

ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR GENERAL
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2007



**Organización de los Estados Americanos
Organização dos Estados Americanos
Organisation des États Américains
Organization of American States**

17th and Constitution Ave., NW, • Washington, D.C. 20006

SG/OIG-19/08

August 27, 2008

Excellency:

I have the honor to submit to you the Activity Report of the Office of the Inspector General for the period January 1 through December 31, 2007.

This Office submits Activity Reports to you, for forwarding to the Permanent Council, in accordance with the provisions of Resolution AG/RES. 1321 (XXV-O/95.)

Accept, Excellency, the renewed assurances of my highest consideration.

Linda P. Fealing
Inspector General

His Excellency
José Miguel Insulza
Secretary General
Organization of American States
Washington, D.C.

Encl.



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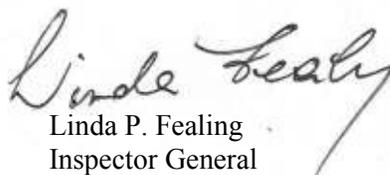
17th and Constitution Ave., NW, • Washington, D.C. 20006

August 27, 2008

Mr. President:

Pursuant to Resolution AG/RES. 1321 (XXV-O/95) and Article 119 of the General Standards I have attached for the Permanent Council's consideration the Activity Report of the Office of the Inspector General for the period January 1 to December 31, 2007.

Accept, Excellency, the renewed assurances of my highest consideration.


Linda P. Fealing
Inspector General

His Excellency
Ambassador Nestor Mendez
Permanent Representative of Belize
to the Organization of American States
Chairman of the Permanent Council
Washington, D.C.

Encl.

Activity Report
Of the
Office of the Inspector General
January through December 2007

I. Audit Reports

This report is submitted in conformity with Resolution AG/RES. 1321 (XXV-O/95) and Article 119 of the General Standards.

The OIG issued reports of ten audits, one investigation and one inspection for activities completed during the year ended December 31, 2007. In addition, the OIG communicated directly with three supervisors and provided appropriate recommendations regarding operational processes and issues towards the achievement of improved management controls. Reports of audit activities provided fifty-four (54) recommendations to correct identified internal control weaknesses related to accountability mechanisms, operational processes, organizational efficiency and effectiveness. Those recommendations were classified as 34 High Risk and 20 Medium Risk. The recommendations addressed OIG findings that identified the need to (1) comply with GS/OAS directives, including the Budgetary and Financial Rules, the Field Financial Manual and Administrative Memoranda, (2) update operational manuals and distribute procedural directives, (3) improve business processes (4) address Systems related weaknesses (5) manage operational processes and projects at Headquarters more effectively, (6) address staffing needs and (7) record and safeguard OAS property and update inventory listings of fixed assets. All reports and recommendations submitted to the Secretary General were approved.

As of the date of this report, forty-six (85%) of the 2007 recommendations have been implemented. Eight (15%) of the fifty-four 2007 recommendations were still outstanding of which five were considered High Risk. The outstanding 2007 recommendations primarily focus on the need for (a) compliance with various GS/OAS directives and project agreements, (b) distribution of procedural directives, (c) a plan for delivery of appropriate training to the Administrative Technicians in GS/OAS Offices in the Member States, (d) improved operational processes, including those related to staffing needs, job descriptions, and effective employment mechanisms. As of the date of this report, thirteen (18%) recommendations of the seventy-four from 2006 are still outstanding. The Secretary for Administration and Finance is responsible for the implementation of the 2006 outstanding recommendations. They relate to improved operational processes, reengineering of business processes through OASES, development, amendment and distribution of procedural manuals and directives.

The OIG has noted that from May 1, 2007 the Secretariat for Administration and Finance (SAF) has established the STAMP project to transform and modernize OAS resource management systems with five key objectives:

- Standardization of resource policies and processes
- Transparency
- Accountability and providing meaningful reports
- Training
- Ethics

OIG has been informed that through the STAMP project, SAF is analyzing and assessing methods for re-engineering its business processes and for implementing the outstanding recommendations. OIG has not been provided with the expected completion date of this STAMP Project.

Audit SG/OIG/AUDIT-01/07 was performed to assess the level of risk and control activities associated with the Procurement, Disbursements and Payroll Processes at Headquarters and National Offices managed by the Secretariat for Administration and Finance and the likelihood of risk factor occurrence at three levels – High, Moderate and Low. The assessment provided summaries of the control environment and the levels of risk associated with purchasing activities, disbursements, accounts payable and activities carried out in the GS/OAS Offices in the Member States, including bank reconciliations and inventory. The objectives of the OIG analysis were defined as strategic (related to high level goals of the specific activity), operational (effective and efficient use of resources), reporting (reliability of the information) and compliance with GS/OAS rules and directives. In performing the risk assessment for the selected functional areas of the SAF, OIG considered: the objectives of the function, whether the objective is an operational, financial or compliance activity, the associated risk factors, the likelihood that the risk factor would occur and the impact on the Organization if it did, the actions or rules in place to mitigate the risk and an assessment of the impact of the mitigation effort. OIG advised the Secretariat of Administration and Finance that the level of risk of non-compliance with GS/OAS rules and directives in the identified areas may be reduced by addressing some critical operational processes, such as the following:

- Staff authorizations in OASES should be kept current.
- Vendor approval process needs improvement and Vendor listings should be current and accurate.
- Contracts should be referred to the Department of Legal Services when multiple contracts in the aggregate exceed established levels.
- The fixed assets module should be integrated in the OASES accounting system, fixed assets should be counted and reconciled annually.
- Statements of Conflict of Interest should be submitted by all staff members as required in the Staff Rules.
- Although there seems to be adequate levels of segregation and supervision of duties at Headquarters, detailed written procedures and systematic training should be provided for administrative staff in the Offices in the Member States, particularly because of the limited opportunities for segregation of duties and monitoring.
- The travel expense claim process should be systematically monitored, reviewed and reconciled to the advances given.
- Long term contracts that are funded from Specific Funds should be subject to a systematic and timely competitive award process.

- Personnel contracts should be renewed on a timely basis in order to avoid retroactive affect.
- Hiring of Local Professional and Temporary Support Staff should be recorded and effectively managed by both GS/OAS Offices in the Member States, as well as Headquarters to ensure compliance with local legislation and verify that liabilities for employee benefits are recognized and included in the OASES financial accounting system.

Audit SG/OIG/AUDIT-02/07 was performed to conduct an extensive blind external penetration analysis against the Internet attachment environment of the OAS. This analysis was initiated at the request of the Director of the Department of Information and Technology Services (DITS) to identify the level of risk with regard to unauthorized access to the OAS network infrastructure, assess management controls and disclose the nature and extent of any known vulnerabilities. This phase was conducted without any operational information regarding the network infrastructure. OIG provided recommendations to correct vulnerabilities and to review established administrative practices within the OAS network with due consideration to best practice and security awareness. Prompt action was taken by the Department of Information and Technology Services to correct the identified vulnerabilities.

Audit SG/OIG/AUDIT-03/07 was performed at the request of the Director of the Department of Information and Technology Services (DITS) to conduct an extensive seeded external penetration analysis against the internal-facing side of the Internet attachment environment of the OAS. This phase was conducted with operational information regarding the network infrastructure provided during an on-site meeting with DITS. OIG provided recommendations to the Director of DITS for the provision of internet services in a secure and diligent manner and corrective action was promptly taken to address vulnerabilities.

Audit SG/OIG/AUDIT-04/07 reviewed operational procedures over Accountable Advances managed by the Department of Budgetary and Financial Services, to evaluate effectiveness and efficiency of internal controls over those funds and to ensure that reports on advances are timely, reliable and accurate. The audit covered accountable advances issued during the period January 1, 2007 through October 3, 2007, and advances from prior years that were still outstanding as of that date. OIG noted that accountable advances in the amounts of US\$686,195, US\$868,882 and US\$477,266 were granted in 2005, 2006 and to October 3, 2007 respectively and as of October 2007, US\$127,078 in accountable advances were still outstanding, of which US\$4,206 was outstanding from 2005 and US\$5,162 from 2006. The main weaknesses identified during this audit were the lack of effective DBFS monitoring over authorized fund advances and the need to properly, timely record and reconcile outstanding advances. In addition, OIG noted that some of the information shown in the Accountable Advance Detail Report is not reliable, accurate or complete. OIG recommended that DBFS should:

- timely record the rendition of accounts of advances,
- prepare an aging report on all advances authorized and report all advances that are pending rendition of accounts,
- reconcile the expense reports before recording the transactions in OASES and
- effectively monitor and perform appropriate follow-up actions regarding outstanding advances.

OIG also noted that for financial statement purposes, DBFS inappropriately records outstanding advances as expenses and not as receivables, as required by Generally Accepted Accounting Principles (GAAP) and Generally Accepted Accounting Standards used by most international organizations. OIG has noted that for financial accounting purposes, the DBFS intends to move toward International Public Sector Accounting Standards (IPSAS). DBFS agrees with OIG recommendations, including the need to devote a considerable level of effort to correct the existing accounting records prior to adopting the IPSAS, in order to ensure that the data in the new system is accurate and reliable.

Audit SG/OIG/AUDIT-05/07 was performed to: (1) identify internal controls related to the fixed asset inventory processes at Headquarters and in the GS/OAS Member States, (2) verify that the fixed assets are properly safeguarded, (3) ensure that the information in the Fixed Assets Report is accurate and (4) verify compliance with related GS/OAS directives. The audit covered the period January 1, 2007 to December 31, 2007. In addition, during the period ended March 31, 2008, OIG activities included follow-up action of the December 2007 Fixed Assets Report, which formed the basis for the 2007 year-end inventory accounts that are recorded in the financial statements. Several internal control weaknesses were identified in this audit and OIG also confirmed that recommendations from the Board of External Auditors and previous OIG audit reports to address the inventory processes had not been implemented.

In addition to the need for compliance with the GS/OAS directives, OIG recommended:

- improved management and implementation of satisfactory internal controls related to the inventory control process, as well as appropriate segregation of duties in the purchasing, recording, custody and reconciliation of inventory items,
- integration of the inventory information system (FASSETS) in OASES,
- systematic physical inspections of inventory items, including laptops and artwork,
- updating of the information in the Fixed Assets Report and in the OASES system, so that the inventory accounting is accurately and timely recorded in the annual financial statements,
- effective follow-up action to ensure that GS/OAS Offices and Units in the Member States comply with the annual requirement to update the Physical Inventory Reports of fixed assets,
- appropriate and timely action to improve the integrity of the data in the fixed assets database,
- improvement in OAS storage rooms and
- submission of accurate information for the COVENT process after appropriate inspection of those assets to confirm their existence and location and ensure that decisions regarding obsolete and surplus items are made on a timely basis.

Audit findings were brought to the attention of the Office of Procurement Services (OPS) as soon as they were identified, so that appropriate action could be taken regarding the irregularities in inventory accounts prior to the issuance of the final OIG audit report and the December 2007 Financial Statements.

Audit SG/OIG/AUDIT-06/07 was undertaken to verify whether the execution of the Implementation of the Strategic Action Program for the Bermejo River Binational Basin project managed by the Department of Sustainable Development (DSD) complies with the terms of the project agreement signed between the OAS and the United Nations Environment Programme (UNEP). This bi-national project is executed in Argentina and Bolivia. The audit was conducted at the GS/OAS Headquarters and it covered the period January 1, 2005 to December 31, 2007. The primary project objective was to provide the necessary institutional, legal, and informational tools, to enhance and restore the environmental functioning of the system and provide protection to endemic species within the ecosystems. The project activities are concentrated in four principal components including

Institutional Development, Environmental Protection and Rehabilitation, Sustainable Development of Water Resources and Public Awareness. The approved budget for this project was US\$19,773,600, including counterpart and in-kind contributions. The initial duration of the project was established for May 2001 through October 2005, however extensions were granted until August 2008. The audit noted that the main difficulties identified during the project execution were delays in carrying out the planned activities, including convening the meetings for programming of funds for the year 2006 and the timely submission of progress reports to the donors. Those delays were primarily due to local conditions and the lack of members in the project Steering Committee for decision making purposes. OIG noted that the OAS in-kind contributions included the provision of office space for the UNEP Task Manager and as a result, communication and project management were significantly improved. According to project progress reports, implementation reviews and a mid-term evaluation, the achieved objectives included the signing of thirty agreements with the Project Bi-national Commission, government agencies and universities within the framework of the Bermejo Strategic Action Program (SAP). Meetings and workshops were also organized and these resulted in elevating public awareness of the program. OIG noted some irregularities in the organizational structure of the DSD and recommended that the Director take appropriate corrective action to ensure that the structure accurately represents the responsibilities and functions currently being performed by the DSD personnel.

Audit SG/OIG/AUDIT-07/07 was performed to evaluate internal controls within the GS/OAS Office in the Bolivarian Republic of Venezuela during the period January 1, 2006 through June 30, 2007. OIG ascertained that for the most part internal controls are satisfactory in the GS/OAS Venezuela. OIG noted that there is need for OASES training for the Administrative Technician for carrying out operational processes. In addition, the main weaknesses identified during the audit related to compliance with the Field Financial Manual and other OAS directives regarding:

- issuance of numerically sequenced receipts,
- authorized signatures for checks above US\$5,000,
- collection of areas of Leo Rowe Fund loan balances,
- maintenance of the long distance calls log, as well as mileage log for recording the use of the official vehicle and
- the need to update the fixed asset inventory report

OIG examined activities for two FEMCIDI funded projects that were executed in Venezuela during the audit period (1) “Exposición Itinerante América, la Diversidad en Discusión” and (2) “Electrificación Fotovoltaica par alas Comunidades de la Isleta Puerto Irinida y San Simón de Cocuy”. In addition, OIG also examined financial transactions related to the Fifth Meeting of Ministers of Justice and Attorneys General of the Americas that was mandated by the General Assembly in Resolutions AG/RES.2019, AG/RES 2026 and AG/RES 2118 with the objective of exchanging information and sharing experiences to reinforce cooperation in abolishing the trafficking of persons. OIG noted that according to final reports and evaluations from the local GS/OAS Office Director, project activities were successfully completed and objectives were achieved.

Audit SG/OIG/AUDIT-08/07 was performed to review and evaluate internal controls within the GS/OAS Office in the Guatemala during the period January 1, 2006 through March 31, 2007. OIG determined that during the audit period internal controls were less than satisfactory in the GS/OAS Guatemala. The main weaknesses identified during the audit related to the need for compliance with the Budgetary and Financial Rules, the Field Financial Manual and other OAS directives regarding: issuance of checks above US\$5,000, maintenance of long distance telephone logs and reimbursement of personal calls, use of official vehicle, usage of gasoline vouchers, inventory of fixed assets, submission of Quarterly Report of Releases, signing of contracts prior to providing the services, compliance with salary guidelines for local personnel of specific fund projects, family relationships and statements of conflict of interest.

OIG examined activities and project reports for three Specific Funded Projects carried out in Guatemala and managed by the Secretariat for Political Affairs (SPA) during the audit period. According to the project reports, objectives of the Central American Program for the Strengthening of Democratic Dialogue (PCA) and the Technical Assistance to the Supreme Electoral Tribunal of Guatemala (ATE) projects were achieved. At the time of the audit, project activities and final reports for the ATE project were still in process and the scheduled end date of December 2007 was extended to June 30, 2008. During this audit, OIG noted that the timeliness of expected objectives and submission of final reports for the Political Management Program and Democratic Values Project (PMPDV) were adversely affected because of the departure of two key personnel, as well as outstanding final payments to suppliers. OIG noted that the SPA has taken appropriate corrective action regarding project personnel and submission of documents to the donor's satisfaction. In addition, an external audit was performed subsequent to the OIG field visit and a "clean opinion" was issued for that project.

OIG reviewed the Support to the Women Rural Micro-enterprises Food Producers in the Municipalities project that was funded by FEMCIDI and executed in Guatemala during the audit period. The final report indicated that all activities were executed and objectives were achieved.

Audit SG/OIG/AUDIT-09/07 was performed to review and evaluate internal controls within the GS/OAS Office of Guyana during the period January 1, 2006 through June 30, 2007. OIG ascertained with reasonable assurance that internal controls are satisfactory in the GS/OAS Guyana. The main weaknesses identified during the audit related to the need for compliance with the Field Financial Manual and other OAS directives regarding: prior approval of annual leave and timely submission of monthly leave reports, compensatory time for overtime worked, issuance of numerically sequenced receipts, authorization for checks above US\$5,000, collection of arrears of Leo Rowe Fund loan balances, maintenance of mileage log for recording the use of the official vehicle and consideration of local labor laws in awarding the TSP contract for cleaning services. OIG examined activities for the Strategy for Professional Preparation of Instructors/Teachers for the Delivery of the Primary Level Enhanced Spanish Curriculum project and the Building Capacity in the Education Sector in Guyana for Sustainable Human Development project funded by FEMCIDI and executed in Guyana during the audit period. OIG noted that project objectives were achieved as expected. OIG also reviewed transactions and reports for the Amazon River Basin and Organizational Development National Drug Commission projects executed in Guyana during the audit period. Progress reports indicated that activities for these two Specific Funded projects were successfully executed and objectives were achieved.

Audit SG/OIG/AUDIT-10/07 was performed to review and evaluate internal controls within the GS/OAS Office in the Nicaragua during the period January 1, 2006 through March 31, 2007. OIG ascertained with reasonable assurance that internal controls are satisfactory in the GS/OAS Nicaragua. The main weaknesses identified during the audit were: (1) The Administrative Technician did not have a job description, did not receive appropriate training for the financial functions that are required for the position and was not performing those functions. (2) the need for compliance with the Staff Rules, Budgetary and Financial Rules, the Field Financial Manual, and other OAS directives regarding: (a) family relationships and conflict of interest, (b) annual leave, (c) compensatory time for overtime worked, (d) updating the fixed asset inventory (e) submission of Quarterly Reports of Releases for goods imported duty free and (f) maintenance and replenishment of the Petty Cash Fund. OIG reviewed activities and financial transactions related to the Gender Project and the Rural Judicial Facilitators Project funded by Specific Funds, as well as activities for several projects executed in Nicaragua that were monitored and managed by CICAD at Headquarters. OIG noted that activities were carried out as planned, financial transactions were adequately supported and project reports satisfied donor requirements.

II. Inspection Report

The main objective of the **SG/OIG/INSP-01/07** inspection was to evaluate the administrative and internal controls of GS/OAS Emergency and Petty Cash Funds at Headquarters and ensure compliance with the Budgetary and Financial Rules and the Petty Cash Procedures established by the Department of Budgetary and Financial Services (DBFS). OIG inspected financial transactions for the Petty Cash Funds managed at Headquarters during the period January 1, 2006 to October 31, 2007. Our inspection determined that in general, expenses were supported by adequate documentation and custodians are designated in writing by authorized personnel. However, there is need to strengthen internal controls of the operational processes of Petty Cash Funds at Headquarters. The main weaknesses identified during the inspection of the Emergency and Petty Cash Funds are as follows: (1) all recommendations from the 2000 audit (SG/OIG/AUDIT-04/00) had not been effectively implemented by the DBFS, (2) the Budgetary and Financial Rules (BFR) require monthly replenishment, whereas the Petty Cash and Emergency Fund Procedures issued to Petty Cash Custodians do not include this requirement, (3) the Emergency Fund (US\$6,000.00) was last used in January 2003 and OIG found no justification for the maintenance of this fund, (4) the Petty Cash Voucher that supports prior authorization for purchases from Petty Cash Funds is not always used, (5) DBFS is not always notified by Department Directors and/or supervisors when Petty Cash custodians are changed, (6) some Petty Cash custodians are not properly trained and all custodians have not read the Petty Cash directives. In addition, there is need for effective DBFS coordination and distribution of appropriate instructions to Petty Cash custodians to explicitly prohibit the co-mingling of personal funds with OAS funds.

III. Investigation Report

Investigation SG/OIG/INV-01/07 was undertaken specifically to investigate a complaint from a former performance contractor (CPR) who requested a minimum of thirty days advance notice prior to the end of the signed contract. OIG noted that the individual had provided services to the Organization as an International Special Observer during the period 1993 through April 2007 under various employment mechanisms and had been given fourteen days notice prior to the termination date of the last CPR contract. OIG concluded that the individual's claim had no merit because the last contract was signed for a one month period ended on April 2007 and the terms and conditions were specified in the signed performance contract. OIG concluded and the Department of Legal Services confirmed that the contract was carried out according to the terms and conditions and was not terminated for unforeseen circumstances, as claimed by the individual. During the review, OIG noted several irregularities in the CPR contract operational processes and provided recommendations to the Director of the Department of Human Resources to address the need: (1) to obtain an opinion from the DLS and written approval from the Secretary General prior to making offers for special conditions and benefits to CPRs and ensure that those agreed conditions are consistently applied to all individuals who perform similar functions, (2) for a central repository of information regarding the employment history, actual dates and hiring mechanisms containing the special terms and conditions affecting individuals' relationships with the OAS and (3) to ensure that technical areas of the GS/OAS comply with the requirements of the Performance Contract ("CPR") Rules (Executive Order 05-4 Corr.1).

IV. Memoranda

Executive Order 95-05 provides that the Inspector General may communicate directly to supervisors on matters and suggestions of lesser significance that would improve the effectiveness of operational processes, procedures and management controls. In that respect, the Inspector General issued:

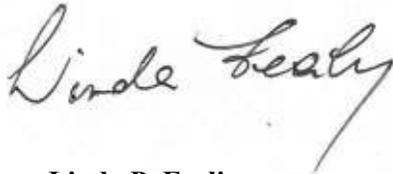
- **Memo SG/OIG/54-07** to the Director of the Department of Human Resources regarding the need for adequate supporting documentation for employees hired at a higher step on initial appointments during 2006 and 2007.
- **Memo SG/OIG/57-07** to the Director of the GS/OAS Office in Suriname regarding the need to comply with the Staff Rules, Budgetary and Financial Rules, the Field Financial Manual, and other OAS directives and ensure timeliness of monthly payroll payments, bank reconciliations are approved prior to submission, sufficient funds are available prior to issuing checks and that checks are properly voided.
- **Memo SG/OIG/100-07** was sent to the Director of the Office of Procurement Services with appropriate recommendations after OIG had observed several Contract Award Committee (CAC) meetings. OIG addressed the need for improvement of the internal control environment to minimize the inherent risk associated with the Competitive Bidding process. Recommendations were issued for: (1) compliance with Procurement Contract Rules (2) coordinating efforts with DITS to establish a unique and secure email address for receipt of bid proposals, (3) establishing and maintaining an electronic relational vendor database, (4) recording all bids received in a consistent manner and retaining all relevant documentation, (5) implementing procedures to ensure the custody and security of all bids, (6) recording date and time in all documentation received and (7) presenting all bids received to the members of the CAC in sealed envelopes.

V. Staffing

In addition to the Inspector General, the 2007 staffing of the OIG included three P3 Auditor posts, as well as one P2 Junior Auditor and two P1 Audit Trainees. During 2007 all vacant positions were filled. The Inspector General continues to utilize performance contractors to supplement the staffing resources provided by the Regular Fund. In addition to Regular Fund allocations, the OIG received US\$57,480 in 2007 from the recovery of indirect costs generated by Specific Funds to cover the cost of the services of the G-5 Audit Technician. In 2007 DHR worked jointly with the Inspector General and developed a staffing plan that was submitted to the Chief of Staff to the Secretary General. Funds have not yet been made available to implement this new structure which includes two Senior Auditor positions. In 2007 the OIG also participated in the internship program.

VI. Other

During 2007 OIG observed various meetings of the Permanent Council, the CAAP and CEPCIDI, as well as GS/OAS meetings, including the Transformation and Modernization Project Committee established by the Secretariat for Administration and Finance (STAMP), Procurement Contract Awards Committee, Committee for Disposal of Surplus and/or Obsolete Assets (COVENT), and Committee of Administrative Matters (CAM). The Inspector General continues to meet, as necessary, with the Offices of the Secretary General and Assistant Secretary General, as well as managers of the General Secretariat to discuss matters and concerns that affect the internal control environment and those that may present potential risk to the Organization, including the implementation of audit recommendations, as well as other operational issues related to proposals for changes to business processes. OIG also reviewed several operational procedures and provided recommendations where necessary.



Linda P. Fealing
Inspector General
August 27, 2008