

ANNUAL REPORT OF THE OFFICE OF THE INSPECTOR GENERAL  
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2009

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



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July 30, 2010

José Miguel Insulza  
 \_\_\_\_\_  
 Secretary General to the  
 Organization of American States  
 Washington, DC

SG/OIG-08/10

Excellency:

I have the honor to submit to you the Annual Report of the Inspector General for the period January 1 through December 31, 2009.

This Office submits Annual 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

Encl.



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July 30, 2010

Excellency  
Ambassador Maria Isabel Salvador  
Permanent Representative of Ecuador  
to Organization of American States  
Chair of the Permanent Council  
Washington, DC

Mrs. President:

Pursuant to Article 119 of the General Standards and Resolution AG/RES. 1321 (XXV-O95), I have attached for the Permanent Council's consideration the Annual Report of the Office of the Inspector General for the period January 1 to December 31, 2009.

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

Linda P. Fealing  
Inspector General

Encl.

Annual Report of the Inspector General

January 1 to December 31, 2009

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## EXECUTIVE SUMMARY

The General Standards to Govern the Operations of the General Secretariat require the Secretary General to establish appropriate internal auditing procedures to verify compliance with standards and regulations through selective examination of official transactions and operational procedures related to the resources administered by the General Secretariat. The Office of the Inspector General is the dependency responsible for performing internal auditing procedures. Executive Order 95-05 states that 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 Inspector General issued reports of nine audits and one investigation for the year ended December 31, 2009. Annex 1 distinguishes the audits as operational or compliance and Annex 2 provides a listing of the audit activities completed in 2009 according to technical areas. The results of the audit activities carried out by the OIG provided twenty-six recommendations for the continuous improvement of programme performance through operational processes and procedural directives, responsible administration of resources and management accountability. The 2009 auditing activities included review of operational processes and transactions carried out in dependencies of the Secretariat for Administration and Finance (SAF) and the Department of Human Development, Education and Culture (DHDEC) at Headquarters, as well as six GS/OAS Offices located in the Member States. Expenditure and project reports of thirteen (13) projects (9 FEMCIDI and 4 Specific Funded projects) were examined to determine whether activities were carried out according to the terms of the signed agreements and whether objectives were achieved in a cost effective manner. The audit report of the investigation of transactions processed in GS/OAS Office in Bolivia contained four recommendations. All reports submitted by the Inspector General were approved by the Secretary General.

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 and provides protection for whistleblowers, informants and witnesses from retaliation in the reporting of those allegations. The Inspector General maintains a hotline by which allegations of financial misconduct may be reported. All matters brought to the attention of the Inspector General for investigation are evaluated against known information for credibility and the impact on internal controls. Matters referred to the OIG in 2009 through the hotline, that posed an inherent risk to the internal controls of the General Secretariat or anomalies identified in existing rules and policies, were investigated for appropriate action. The investigation of the GS/OAS Office in Bolivia (SG/OIG/INV-01/09) was performed as a result of information received through the hotline.

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 Inspector General 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. I am pleased to report that the OIG recommendations issued for 2008, 2007, as well as 2005 and prior years have all been implemented and closed.

However, as of the date of this report, four (5%) of the seventy-four recommendations issued for 2006 are still outstanding, of which two are High Risk. Those outstanding recommendations for 2006 relate to operational processes for GS/OAS travel advances and OPS processes that are dependent on the completion of the SAF Transformation and Modernization efforts. In addition, eleven (11) of the twenty-six recommendations (42%) that were issued for 2009 are still in various stages of implementation, of which six were considered High Risk. The outstanding 2009 recommendations primarily focus on the need for improvements in the OASES System and the DBFS financial management of the Fellowships Program as well as the management of the Portal.

Continuing 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 Secretary General 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. In the audit report of the 2009 financial statements the Board of External Auditors reaffirmed the important status and role of the OIG as the essential ongoing safeguard to assess and maintain the internal control environment. The Board also commented on the open and constructive working relationship and cooperation and coordination between the OIG and the General Secretariat. The OIG continues to provide a consistent, constructive and continuous positive impact on the overall efficiency and effectiveness of the GS/OAS.

The Board of External Auditors issued an unqualified opinion (“clean”) in its audit report of the OAS 2009 financial statements of all significant funds and entities managed by the GS/OAS. The Board’s report addressed the immediate shortfall in the Regular Fund, avoiding a structural deficit in the future and linking implementation costs, timing and expected results of all mandates and included other recommendations included to SAF streamlining initiatives, adoption of IPSAS, IT strategic plan, business continuity plan. With regards to the OIG, the Board recommended a more strategic audit planning approach including high risk areas that need to be reviewed on a horizontal basis, as well as, the need for a peer review evaluation to be performed of the OIG.

The Board of External Auditors reported that overall no material weaknesses or significant deficiencies in the internal control environment were identified in 2009. The two deficiencies that were noted in 2009 in the accounting of the General Secretariat relating to fixed assets, and matters related to National Offices were reported in the 2009 audit reports of the OIG. In response to AG/RES.1 (XXXVI-E/08) that mandated improvement to promote a culture of austerity, efficiency, effectiveness and transparency, guidance from the Secretary General, as well as recommendations from the Inspector General and the Board of External Auditors, certain initiatives have been undertaken by the General Secretariat in response to OIG recommendations. Those efforts relate to (1) DFAMS responsibility for the OASES Fixed Assets Module (2) the training in OASES to all administrative technicians at the OAS Country Offices (3) DHR training programs to strengthen management and leadership skills (4) transition to IPSAS. The Inspector General commends the various dependencies of the General Secretariat who have undertaken a number of initiatives for better governance. Several initiatives are still in the development stages.

In the 2009 audit report, the Board of External Auditors stressed the need to ensure that control issues are considered during the OAS governance and business modernization initiatives. The Board reaffirmed the recommendation for the GS/OAS to develop a plan of action to transition from the current Budgetary and Financial Rules to IPSAS, implement an outreach effort with both internal and external users of the financial statements and explain how the financial

reporting would be impacted under the new Standards. The Board further stated in its 2009 audit report that good internal governance, which includes operational efficiencies and transparency, is fundamental to successful program execution and member state support. The Board recognized the initiatives and improvements made by GS/OAS, including the SAF Transformation and Modernization Project (STAMP), that have begun to address operational efficiencies and recommended the OAS to implement the SAF streamlining initiatives. The Board encourages the OAS to continue the initiatives underway to improve its administrative and technological practices. In addition the 2009 recommendations from the Board of External Auditors related to the internal control environment include the need for:

- Continuation of the SAF Transformation and Modernization Project to update, modernize and transform operating procedures and processes.
- The Permanent Council to adopt IPSAS, and for OAS to engage its external auditors and other experts to advise on the transition to IPSAS.
- The implementation of the Human Resource management reforms.
- A streamlined process for small purchases, including travel, with appropriate internal controls.
- Evaluation of alternatives for supporting program delivery in Member States.
- Accountability over fixed assets and increase of the capitalization threshold for assets.
- Management and client review and approval of the IT strategic plan and implementation of a business continuity plan and disaster recovery strategy.

In the 2009 audit report the Board reaffirmed that the status and role of the OIG within the OAS is important to the Board since the OIG is an essential continuing safeguard to assess and maintain the internal control environment. The Inspector General agrees with the Board's recommendations for an effective and successful transition towards the adoption of International Accounting Standards, as well as improved accountability and transparency. In addition to the issues mentioned in the 2009 report of the Board of External Auditors, the financial constraints facing the Organization and the internal control environment in general, GS/OAS challenges for 2010 that cause concern to the Inspector General include:

- Because of the lack of sufficient OIG resources the Inspector General faces many challenges in complying with the requirement to provide sufficient GS/OAS audit coverage and carry out systematic audits of GS/OAS offices in the Member States. The lack of sufficient resources, the absence of adequate written operational procedures for various areas of the General Secretariat, the lack of properly defined business processes in the OASES to be able to obtain meaningful exception reports and adequate audit trails for decision making, necessarily delays not only the audit process but also the timeliness of issuing audit reports. This also limits the OIG ability to spend more time on those proactive efforts that have proved beneficial in prior years.
- The OASES is meant to be an integrated system and yet, as seen in several OIG audit reports, many business processes such as human resource and inventory management, are not fully defined and integrated in OASES for transition to IPSAS.
- Performance of several manual processes increases the risk of errors and the tendency to have inconsistent application of processes, therefore GS/OAS should make a determined effort to automate several business processes such as travel and provide alerts to expedite related review processes.

- Several operational processes should be revisited and improved as soon as possible to improve data integrity and improve user confidence in the OASES system, such as accounting treatment of Accountable Advances, travel advances, timely allocation of the funds received from donors, employment hiring practices for temporary support personnel and local professionals and performance contractors
- ICR policy requires improvement to address the concerns expressed in the SAF Doc. CP22821, particularly regarding consolidating and strengthening administrative support within each of the Secretariats, as well as effective allocation of personnel to provide more cost effective support. The Secretary for SAF has stated that OAS is a platform for projects funded by Specific Funds and we need to be able to effectively and accurately address the issue of ICR.
- 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 and this exercise should be undertaken as soon as possible.

For a number of years, both the Board and the Inspector General have expressed concern for OIG staffing resources and the Board has recommended that the Inspector General's request for staffing be given priority and favorable consideration. In 2009, the OIG received US\$102,310 from the recovery of indirect costs generated by Specific Funds. Those funds were used to cover the cost of services of the G-5 Audit Technician, as well as performance contracts for audits to supplement Regular Fund resources. However the removal of P03 Auditor Post in the Regular Fund Program Budget will significantly and adversely affect the OIG ability to carry out its mandate in a timely manner. Specifically the lack of adequate resources inhibits the ability of the OIG to adequately respond to the GS/OAS audit needs, issue reports in a timely manner, perform systematic follow-up of outstanding recommendations and comply with the Board's recommendations for training and peer review.

The Inspector General reports directly to the Secretary General and is governed by the Articles of the General Standards for the operations of the General Secretariat, Executive Order 95-05 and the Budgetary and Financial Rules and Procedures, as well as other OAS directives. The Inspector General has complete independence in planning audit programs and in all audit activities and the OIG enjoys full technical autonomy and the broadest possible managerial autonomy. Despite its operational independence, the OIG operates as an essential component of the General Secretariat in achieving responsible administration of resources, as well as creating an atmosphere of accountability, transparency and improved performance in the execution of the OAS programs. The OIG is subject to the financial constraints of the General Secretariat.

Annex 3 of this report provides the 2010 OIG Work Plan and takes into consideration issues mentioned in the report of the Board of External Auditors for the 2009 fiscal year, including the need to focus on horizontal audits. The OIG Work Plan is designed to focus on examination of activities with the highest degree of risk across the General Secretariat and those that promote economy, efficiency and effectiveness in GS/OAS operations. The 2010 Work Plan includes review of various operational processes and transactions processed through SAF, as well as the GS/OAS Offices in the Member States, Specific and FEMCIDI funded projects.

## I. INTRODUCTION

Pursuant to Article 119 of the General Standards for the operations of the General Secretariat, I hereby submit for consideration of the Permanent Council the annual report on auditing activities, completed by the Office of the Inspector General (OIG) as of December 31, 2009.

## II. GENERAL INFORMATION

### A. Mandate

In accordance with Article 117 of the General Standards, the Secretary General has established appropriate internal auditing procedures to verify compliance with standards and regulations in force, especially through systematic and selective examination of official transactions and operational procedures related to the resources administered by the General Secretariat. It is the General Secretariat's policy to maintain an efficient and independent internal audit system to assist the Secretary General and the governing bodies in monitoring, both proper fulfillment of the responsibilities of the various levels of management with respect to the General Secretariat's programs and resources, and adherence to the legal system governing the General Secretariat.

In accordance with the Standards for the Professional Practice of Internal Auditing, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Organization's operations. The internal audit function provides an ongoing program for appraising performance, maintaining financial integrity and measuring compliance with operational regulations, policies and procedures, safeguarding of assets, economy and efficiency in the use of resources, as well as effectiveness of program and project management for achieving desired objectives. Access controls for safeguarding assets which include appropriate segregation of duties, are designed to protect assets and records against physical harm, theft, loss, misuse or unauthorized alterations.

Satisfactory internal control is a requirement for effective measurement of programme delivery and achievement of results. The internal control environment encompasses the tone of an organization and sets the basis for how risk is viewed and addressed by management. GS/OAS management is responsible for establishing and maintaining a satisfactory internal control environment to provide reasonable assurance that OAS objectives are met. Information Systems are part of the information and communication component of internal control. Continuous monitoring is a management function to ensure that company policies, procedures, and business processes are operating effectively and addresses management's responsibility to assess the adequacy and effectiveness of internal controls. In addition, continuous monitoring usually involves the automated testing of all transactions and system activities within a given business process area against control rules. Monitoring may occur on a daily, weekly, or monthly basis based on the nature of the underlying business cycle.

Internal audit is an essential part of comprehensive systems of accountability and assists in detecting and correcting conditions that pose unnecessary risks, identifies opportunities for improvement and helps the Organization achieve objectives, while keeping risks within tolerable limits. Although many of the continuous monitoring techniques used by management are similar to those performed by internal auditors during continuous audit activities, continuous auditing

usually enables auditors to evaluate the adequacy of management's monitoring function and identify and assess risk areas.

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. Specifically, the Office of the Inspector General is responsible for ensuring systematic review of internal management and accounting controls, for assisting in strengthening controls and 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 High Risk areas. Recommendations are provided for promoting economy, efficiency and effectiveness in General Secretariat operations 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 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 or corrupt or fraudulent activities involving financial transactions processed by GS/OAS staff members and performance contractors. The Executive Order states that the Inspector General, the Secretary for Administration and Finance, the Director of the Department of Human Resources, the Director of the Department of Legal Services and the President of the Staff Association are authorized to receive information from informants. Any of the appropriate authorities who receive appropriate information must promptly inform the Inspector General of that information in writing, with a copy to the Secretary General for appropriate action.

The OIG dedicates its efforts towards assisting the Member States and the General Secretariat in achieving responsible administration of resources, as well as creating an atmosphere of accountability, transparency and improved performance in the execution of OAS programs. Auditing activities are undertaken to determine whether the functions of planning, organization, management, documentation, accounting, custody and control of resources are carried out efficiently, effectively and economically and in accordance with:

- i) Established instructions, policies, standards, regulations, manuals, procedures and other administrative provisions and
- ii) The Organization's overall aims and the highest standards of administrative practice.

The OIG reports on the adequacy and effectiveness of the system of internal controls within the General Secretariat, including the integrity of financial information, compliance with directives for administering OAS programs, the effectiveness of program and project management according to the terms of signed agreements, efficiency and effectiveness of the

OASES computerized system, security and application controls, as well as effective use and safeguarding of assets. Audit reports identify the strategic initiatives used by the OIG and recommendations are provided to correct identified weaknesses and improve accountability and performance throughout the General Secretariat. The OIG evaluates elements of internal controls against identified risks within the General Secretariat, including organizational structure, standards of business and the risk thereof in programs or operations.

A file management system with a central repository, from which all stakeholders can efficiently work through a paperless work environment as expected from an integrated OASES system, would allow critical information to be shared and stored in one place and avoid time or interruptions of daily work spent visiting several locations or conducting numerous interviews to obtain the evidence or understand the process. Adequate security rights and segregation of duties would facilitate the process-monitoring system. If business processes are appropriately defined and the evidence is available, then exception reports are very easily obtained for monitoring on a real time basis and the process can be reactive rather than proactive. If the SAF establishes a system of monitoring and tracking evidence on a real-time basis, then the auditors can test it in real time, i.e., continuous auditing. The auditors would then have direct access to all the supporting evidence without having to ask someone in SAF to pull a sample. Auditors can test remote locations without incurring travel expenses and can support their samples without having to scan or import the information because the documentation and proof of compliance is available directly to the auditor. The implementation of several outstanding OIG recommendations to the SAF area will facilitate improved business processes and facilitate and expedite both the continuous monitoring and continuous auditing processes.

## **B. Quality of Work**

The OIG ensures the quality of its work by performing its duties in accordance with the provisions of its mandate, the rules and directives of the General Secretariat and the Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors. Internal Auditing Standards govern the independence, proficiency, objectivity and diligence of the OIG, the scope and performance of the internal auditing work and the professional care to be applied in carrying out auditing services. The Professional Standards for Internal Audit require OIG auditors to apply and uphold the principles of integrity, objectivity, confidentiality and competence and exhibit the highest professional objectivity in gathering, evaluating and communicating information about the audit activities. During 2009 all professional staff members of the Office of the Inspector General were members of the Institute of Internal Auditors.

## **C. OIG Mechanism for Tracking Implementation of Recommendations**

In accordance with Executive Order 95-05, the Inspector General submits reports of audit findings and recommendations to the Secretary General. Findings and recommendations from approved audit reports are transmitted to senior management by the Secretary General. Executive Order 95-05 provides that, within 30 days following the receipt of the report transmitted by the Secretary General, managers are expected to ensure that appropriate corrective action is taken or planned and provide a written report on actions regarding the recommendations made or the deficiencies reported by the Inspector General. OIG recommendations are directed at contributing to better management, more accountability, and improved transparency and are rated as High, Medium and Low Risk. High Risk recommendations are considered to have the most far-reaching consequences regarding the General Secretariat's performance and ability to effectively carry out its mandated activities. Implementation of those recommendations may require recovery of amounts due to the Organization and would result in better productivity, workflow and program

effectiveness. The Inspector General is responsible for reporting to the Board of External Auditors on the issuance of all reports submitted to the Secretary General.

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 monitoring of the actions taken in implementing recommendations is critical in determining the impact of the OIG on the General Secretariat and in measuring improvements. In order to determine the actions taken on deficiencies reported in audit reports, the Office of the Inspector General has successfully established a system for tracking actions taken by the General Secretariat in implementing recommendations. This tracking system evaluates the effectiveness of the action taken in the implementation of recommendations and reports generated by this system are provided to the Board of External Auditors during their annual review.

### **III. SUMMARY OF AUDITING ACTIVITIES**

#### **A. Completed Audit Activities**

During the period January 1 to December 31, 2009 nine audits and one investigation were completed. OIG auditing activities focused on areas of highest risk that are most likely to affect OAS ability to effectively carry out its mandates, such as vulnerable risks related to the OASES System, selected operational processes in the Fellowship Program and the Portal of the Americas, as well as operational processes carried out in the GS/OAS Offices in El Salvador, Costa Rica, Dominica, St. Lucia, Jamaica, and Peru. The OIG also performed the investigation of the GS/OAS Office in Bolivia, which resulted in a new appointment of a Director and Administrative Technician effective April 1, 2010 and October 15, 2009, respectively. The OIG review of thirteen projects included evaluations and examinations of financial transactions and project reports, as well as the efficiency and effectiveness of the management of those projects, to determine whether activities were carried out according to the terms of the signed agreements and whether objectives were achieved in a cost effective manner. Of the thirteen (13) projects reviewed during 2009, four (4) projects were funded by Specific Funds and nine (9) were funded by FEMCIDI. Twenty-six recommendations were issued to correct identified internal control weaknesses. All reports of OIG auditing activities have been submitted by the Inspector General for the approval of the Secretary General.

In its audit the Board of External Auditors the important status and role of the OIG as the essential ongoing safeguard to assess and maintain the internal control environment. Additionally, in response to AG/RES.1 (XXXVI-E/08) that mandated improvement to promote a culture of austerity, efficiency and effectiveness, guidance from the Secretary General, as well as recommendations from the Inspector General and the Board of External Auditors, the Secretariat for Administration and Finance has undertaken certain initiatives for completion during 2009 through 2012. Those efforts may be summarized as follows:

- OASES Fixed Assets Module now falls under DBFS responsibility
- In general, the training in OASES to all administrative technicians at the OAS Country Offices has now been completed so that the Coordinating Office for the Offices and Units of the General Secretariat in the Member States may be able to direct its resources to towards an effective oversight role Rather than performing OASES related operational tasks on behalf of those Offices.
- DHR has initiated other training programs to strengthen management and leadership skills.

- Efforts are being made to convert financial applications and processes to be IPSAS compliant and align OAS budgetary and financial policies with International Standards (2011-2012).
- A number of improvements have been made to the OAS computer Systems.

The Board of External Auditors issued an unqualified opinion (“clean”) in its audit report of the OAS 2009 financial statements of all significant funds and entities managed by the GS/OAS. The Board’s report included recommendations related to addressing the immediate shortfall in the Regular Fund, avoiding a structural deficit in the future and linking implementation costs, timing and expected results of all mandates. Other recommendations from the Board were related to: SAF streamlining initiatives, adoption of IPSAS, Human Resource management reforms, staffing employment mechanism versus contract mechanism, sustainable real property strategy, procurement process for small purchases including travel, project management, improved accountability for fixed assets, IT strategic plan, business continuity plan. With regards to the OIG, the Board recommended a more strategic audit planning approach including high risk areas that need to be reviewed on a horizontal basis, as well as, the need for a peer review evaluation to be performed of the OIG.

In the 2008 audit report the Board of External Auditors stated that the OAS financial reporting is not as useful as expected because it does not reflect a realistic presentation of its liabilities and assets. In 2009 the Board again recommended that the OAS adopt International Public Sector Accounting Standards (IPSAS), and engage experts on the transition to IPSAS. The Board recognized the initiatives and improvements made by GS/OAS, including the SAF Transformation and Modernization Project (STAMP), that have begun to address operational efficiencies and recommended the OAS to implement the SAF streamlining initiatives. In addition to issuing recommendations to address the lack of sufficient resources to achieve OAS key goals and the need for outreach efforts and communication to users for successful transition to IPSAS, the 2009 recommendations from the Board of External Auditors related to the internal control environment include the need for:

- Continuation of the SAF Transformation and Modernization Project to update, modernize and transform operating procedures and processes.
- The Permanent Council to adopt IPSAS, and for OAS to engage its external auditors and other experts to advise on the transition to IPSAS.
- The implementation of the Human Resource management reforms.
- A streamlined process for small purchases, including travel, with appropriate internal controls.
- Evaluation of alternatives for supporting program delivery in Member States.
- Accountability over fixed assets and increase of the capitalization threshold for assets.
- Management and client review and approval of the IT strategic plan and implementation of a business continuity plan and disaster recovery strategy.
- Centralization of IT assets and infrastructure.

The Inspector General agrees with those recommendations from the Board of External Auditors.

## **B. Type of Auditing Activities**

The 2009 auditing activities were directed towards operations with the highest degree of risk and those with the greatest potential for increasing efficiency, economy and effectiveness within the General Secretariat.

Annex 1 provides a listing of the 2009 operational and compliance audits and audit activities according to technical areas are listed in Annex 2. Operational audits review not only records and supporting documentation, but also recommend actions which lead to more efficient operations, improvements in management and accounting controls, reduction in costs, use of OAS assets and prevention of losses. During operational audits the GS/OAS dependencies and their operations are analyzed, including appraisal of structure, controls, procedures, and processes. The purpose is to appraise whether the planning, productivity quality, economy, effectiveness and efficiency of a division, activity, or operation of the General Secretariat are meeting control objectives. Compliance audits are performed to evaluate whether systems or processes are designed and operating effectively to ensure compliance with pertinent laws, rules, regulations, internal policies and procedures, as well as terms and conditions of project agreements signed between the Organization and Member States, donors or other contributors. The 2009 auditing activities of operational processes were carried out in dependencies of the Secretariats for Administration and Finance and the Department of Human Development, Education and Culture. Operational activities and financial records of six GS/OAS Offices in the Member States were also examined. During 2009, the OIG reviewed expenditure and project reports of thirteen (13) Specific and FEMCIDI funded projects to determine whether activities were carried out according to the terms of the signed agreements and whether objectives were achieved in a cost effective manner.

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 and is essential in the fights against fraud. The hotline maintained by the Inspector General has been effective in providing an additional mechanism for reporting allegations of unethical behavior, misconduct of staff members or corrupt or fraudulent activities involving financial transactions processed by GS/OAS staff and performance contractors. Matters referred to the OIG in 2009 that posed an inherent risk to the internal controls of the General Secretariat or anomalies identified in existing rules and policies were investigated for appropriate action. As a result, the OIG performed an investigation of the GS/OAS Office in Bolivia. After the investigation was submitted to the Secretary General, the Administrative Technician (EO6924) of the GS/OAS Bolivia resigned on July 31, 2009. In addition, the contract of the Director of the GS/OAS Bolivia (EO3971) which expired on March 31, 2010, was not renewed. A new Administrative Technician and a new Director were appointed on October 15, 2009 and April 1, 2010, respectively.

### **C. GS/OAS Comments to OIG Reports**

The Member States, the Secretary General and the Board of External Auditors rely on the OIG as an ongoing safeguard for maintaining effective internal controls. The internal audit function provides ongoing reliable information that is useful for appraising performance, maintaining financial integrity and measuring compliance with policies and procedures. Senior management's full support and commitment to strong controls are key factors in providing a satisfactory and established internal control environment. The effectiveness of the internal audit function depends on managers' acceptance of their responsibility for established controls, as well as the timely implementation of recommendations issued from audit reports.

The OIG discusses audit findings and recommendations with senior program managers during the final exit interview, in an effort at explaining and obtaining agreement with the findings and arriving 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 ensure the effectiveness of the OIG function but also confirm that audit findings and recommendations are communicated to senior management before submission to the Secretary General for approval. In several cases weaknesses were corrected prior to finalizing the audit report and auditees' comments and observations were taken into account in finalizing the audit reports. OIG has observed that this practice allows for greater transparency, acceptance of audit findings and timely implementation of recommendations. The Inspector General continues to maintain a professional and effective working partnership with managers of the various areas of the GS/OAS to ensure the satisfactory and timely implementation of recommendations and correct those weaknesses that inhibit organizational efficiency and effectiveness.

#### **D. Audit Follow-up**

The successful implementation rate of OIG recommendations is a positive factor in determining that OIG services have had a consistent and positive impact on the Organization's overall efficiency and effectiveness. The OIG system of tracking actions on recommendations provides systematic follow-up action in compliance with the requirements of Executive Order 95-05. The Board of External Auditors relies extensively on the reports generated by that system in its annual review of the effectiveness and implementation of internal audit recommendations. This system also provides valuable information in planning future OIG work programs. Those OIG efforts have contributed significantly towards the achievement of clean audit reports for the 2009 financial statements from the Board of External Auditors for all dependencies of the General Secretariat.

The impact of OIG activities on the General Secretariat is significant, as recommendations are directed at raising fiscal awareness among staff members and ensuring a sound internal control environment. The results of the 2009 audit activities carried out by the OIG provided twenty-six recommendations for the continuous improvement of programme performance, responsible administration of resources and management accountability that are categorized as twelve High Risk, twelve Medium Risk and two Low Risk.

I am pleased to report that the OIG recommendations issued for 2008, 2007, as well as 2005 and prior years have all been implemented and closed. However, as of the date of this report, four (5%) of the seventy-four recommendations issued for 2006 are still outstanding, of which two are High Risk. Those outstanding recommendations for 2006 relate to operational processes for GS/OAS travel advances and improvements to the OPS processes. In addition, eleven (11) of the twenty-six recommendations (42%) that were issued for 2009 are still in various stages of implementation, of which eleven were considered High Risk. The High Risk recommendations that are still in process address the need for improved operational processes, better internal controls, improved DFAMS financial management of the Scholarship Program, transparency and effectiveness with a view to improving accountability and proper recording in the General Secretariat, as well as training. The Inspector General has been informed by the SAF that the initiatives undertaken in its STAMP project will successfully implement outstanding recommendations, address operational efficiencies and improve governance.

#### **E. Consulting Services**

During 2008, GS managers/supervisors including Secretaries, several Directors and Supervisors consulted with the Inspector General on operational matters including the implementation of recommendations proposed organizational restructuring, proposals for changes to business processes and development of guidelines and directives, as well as other issues related

to internal controls. The OIG also reviewed various draft manuals and procedures prior to their distribution and provided appropriate comments.

The proactive efforts of the OIG through consultations during audit activities, distribution of draft audit reports for comments prior to submission to the Secretary General for approval, as well as discussions on current and proposed operational activities and processes and the review of operational procedures prior to their distribution are intended to facilitate and encourage open communication with the General Secretariat. These efforts have not only enhanced the effectiveness and impact of internal audit activities, but have significantly contributed to the strengthening of internal controls through the General Secretariat, as well as the timely implementation of recommendations for correction of identified weaknesses. Through its continuing proactive efforts, the OIG promotes responsible management of resources, a climate of accountability and transparency and improved program performance throughout the General Secretariat. The consultation and review process successfully contributes to the OIG function as an essential continuing safeguard in assessing and maintaining an effective internal control environment. The OIG continues to provide a consistent, constructive and continuous positive impact on the overall efficiency and effectiveness of the GS/OAS.

#### **IV. ACTIVITY REPORTS**

A summary of audit activities for the calendar year ended December 31, 2009 has been submitted to the Permanent Council in accordance with Article 114 of the General Standards and Executive Order 95-05 of May 8, 1995. In accordance with Article 119 of the General standards OIG reports are available to the Permanent Council.

#### **V. OIG PARTICIPATION AT MEETINGS**

Through its audit activities the OIG adds considerable value to the OAS by auditing the enterprise-wide risk strategy of the OAS management to evaluate the required transparency and accountable in the overall organizational governance process and ensure that those processes regularly identify, mitigate and monitor risk. In addition, the OIG observed various meetings of the Permanent Council, Permanent Executive Committee of CIDI (CEPCIDI) and the Committee for Administrative and Budgetary Affairs (CAAP). During 2009 the Inspector General and staff members of the OIG participated as observers in various committee meetings and working groups of the General Secretariat that may impact internal controls, including the Selective Bid and Contract Awards Committee, the Committee for Disposal of Surplus and/or Obsolete Assets (COVENT). During 2009 the OIG also reviewed proposed amendments to the General Standards related to the OAS employment mechanisms, exception to the bidding process from related to the Electoral Observer Mission, amendments to FEMCIDI agreements and provided recommendations, where necessary.

The Inspector General greatly appreciates the collaborated efforts of the Department of Legal Services in addressing matters that, in the opinion of the Inspector General, pose significant risk to the Organization. The Inspector General also wishes to recognize the efforts being made by the Coordinating Office for the Offices and Units of the General Secretariat in the Member States in providing training and effective oversight of those functions performed by the Offices in the Member States that fall within its responsibility.

## VI. WORK PLAN FOR THE YEAR 2010

Executive Order 95-05 requires that audit activities are directed towards operations with the highest degree of risk that are most likely to affect the OAS ability to effectively carry out its mandated activities and/or those with the greatest potential for increasing efficiency, economy and effectiveness. OIG is also required to perform systematic and selective audits of all operations in accordance with a long-term cyclical plan that ensures complete auditing of the General Secretariat within an appropriate time period. The Inspector General is required to place particular emphasis on the proposals made by the Board of External Auditors

In 2010 The Board of External Auditors recommended a more strategic audit planning approach including high risk areas that need to be reviewed on a horizontal basis. The 2010 Work Plan (Annex 3) places emphasis on the proposals of the Board of External Auditors as required in the General Standards and audit activities are designed to continue the OIG focus on examination of activities with the highest degree of risk as required by Executive Order 95-05.

Effective audit trails control the quality of the transactions, demonstrate managers' accountability for the tasks assigned and are essential to the OIG in determining the timeliness of the audit. OIG reports have addressed the need for adequate supporting documentation and audit trails in the OASES system, as well as the need to minimize the number of manual adjusting entries in the financial operations closing process. The OIG continues to emphasize the need for the Secretariat for Administration and Finance to effectively address this issue, with the goal of improving transparency and accountability in all transactions processed through the OASES system.

In addition to the issues mentioned in the 2009 report of the Board of External Auditors and the internal control environment in general, GS/OAS challenges that cause concern to the Inspector General relate to:

- Lack of sufficient OIG resources to effectively fulfill its mandate in a timely manner.
- The OASES is meant to be an integrated system and yet, as seen in several OIG audit reports, many business processes such as human resource and inventory management, are not fully integrated.
- Performance of several manual processes increases the risk of errors and the tendency to have inconsistent application of processes, therefore GS/OAS should make a determined effort to automate several business processes such as travel and provide alerts to expedite related review processes.
- Written procedural manuals should be provided for all GS/OAS operational processes.
- Several operational processes should be revisited and improved as soon as possible to improve data integrity and improve user confidence in the OASES system, such as accounting treatment of Accountable Advances, travel advances, timely allocation of the funds received from donors, employment hiring practices for temporary support personnel and local professionals and performance contractors.
- DFAMS should arrange for timely and systematic supervision of GS/OAS financial and administrative functions as provided by the new Executive Order 08-01 Rev. 3, including visits to the GS/OAS Offices in the Member States to minimize the inherent risks related to the internal control environment in those offices.
- Management of the ICR policy requires improvement to address the concerns expressed in the SAF Doc. CP22821 and CP/CAAP/ING.26/09, particularly regarding consolidating and strengthening administrative support within each of the secretariats, classification of

- project costs, proper use of those funds, as well as effective allocation of personnel to provide more cost effective support.
- 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.
  - The process of recording and tracking inventory in the GS/OAS Offices in the Member States should be improved to ensure that the information at Headquarters is accurate.
  - Training in administrative functions, including the Budgetary and Financial Rules is required, for those entities/technical units in the GS/OAS Offices in the Member States that do not fall within the responsibility of the Coordinating Office of the Office of the Assistant Secretary General.

In addition, there is need for timely action to expedite:

- Streamlining and integration of various operational processes in OASES, such as human resource management for all personnel including temporary support and local professional hiring practices and an effective personnel control file system.
- Alignment of OAS Budgetary and Financial policies with International Standards.
- Conversion of financial applications and processes to be IPSAS compliant that will address the accrual method of accounting transactions, such as travel and other advances, employee benefits and recognition of all revenue and liabilities.

## **VII. STAFFING**

The resources available for the auditing activities of the Office of the Inspector General are provided in the Program Budget of the Regular Fund and the OIG is subject to the financial constraints of the GS/OAS. In 2009, funding provided for OIG staff positions provided by the Regular Fund consisted of the Inspector General, two (P03) Auditors, two (P02) Junior Auditors and one (P01) Audit Trainee. Because of the loss of funding in the Regular Fund Program Budget for a P03 position, the Inspector General was required to re-examine strategy, optimize internal processes and find ways to produce more value at a lower cost to the Organization because of the financial constraints of the Organization and the removal of funding for that P03 position. OIG staffing resources are supplemented by performance contractors to the extent of available resources. The use of performance contractors for supplementing OIG resources is beneficial to the OIG. In 2009 the OIG also participated in the internship program.

In 2009, the Board recommended that the OAS continue to provide some funding to the OIG from the ICR initiative. The 2009 audited financial statements state that the General Secretariat received Specific Fund contributions of US\$77.6M whereas expenditures and obligations amounted to US\$72M. In 2009, the OIG received US\$87,026 from ICR Funds generated from Specific Funds, for outsourced contract auditing services and to meet the cost of the services of the OIG Audit Technician (G05).

The Inspector General makes optimum use of available resources to accomplish results that add value to the service provided to the GS/OAS and the Member States. The lack of adequate resources for its strategy 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 lack of adequate resources inhibits the ability of the OIG to adequately respond to the GS/OAS audit needs, perform audits on a long term cyclical basis to ensure complete auditing within an

appropriate time period, issue reports in a timely manner and perform systematic follow-up of outstanding recommendations.

### **VIII. CONTINUING PROFESSIONAL EDUCATION CREDITS**

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. In 2009 all professional staff members of the Office of the Inspector General were members of the Institute of Internal Auditors.

As required by Professional Standards, the Inspector General provided training to OIG staff members to ensure that staff members are properly trained, maintain adequate skill levels and keep up-to-date on developing trends in internal auditing. 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 needs an effective training strategy and resources aimed at keeping pace with the variety of new initiatives for corporate governance, control, and risk management in this way. In this way the OAS Inspector General can then maximize staff competency and knowledge, consistent with the new and emerging trends.

Audit work requires a breadth of knowledge and range of technical skills that can take extensive time and effort to develop and internal auditors need to be familiar with all aspects of the OAS environment. OIG professional staff members receive training commensurate with available resources. In addition to in-house training, OIG staff members received professional internal audit training as required to perform their respective functions and to meet professional requirements.

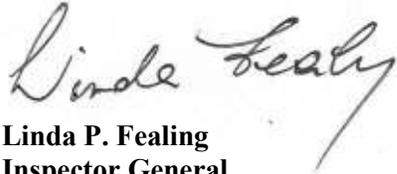
### **IX. INDEPENDENCE**

The Inspector General reports directly to the Secretary General and is governed by the Articles of the General Standards for the operations of the General Secretariat, Executive Order 95-05 and Budgetary and Financial Rules and Procedures, as well as other OAS directives.

The internal audit function is a management control that operates by measuring and evaluating the effectiveness of other management controls. In order to ensure objective analysis of facts and impartiality of judgment, the OIG does not take part in operating procedures or perform day to day functions related to operational processes, except with regard to their review and evaluation. The Inspector General and OIG staff members enjoy full, free and unrestricted access to all functions, activities, operations, records, properties and staff of the General Secretariat, as may be considered necessary for planning and performing any audit action considered necessary for fulfilling its mandate. The Inspector General has complete independence in planning audit programs and in all audit activities. The OIG enjoys full technical autonomy and the broadest possible managerial autonomy. Despite its operational independence, the OIG operates as an essential component of the General Secretariat and provides objective and useful information regarding the achievement of goals and objectives to the Member States and the Secretary General.

**X. RECOMMENDATIONS OF THE BOARD OF EXTERNAL AUDITORS**

The Board of External Auditors issued unqualified "clean" opinions for the 2009 financial statements of the entities of the General Secretariat. Overall, no material weaknesses or significant deficiencies in internal control were reported. However, the External Auditors reported three deficiencies related to accounting for the Trust for the Americas, accounting for fixed assets and matters related to National Offices were reported.

A handwritten signature in cursive script that reads "Linda Fealing". The signature is written in black ink and is positioned above the typed name and title.

**Linda P. Fealing**  
**Inspector General**  
**July 30, 2010**

**Annex 1**

<b>General Secretariat of the Organization of American States</b>		
<b>No.</b>	<b>Office of the Inspector General</b>	<b>Audit Type</b>
<b>2009 AUDIT ACTIVITIES</b>		
01/09	OASES systems	Operational
02/09	GS/OAS Office in El Salvador and Selected Projects	Compliance
03/09	GS/OAS Office in Costa Rica and Selected Projects	Compliance
04/09	GS/OAS Office in Dominica and Selected Projects	Compliance
05/09	GS/OAS Office in St. Lucia and Selected Projects	Compliance
06/09	GS/OAS Office in Jamaica and Selected Projects	Compliance
07/09	GS/OAS Office in Peru and Selected Projects	Compliance
08/09	Fellowships	Operational
09/09	Portal of the Americas	Operational
Inv. 01/09	Investigation of the GS/OAS Office in Bolivia	Investigation

<b>General Secretariat of the Organization of American States</b>		
<b>Office of the Inspector General</b>		
<b>2009 Audits and Investigations</b>		
<b>Technical Area</b>	<b>Technical Area/Subject</b>	<b>GS/OIG/ AUDIT</b>
Chapter 2	GS/OAS Office in El Salvador and Selected Projects	02/09
	GS/OAS Office in Costa Rica and Selected Projects	03/09
	GS/OAS Office in Dominica and Selected Projects	04/09
	GS/OAS Office in St. Lucia and Selected Projects	05/09
	GS/OAS Office in Jamaica and Selected Projects	06/09
	GS/OAS Office in Peru and Selected Projects	07/09
	Investigation of the GS/OAS Office in Bolivia	Inv. 01/09
Chapter 7	Fellowships	08/09
	Portal of the Americas	09/09
Chapter 8	OASES systems	01/09

**Annex 3**

<b>Office of the Inspector General</b>		
<b>2010 Audit Work Plan</b>		
<b>Audit</b>	<b>Technical Area/Subject</b>	<b>Last Audit</b>
1	Credit Cards Procurement Processes	-
2	OAS Procurement processes	-
3	Travel	2004
4	Payroll Processes	-
5	OAS Tax Reimbursement Program	2001
6	CPR Processes	2006
7	GS/OAS Guyana and Selected Projects	2007
8	GS/OAS St. Vincent and Grenadines and Selected Projects	2002
9	Selected Chile FEMCIDI Projects	1994
10	Selected Colombia FEMCIDI and Specific Projects	1994
11	GS/OAS Mexico and Selected Projects	2002
12	GS/OAS Dominica Republic and Selected Projects	2003
13	GS/OAS Honduras and Selected Projects	2006
14	OASES	2009