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REPORT ON AN EXTERNAL QUALITY ASSESSMENT OF THE OFFICE OF THE INSPECTOR GENERAL

Background

The Organization of American States (OAS) appointed the current Inspector General (IG) in November 2012 to head the Office of the Inspector General (OIG). This position had been vacant for some time. The General Standards that governs the operation of the General Secretariat mandates the evaluation of the activities of the OIG. In addition, the Board of External Auditors (BEA) has recommended that the new IG complete a full organizational review of OIG and its performance.

This External Quality Assessment (EQA) of the OIG responds to these recommendations.

OIG’s Responsibilities

In terms of the Secretary General’s Executive Order (EO) establishing OIG, OIG is responsible for three separate but related functions: Internal Auditing (IA); Investigations; and Evaluations. This EQA assessed all three functions.

EQA Assignment Objectives

Specific objectives of this assignment are to:

- Provide an overall conclusion on the independence and effectiveness by which the Internal Audit activity of OIG comply with the International Professional Practice (IPPF) established by The Institute of Internal Auditors (IIA);
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- Conclude on the appropriateness of OIG’s Executive Order (including the 2013 draft) and whether the OIG’s work conforms;
- Conclude on the OIG’s structure and staffing model;
- Provide specific observations regarding OIG’s areas of strength, as well as opportunities for improvement identified during the review, including the relative significance and recommended prioritization of each opportunity;
- Provide observations and suggest effective ways to incorporate appropriate leading practices into OIG’s working practices; and
- Comment on the ways in which OIG can enhance value to its key stakeholders, including the governing bodies, senior management and external auditors.

A. EVALUATIONS FUNCTION

Key Observations
OIG is mandated to perform standalone ‘evaluations’ work but has not produced any such evaluation work for some years. In other multilateral organization comparators, the Evaluations function is often separated from the Internal Auditing function, and both are independent of management. In all cases, the Evaluation function reports directly to their respective Governing Bodies (Boards). In comparator multilateral organizations, the Evaluations function applies evaluations methods and criteria that are different to the Standards used of OIG’s other responsibilities. OIG plans to develop these capabilities after the Auditing and Investigations functions are mature.

We note that the OAS does perform evaluations. The Secretary General (SG), through the Office of Planning and Evaluation, carries out such evaluations. We did not review these activities but understand that external consultants perform results-based evaluations – in response to donor requests. OIG is not actively involved in this work.

Key Recommendation
We note that OIG does not have any staff with the professional experience to perform similar results-based evaluations. If it was to embark on evaluations - to replace outside consultants, our view is that OIG, at present is likely not to add value or do this work cost effectively and it would take time to have the sort of impact from evaluations that donors usually seek.

*We recommend* that the Permanent Council (PC) and SG decide on where to lodge OAS’s Evaluations function and, if not in OIG, to remove reference to OIG’s performing any evaluations work. (ACTION: SG/PC)

B. INVESTIGATIONS FUNCTION

For OIG’s investigative work, we assessed their work according to globally accepted best practice professional requirements as used by comparator organizations. For the type of investigative work done by OIG, the generally acknowledged standards of best practice in administrative
investigations, is the *Uniform Guidelines for Investigations, 2nd Edition*, as endorsed by the 10th Conference of International Investigators (*Uniform Guidelines*).

**Key Observations**

- **Policies and Standard Operating Procedures**
  
  Although OIG performs very few investigations each year, it intends to adopt the *Uniform Guidelines* for this type of work. It therefore does not follow a recognized set of policies, guidelines, and standard operating procedures meaning that we are not able to confirm whether or not OIG follows leading practice or not in its investigative work. During 2013, the OIG began recruiting for its first Investigator who would adopt the *Uniform Guidelines*.

  *We recommend* that:
  1. The OIG EO states that OIG will adopt the *Uniform Guidelines*. (ACTION: IG/SG)
  2. The IG implement the *Uniform Guidelines*, implement standard operating procedures for investigations, train OIG staff in their use and then ensure they are complied with. (*IG agrees to implement this recommendation*)
  3. The IG an EQA follow-up in 2015 to verify that OIG has made progress and complies with the *Uniform Guidelines*. (*IG agrees to implement this recommendation*)

- **Scope of Investigations**
  
  OIG’s EO limits the scope of OIG investigations to only handling internal allegations. Management confirms that OAS’ fraud, misuse, waste and abuse of funds risks lie outside the Secretariat - and therefore outside OIG’s ability to respond. This confirms that, as a key ‘assurer’ to the Permanent Council, OIG’s scope of work is not aligned to OAS’ risk reality.

  *We recommend* that the IG, in consultation with the SG and the Permanent Council review and revise OIG’s EO to include investigations of allegations of fraud, waste and abuse in the use of OAS grants, thereby aligning OIG’s scope of work with the real risks. (ACTION: IG/SG/PC)

- **Investigative Practices**
  
  We reviewed 2013 investigative work, confirming that:
  - As mentioned, there is no manual standard operating procedures to guide investigations work, therefore no consistent investigative approach is followed;
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- OAS’s “Hotline” is maintained by OIG through which allegations of financial or administrative misconduct are reported to the IG (in person, by telephone, e-mail, fax, regular mail, anonymously or not);
- OIG’s overall investigations efforts, though very small, are costly. In 2013, only four investigations reports were finalized, some without any conclusive findings, costing $100K on average\(^1\). The elapsed time to complete an investigation end-to-end was lengthy;
- Our review of these investigations cases confirm that:
  - Investigations were carried out by OIG staff with little investigative experience meaning that should it be necessary to mount a sophisticated investigation, this could not be done by OIG without external help;
  - Investigations to date have been relatively ‘simple’;
  - OIG does not yet have intake criteria to guide the IG’s decision on whether or not to open an investigation; and
- Currently, there are seven pending allegations for consideration (three from 2013 and four so far in 2014).

**We recommend** that the OIG:

1. Formally introduce the *Uniform Guidelines*, standard operating procedures, and finalise the draft manual to guide all investigatory work and bring about a consistent investigations methodology. (*IG agrees to implement this recommendation*)
2. Articulate and introduce case intake criteria to guide the IG as to which allegations to investigate or not - with clear logic to support the decisions. (*IG agrees to implement this recommendation*)
3. Require OIG staff to receive basic fraud awareness training - as well as investigations training - because OIG staff are used interchangeably. (*IG agrees to implement this recommendation*)
4. Introduce investigations project management disciplines to ensure that investigations are concluded quicker. (*IG agrees to implement this recommendation*)
5. At the outset of an investigation, the IG should do a cost-benefit analysis to determine whether or not it might be better to use external professional investigative consultants rather than OIG staff who could be more usefully engaged in internal auditing work. (*IG agrees to implement this recommendation*)

C. INTERNAL AUDITING FUNCTION

Internal auditing activities are expected to follow international good practice. For the purposes of this EQA – and because OIG says it seeks to follow them, we used the *International Professional Practices Framework* of The Institute of Internal Auditors, that incorporates the Definition of

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\(^1\) This is calculated taking the annual cost of OIG and dividing its by the total number of audits and investigations it produced in 2013.

\(^2\) IIA Quality Assurance Methodology has three possible results: *Generally conforms*, *Partially conforms*, and *Does not conform*. *Generally conforms* for an established internal audit function
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Internal Auditing, the Standards, and the Code of Ethics (Standards). These Standards are global are followed by all OAS comparator organizations.

As background, we note that OIG has not enjoyed stable IG leadership until a year ago when the current IG was appointed. His immediate challenge was to revitalize OIG: introduce the correct professional focus; introduce IIA Standards and methodologies; forge proper relations and reporting lines to key stakeholders; and ensure that ‘inherited’ OIG staff understood, accepted, and adopted new methods; and establish or reestablish appropriate relationships with key stakeholders. At the same time, stakeholders demands rightly have increased to require more output and impact than before. This combination of challenges amounts to a complete transformation of the IA function.

From the outset, the IG set an ambitious target of transforming OIG within a 3-year period. As part of this effort, this EQA is intended to assess the professional foundation of OIG – something required by the Standards but not done before now. In preliminary discussions, the IG shared with us that he did not believe the IA function conformed to the IIA Standards.

A. Overall conclusion - Conformance with IIA Definition of Internal Auditing, Standards, and Code of Ethics

We conclude that the OIG partially conforms to the Definition of Internal Auditing, the International Standards for the Professional Practice of Internal Auditing, and the Code of Conduct.

B. Expectations of a typical Internal Auditing activity operating at General Conformance level

As OIG partially conforms at present, it is instructive to know what would be expected of it at the general conformance level. This guidance is provided by the IIA.

A typically effective and mature IA activity is - at a minimum - expected to generally conform to the International Standards for the Professional Practice of Internal Auditing (Standards). Only when it is functioning at this level, can key stakeholders fully rely on OIG’s IA work because its work is underpinned by the following elements:

- **Services and Role**: Services go well beyond inspection and compliance auditing and focus principally on a risk-based approach to both financial and operational audits. It may also be delivering value-for-money auditing. On the advisory side of its services, senior management routinely seeks IA’s advice - and acts on it.

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IIA Quality Assurance Methodology has three possible results: Generally conforms, Partially conforms, and Does not conform. ‘Generally conforms’ for an established internal audit function such as OIG in OAS, is expected to be foundational.

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- **People Management**: A technically competent team of professionals is deployed who understand the professional requirements of their work and add value through their work and advice.
- **Professional Practices**: Quality management is embedded throughout the audit process from planning through communication to follow-up.
- **Performance management and Accountability**: IA has an approved business plan and has systems and a database in place to track performance and prepare useful management information that it routinely shares with the Permanent Council (and/or the Committee on Administrative and Budgetary Affairs - CAAP).
- **Organizational Relationships and Culture**: IA is positioned organizationally to be able to access and interact with other assurance to OAS such as the Board of External Auditors. It also enjoys routine interaction with management in its senior-most committee.
- **Governance Structures**: IA is, in fact, independent of line management, and senior management and the Permanent Council reinforces this.

**Key Observations of OIG’s IA Activity**

IA, in a limited number of areas, exceeds these minimum requirements and, where it does, this is a recent development. Where it does not exceed the minimum, the IG is leading efforts to position IA at this level of conformance at the end of 2015.

We confirm that the IG is committed to improve – and exceed – IA professional obligations as well as ensure that OAS derives the very best from OIG’s IA in terms of professional output and impact as well as an appropriate relationship with its key stakeholders. Our view is supported by the thrust and focus of OIG’s 2013 - 2015 Strategic Plan and progress made to date. We confirm that it is comprehensive and achievable, but to the extent necessary relies on the PC and SG to ensure that OIG’s EO is updated and the level of resources are sufficient for the task and are sustained over time.

Senior management acknowledges an improvement already in OIG IA’s professional efforts and reporting – a move in the right direction - that the IG’s Strategic Plan seeks to consolidate. We note that leading practice is for the OIG to ensure that IA in in *general conformance* as soon as possible that might mean that waiting to 2015 might be too long.

*We recommend* that the IG implements the 2013-2015 Strategic Plan but reassess the timeline to see to what extent this can be achieved earlier so that the IA function operates at a *general conformance* with the IIA Standards as a soon as practicable. *(IG agrees to implement this recommendation)*
C. Emerging Good Practice Among Multilateral Organizations

Leading practice among multilaterals is to publish their internal audit reports. What began as an option recently is fast developing into a Governing Body requirement. This practice is now standard in UNICEF, UNDP, The Global Fund to Fight Aids, Tuberculosis and Malaria, GAVI and others. While not suggesting the OAS is ready for to follow suit, it should anticipate donor pressure to follow suit.

D. Essential Elements of a Generally Conforming Internal Auditing Activity (IA)

1. Services and Role of IA

By now, IA’s services should have developed beyond inspection and compliance auditing work and focus principally on a risk-based audit approach for both financial and operational work. It might also be delivering value-for-money audits. On the advisory side of IA’s work, senior management now routinely seeks IA’s advice - and acts on it.

Key Observations

Management confirms that OIG’s credibility diminished with the gaps between IG appointments - but that efforts by the current IG are positive and management’s views of OIG are beginning to change for the positive.

Senior management and the CAAP want OIG to deliver high quality reports, in increased numbers, to provide them assurance that OAS’ risks are being properly managed and monitored. They note that OIG’s work to date is inspection- or compliance-related leaving that with little ‘feel’ organizational internal control for the effectiveness.

Management confirmed the IG provides useful insight and advice to those committees to which the IG is invited – something that did not happen in the past. This is seen as collaborative and useful to them. However, the IG does not participate as an observer in the Secretaries Meeting (i.e. Cabinet) where his perspective on risk and control matters could provide useful objective input to key management decisions – while maintaining the IG’s independence.

We note too that OIG’s Strategic Plan requires the development of OIG professionalism and relationship building to the point where, in 2015, it could consider providing key stakeholders with overall assurance (Standard 2450). When this occurs, OIG will be operating at the best practice level.
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Key Recommendations

In 2013, OIG produced four regular compliance audits versus two similar reports in 2012. On any basis of measurement, the type of audit produced and the volume is simply insufficient for OAS’ needs – and does not go anywhere near providing useful assurance to senior management and the Permanent Council.

_We recommend that_ the SG considers inviting the IG to attend and participate in the Cabinet as an Observer to avail senior management of the IG’s objective input and advice on risk and assurance matters, while still maintaining the IG’s independence. (ACTION: SG)

_We recommend that_ the IG persists in his plans at improving OIG’s credibility by achieving delivery of its 2013-15 Strategic Plan (another new development for OIG) and remain engaged with management in advising them on new initiatives as this not only adds value, but enhances OIG’s credibility. (_IG agrees to implement this recommendation_)

_We recommend that_ the IG increase OIG’s risk-based audit output to the point that, as anticipated in the 2013-15 Strategic Plan, OIG has done sufficient useful work completed to provide an overall opinion on the effectiveness of OAS’ systems of internal control. (_IG agrees to implement this recommendation_)

2. People Management

A key element of a professional internal auditing activity is that the IG has staff under his/her authority that are well trained, disciplined, diligent, and careful in the exercise of their IA responsibilities. The IG had to focus on his human resource issues from the start to review and assess the level of professionalism across OIG, make changes as best he could given OAS human resource policy constraints - and build from there. Those efforts are now proving successful. For more technical work, the IG must have access to consultants with the specialization required on a job-by-job basis.

Key Observations

Staff resource plans – The IG is now implementing an OIG staff plan that is driven by its Audit Plan needs. Still required is a longer-term comprehensive staffing plan to ensure that it has access to the right skills now and going forward. Part of this strategy would be to update job descriptions for each grade and list the basic competencies demanded at each grade level. OIG must also be able to demonstrate that it can manage its resources to deploy the best people across all of its work.

IT audit resource needs – Although IT systems have proliferated across OAS, OIG does not have an IT auditor on its staff. It does have a data-mining specialist who accesses data to support audit and investigations efforts. Based on what we see of OAS’ information technology
plans, our view is that OIG is better placed using external IT audit specialists as needed from time to time.

Key Recommendations

OIG’s success will to a large extent depend on the professional competence of its staff. Good practice is for training and development needs for each grade level to be established so that staff knows what is expected and the IG can set his expectations of individual staff performance.

In the same vein, with extensive reliance on information technology and the possible use of external IT audit expertise, all OIG staff would benefit from being trained in IT audit basics. The IG could use staff to supplement the work done by IT audit experts.

*We recommend that* OIG design and implement a staffing model spanning the full 2013-15 Strategic Plan to ensure that its staff competence needs are known and planned for in advance; professional training and development needs identified upfront and training provided in advance of the need. *(IG agrees to implement this recommendation)*

*We recommend that*, when OIG’s job descriptions are developed for each position, that training and development requirements, specific to that level of job, be identified and set. *(IG agrees to implement this recommendation)*

3. Professional Practices

Professional practices and performance ensures that OIG achieves and retains credibility. Standards 2000 and 1100 series cover these activities.

Key Observations

We reviewed the OIG Strategic Plan and have reviewed IG actions to date and observe that as the Plan is implemented, will address all key aspects of professionalism, covering the following:

- Developing policies, practices and procedures that contribute to the continuous improvement of the internal audit activity;
- Documenting staff roles and responsibilities and accountabilities for performing, reviewing and approving the internal audit work products at each stage of the audit engagement process;
- Implementing and maintaining a quality assurance and improvement program, which includes ongoing internal monitoring as well as periodic internal and external quality assessments – such as this EQA;
- Developing internal systems and procedures to monitor and report on the quality assurance and improvement program;
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- Improving communications to all key stakeholders leading to the provision of an annual overall assurance to them in 2015 (Standard 2450)

Key Recommendations

The EQA confirms that, for too long, OIG’s professionalism was questioned due to its lack of focus on essentials and focus more on low-value compliance audits. OIG did not take into account OAS reforms and did not avail itself of opportunities to position itself to provide useful input at a higher level. We support the IG’s strategy to shift OIG to higher value, risk-focused, audits with the right audit objectives and an appropriate scope of work. Helpful to this transformation is that fact that new audit software is being implemented for all OIG staff to perform basic planning, working paper, supporting evidence, and reporting requirements on a consistent basis.

We note that the OIG team itself is being transformed into a professional team. The IG should take care to ensure that all auditors make the shift in OIG culture.

OAS business does require specific technical audit expertise on occasion. OIG staff until now lacked the expertise and still tackled these assignments thereby negatively affecting OIG’s credibility and impact.

**We recommend that** the IG continues to promote professionalism that conforms to the Standards as this is the best guide for new OIG staff and a solid base to make and sustain the substantial changes already underway in OIG. *(IG agrees to implement this recommendation)*

**We recommend that** the IG carefully monitor OIG staff and new recruits to ensure that, together, the team makes the professional transformation required of them all. *(IG agrees to implement this recommendation)*

**We recommend that** the IG carefully select the staff with the competence and expertise to audit technical areas – or use outside consultants for this purpose – always working alongside OIG staff so that knowledge transfer takes place. *(IG agrees to implement this recommendation)*

4. Performance Management and Accountability

Key Observations

Measurement of OIG’s performance is necessary to ensure that it stays on track professionally, delivers its agreed work output in a timely manner to the level of quality expected of it by Standard 1300. OIG’s 2013-15 Strategic Plan addresses all these aspects and more.
This EQA assesses OIG’s efficient and economic. From the data presented in 2013, OIG produced 4 audits and 4 investigations reports. Two simple measures demonstrate OIG’s need to increase both the volume of its work and lower the cost per audit/investigation:
  • On the work volume, each auditor worked on a single audit in 2013.
  • On a cost basis, each audit/investigation cost an average of $100K.
This low level of productivity has been observed by management and others who, question OIG’s value for money. At the same time we note that key stakeholders want the OIG to function ‘internally’ and do not seek to outsource it. However, they would like to see OIG’s productivity issue and value for money addressed. The 2013-15 Strategic Plan addresses both these issues.

We note that in presentations to the CAAP, OIG has begun to share its performance criteria and delivery that is in line with multiple Standards that encourage OIG accountability.

Key Recommendations

OIG has now have time sheets to track staff time management. This, together with a more challenging audit delivery target and better audit project management and oversight by the IG should see a noticeable increase in OIG output with a lower cost per audit/investigation.

It is normal for the PC/CAAP to challenge OIG’s productivity and hold it to account for the efficient and effective use of its resources. This is best done through tracking Key Performance Indicators and in line with good governance practice.

We recommend that the IG persist with his productivity drive and continue to report progress to the PC/CAAP. (IG agrees to implement this recommendation)

We recommend that the PC/CAAP hold OIG to account for delivery of agreed upon Key Performance. (ACTION: IG, PC/CAAP)

5. Organizational Relationships and Culture

Key Observations
We note that the IG participates in certain single-purpose senior management meetings and is thereby able to advise and comment on issues that management faces and about which OIG might have useful input and perspective. However, the IG does not participate as an observer in the Cabinet as is fast becoming typical practice – as well as good practice in governance and oversight arrangements.
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Key Recommendations

A key assurer is the Board of External Auditors (BEA). OIG would normally work closely with the BEA to see to what extent the ‘audit territory’ is being covered by both parties efficiently and effectively. This is envisaged in the Standards. Interaction and collaboration between OIG and BEA is fully in line with the Standards and seeks to ensure that both parties deliver to the PC assurances that (1) respect each party’s professional requirements as well as (2) taking into account each other’s work to ensure there is as little overlap or gap. With OIG still to show professional proficiency on a sustained basis, this has not been an issue. But, as OIG develops professionally, it needs to collaborate more with the BEA than before.

We recommend that the IG keep the BEA aware of professional developments in OIG to the point that the BEA is confident that OIG’s work is reliable and useful for its professional purposes. As this occurs the PC should be kept informed. (IG agrees to implement this recommendation)

6. Governance Structures

Key Observations

Standard 1000 requires that the purpose, authority, and responsibility of the IA activity be formally defined in the EO, consistent with the IPPF and periodically reviewed by the IG. This review is part of the EQA. It is anticipated that the updated and revised EO will propose all the elements required of it by the Standards.

Standard 1100 states that organizational Independence of OIG is enhanced when the IG reports functionally to the Board and administratively to the SG. In OAS, the reporting relations is unclear with the SG having both the authority to create OIG’s EO, but also the authority to fund OIG as part of his overall OAS responsibility. In addition, although OIG does report to the Board, it is not clear what the nature of OIG’s reporting relationship to the Board in fact is (e.g. functional, informational, etc.). Compounding this, there is not ‘official’ Board audit committee. CAAP appears to have stepped into this ‘breach’ and performs some of the roles normally associated with an audit committee - but without explicit authority. The IG does already report/communicate to the SG, the PC/CAAP but the IG’s reporting relationship to CAAP is not formalized in the EO.

Key Recommendations

So far as OIG’s reporting relationships with the SG and the PC – and now CAAP – are concerned, it would help to clarify and codify OIG’s reporting relationships to ensure OIG’s independence of line management;
F. APPROACH AND METHODOLOGY

We generally followed the IIA’s Quality Assessment Methodology that looks extensively at the authority, structure, methods, output, and resources in for the OIG. We obtained input and feedback from the IG and staff as well as those of its key stakeholders – with the exception of the. We compared the Office with similar functions in other organizations as well as comparing it with good practice in both the public and private sectors. With this information we assessed conformance to the Definition of Internal Auditing, IIA Standards and Code of Ethics.

A key requirement for the EQA is to obtain views on the quality of its leadership and its professionalism and the usefulness of its assurance and advisory products. OIG’s mandate, its approach to its work, has a wide impact across multiple stakeholders. To this end, we interviewed the full range of OIG stakeholders - except for the BEA due to timing issues.

G. ACKNOWLEDGEMENT

The Review Team thanks OAS SG and other key stakeholders for their input and insight. We also acknowledge the IG and his team’s responsiveness to our needs during this external quality assessment.

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