the OIG contracted the services to install and implement an Audit Management Software. This electronic tool will be used to enhance, formalize, and streamline the audit procedures. Furthermore,

the OIG staff attended a comprehensive training in Internal Audit Quality Assessment and the OIG is in the process of drafting its internal audit procedures. Upon completion of these fundamental changes, the Inspector General plans to undergo a peer review in 2014.

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.

### **IX. Independence**

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 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.”*

The 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 reports to the Secretary General, the Permanent Council, and to the Board of External Auditors, in accordance with the juridical system of the Organization.

### **X. OIG Areas of Interest**

Although the General Secretariat continues its efforts to strengthen the internal control environment, and significant improvements and efficiencies in their operations, GS/OAS challenges that cause concern to the Inspector General relate to:

- Enterprise Risk Management, the Organization needs to complete a comprehensive assessment of OAS' current approach to risk management and to develop an initial Organization-wide risk assessment.
- Transition from the current Budgetary and Financial Rules to IPSAS, implement an outreach effort with both internal and external users of the financial statements.
- Results-based budget initiative
- OAS business processes are not fully defined, automated nor integrated.



### XI. Work Plan for the Year 2013 and 2014

The Inspector General commenced in November 2012, and after that, the OIG took a number of actions to improve the quality of its own work. Specifically, began teaming auditors on key assignments; started the implementation of an electronic working paper system; and involved field auditors more in Organization-wide reviews.

During the budget process for 2013, the former Acting Inspector General submitted the following goals for the OIG:

OPERATIONAL GOALS OF THE OFFICE OF THE INSPECTOR GENERAL				
Subprogram	Goal	Unit of Measurement	Quantity	Description
143B	1	Audit	3	Audits and investigations conducted pursuant to the requests of the Member States and the Secretary General, and recommendations of the Board of External Auditors, and/or complaints on the hotline, not included in the OIG work plan.
143B	2	Audit	4	Audit of operations, processes, and specific areas/ departments carried out at Headquarters
143B	3	Audit	4	Audits of the OSGEMs, monitored
143B	4			Administrative management of audits, including follow-up on pending recommendations of auditors' reports and other administrative tasks
143B	5			Participation as observer in meetings of the Member States and of the GS/OAS on internal control matters, including operational procedures and suggested changes to business methods.
143B	6	Document	1	Annual operating plan, prepared
143B	7			New strategic plan of the OIG, defined; manuals and procedures, updated; and audit work papers, standardized.
143B	8			OIG staff trained and updated in audit issues to complete educational requirements as specified by the Institute of Internal Auditors

Following the current methodology, the OIG plan for 2013 and 2014, is as follows:

<b>OIG Audit Work Plan for 2013</b>		
<b>Audit</b>	<b>Technical Area/Subject</b>	<b>OIG - POA Goal #</b>
1	Department of Financial and Administrative Management Services - Cash Management Services	2
2	Department of Information and Technology Services - Information Security Review	2
3	Department of Procurement - Vendor Master File Audit	2
4	Department of Human Resources - Review of ICR	2
5	GS/OAS Office in Barbados	3
6	GS/OAS Office in Honduras	3
7	GS/OAS Office in Uruguay	3
8	Inter-American Children's Institute	3
9	Online Assessment of GS/OAS Offices and Projects	3
<b>OIG Audit Work Plan for 2014</b>		
<b>Audit</b>	<b>Technical Area/Subject</b>	<b>OIG - POA Goal #</b>
1	Department of Human Resources - Implementation Review of the Human Resource Strategy	2
2	Department of Planning and Evaluation- Implementation of Results-Based Budget	2
3	Department of General Services - Real Property Strategy	2
4	GS/OAS Office in Ecuador	3
5	GS/OAS Office in Grenada	3
6	GS/OAS Office in Panama	3
7	GS/OAS Office in Trinidad and Tobago	3

During the first semester of 2013, the OIG will develop a risk-based audit plan that will assist audit prioritization, and, going forward, ensure a better analytical base for determining future staffing and other resourcing levels for the Office's audit functions.

Martin Guozden  
 Inspector General  
 January 25, 2013