



COMMENTS AND RECOMMENDATIONS TO IMPROVE OPERATING PROCEDURES AND INTERNAL CONTROLS



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CHAPTER 1

COMMENTS RELATING TO THE GENERAL SECRETARIAT



This chapter addresses issues, concerns, and recommendations that the Board wishes to bring to the attention of the General Assembly, Permanent Council, and Secretary General regarding the Organization of American States' (OAS) General Secretariat. It includes a summary of the financial condition of the Regular Fund and Specific Funds, and also addresses management initiatives undertaken to implement recommendations contained in last year's Board Report as well as new issues identified by the Board.

Status of Recommendations from the Board's 2004 Report

In its 2004 Report, the Board discussed several issues related to the operation of OAS and provided specific recommendations to address them. The Board is satisfied with the progress made by OAS' General Secretariat (GS/OAS) in implementing its recommendations despite OAS' limited resources. The Board is closing seven recommendations that it made in its 2004 report. Twelve recommendations made in the 2004 report remain open, although the Board has revised some of these to accommodate changing circumstances. Information on these recommendations and new issues are described in detail in the following sections.

Financial Statement Audit Reports

The independent external auditing firm, SB & Company, LLC (SBC), conducted the audits of the 2005 financial statements of the

significant funds and entities managed by OAS' General Secretariat and issued unqualified ("clean") opinions, the highest level audit results, on all of the funds and entities it audited. The financial statement audits were designed to focus on appropriate key areas based on SBC's assessment of risk.

Ernst & Young, LLP, was performing the audit of OAS' Retirement and Pension Fund financial statements. This had not been completed at the time of the Board's report. This is the second consecutive year that the Board did not receive information from the Retirement and Pension Fund for review in advance of the Board meeting. The Board did review draft unaudited financial statements and met with the Director and the Treasurer of the Retirement and Pension Fund. As a result of this limited assessment, no areas of significant concern came to the attention of the Board.

Internal Control Environment – Independent Auditors' Management Letter

Overall, SBC reported that OAS' internal control environment was effective. There were no material weaknesses or reportable conditions in the audit reports. However, SBC did note a number of internal control issues and recommendations for improvements that it reported to appropriate officials in GS/OAS.

Financial Condition of the OAS Regular Fund and Specific Funds

The major objective of the Regular Fund, financed principally by quotas from Member states, is to provide general services required by the General Secretariat, as well as technical supervision and administrative support to the General Assembly, Permanent Council, Inter-American Commission of Human Rights, Inter-American Commission of Women, Inter-American Juridical Committee, Inter-American Children's Institute, Inter-American Court of Human Rights, Inter-American Commission for Drug Abuse Control, and Inter-American Communications Commission.

The Regular Fund's fund balance was \$10.2 million as of December 31, 2005, which was an increase over the December 31, 2004, fund balance of \$7.6 million. This increase was mainly due to an increase in quota collections and rentals, and a decrease in personnel and administrative costs.

Quota collections during 2005 totaled approximately \$76.3 million compared to \$67.1 million in 2004. The balance of quotas in arrears decreased to \$18.6 million as of December 31, 2005, compared to \$21.2 million as of December 31, 2004. The number of Member states with quotas in arrears decreased from 16 countries in 2004 to 12 countries at the end of 2005.

During 2005, the total expenditures and obligations of \$77.2 million was \$1.3 million less than the adjusted 2005 budget of \$78.5 million. In 2004, the total expenditures and obligations of \$79.9 million exceeded the 2004 adjusted budget of \$79.6 million by approximately \$250,000.

Regular Fund

The following tables show the Regular Fund Financial results from 2001 to 2005.

Changes to the Regular Fund (In millions)

Year	2005	2004	2003	2002	2001
Income (A)	\$ 79.8	\$ 68.3	\$ 71.9	\$ 98.1	\$ 90
Expenditures	77.2	79.9	76.3	76.3	76
Operating Results Increase (Decrease)	2.6	(11.5)	(4.4)	21.8	14
Fund Balance	\$ 10.2	\$ 7.6	\$ 19.1 (B)	\$ 44.5	\$ 22.7

Notes:

- A) Income includes quotas collections, other income from support to FEMCIDI projects, and interest income.
- B) The \$19.1 million fund balance in 2003 is net of \$21 million in supplementary appropriations transferred in January 2003 to the specific funds due to General Assembly resolution 831.

The following table shows Regular Fund quota collections from 2001 to 2005.

Regular Fund Quota Collections (In millions)

Year	2005	2004	2003	2002	2001
Beginning balance of quotas from prior years	\$ 21.2	\$ 14.6	\$ 10.6	\$ 31.5	\$ 43.4
Current year quotas	73.7	73.7	73.7	73.7	73.7
Quota collections	(76.3)	(67.1)	(69.7)	(94.6)	(85.6)
Quotas in arrears at year-end (C, D)	\$18.6	\$ 21.2	\$ 14.6	\$ 10.6	\$ 31.5

Notes:

- C) Balances exclude quotas in arrears from Cuba, which were \$2.2 million.
- D) Countries with largest quotas in arrears include: Argentina, \$10.8 million (58 percent of quotas in arrears), Brazil, \$3.4 million (18 percent) and Venezuela, \$2.4 million (13 percent).

Specific Funds

The Specific Funds are financed by grants or requests for activities specified by donors, and any other contributions by national or international public or private entities for carrying out activities or programs of the General Secretariat. These funds also include designated funds that have been segregated for a specific purpose and whose use is restricted through designation by the General Assembly or the General Secretariat.

In 2005, contributions to the Specific Funds decreased by 34 percent from the amount contributed in 2004. Specific Funds financial results from 2001 to 2005 are included in the following table.

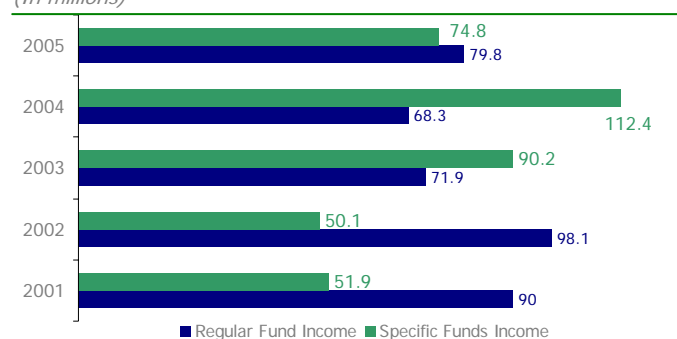
Specific Funds financial results

(In millions)

Year	2005	2004	2003	2002	2001
Income	\$74.8	\$ 112.4	\$90.2	\$50.1	\$51.9
Expenses	82.6	91.3	74.7	58.6	43.3
Net Income (Expense)	(7.8)	21.1	15.5	(8.5)	8.9
Fund Balance	\$51.8	\$ 59.6	38.5	\$23.0	\$31.5

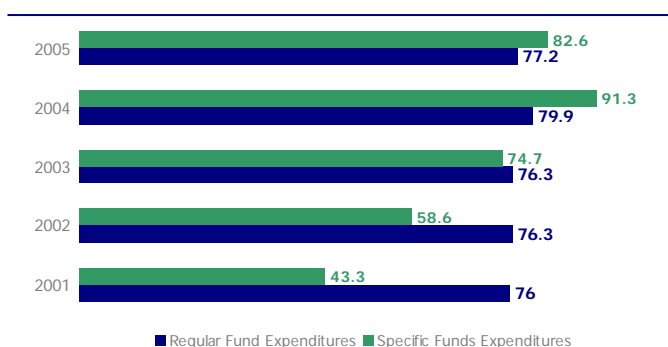
Comparison of Regular Fund and Specific Funds Income

(In millions)



Execution of the Regular Fund Compared to the Specific Funds

(In millions)



- Regular Fund execution has remained constant
- Specific Funds execution has increased 91% since 2001
- Specific Funds execution now represents 52% of transactions versus 36% in 2001

2005 BOARD OF EXTERNAL AUDITORS RECOMMENDATIONS

Quota Collections

Although quota collections did improve slightly in 2005, it is still an issue that impacts OAS' overall financial condition. OAS has implemented an incentive that would decrease quotas by two percent if paid by a certain date. Recently, there have been discussions within the governing bodies of OAS about instituting penalties for countries that do not pay quotas in a timely manner; however, no agreements were reached on this issue.

Currently, Member states establish their own payment plans for their quotas. In many cases, the Member states provide their quota payments late in the year. This often creates a difficult cash flow situation within GS/OAS because the timing of the quota payments is irregular when compared to the budget execution. OAS sometimes has a difficult time meeting payroll and other fixed costs. Capital and project planning can be difficult, because GS/OAS does not always know when or if funds will be available. OAS might want to consider changing the quota requirements so that Member states would pay their quotas in advance or at set intervals, so that the operating budget would be consistent.

Immediate measures are necessary to increase quota collections. The Board supports the efforts of the Secretary General and the Assistant Secretary for Management to bring this matter to the attention of the Member states in order to obtain the resources required to meet OAS' mandates without incurring future operational deficits. However, more needs to be done to ensure that OAS has the funds it needs to carry out its functions.

1.1 The Board recommends that the Permanent Council assign a high priority to the payment of quotas in arrears and identify effective methods

to promote timely payments that reduce the level of quotas in arrears.

1.2 The Board recommends that the Permanent Council consider changing the quota requirements to have Member states fund their quotas by an earlier date.

Budgetary Resources

Even if quotas were collected in a timely manner, the financial condition of the Regular Fund would still be an issue since the annual quotas do not cover the operating budget of the GS/OAS. With annual quotas fixed at \$73.7 million for the past several years, OAS has undergone a continuing decline in the amount of inflation-adjusted cash resources. For the past few years, the Regular Fund budgets have remained flat or declined despite the requirement to finance salary increases set by United Nations rules and absorb inflationary cost increases.

As discussed above, the financial condition of the Regular Fund did improve slightly in 2005. In addition, OAS informed the Board that during a special session in January 2006, the General Assembly adopted a tentative measure to increase the annual quota to \$76.2 million for 2007. The CAAP has recognized the difficult financial position of GS/OAS, and has initially approved a \$5.2 million increase for the 2006 budget. Although the General Assembly has increased the annual quota, this increase would not fund the budget ceiling for 2007 of \$81.5 million.

During 2005, OAS underwent a major reorganization which it believed would improve the budgetary situation of the organization. It developed a new Office of Planning, Control, and Evaluations to work on budgetary issues, such as developing strategic goals. At the time of the Board's meeting, little progress had been made in this area. The Board believes it is essential for OAS to take a hard look at its priorities and determine opportunities for cost savings.

The Board understands that OAS has already made numerous cuts in staffing and other services. In some cases, as discussed below, the Board is concerned that the cuts may have harmed the internal control environment. It is essential for OAS to develop a well-thought out and supportable plan for budgetary improvements. The budget constraints of OAS must be adequately addressed in order for OAS to continue to meet its goals and mission.

In addition to considering additional budgetary reductions, OAS needs to be proactive in searching out innovative ways to increase revenues. For instance, OAS may not be maximizing the potential of a piece of property that is currently used by IADB (located at 16th Street and Euclid Street in Washington D.C.). Also, there may be some potential for increasing rental income in its General Secretariat Building.

1.3 The Board reaffirms its recommendation that the Permanent Council revisit the quota cap to ensure consistency between the mechanism of setting OAS quotas and the mechanism of setting expenditures, such as personnel costs. At a minimum, the Board recommends that an automatic process to increase annual quotas to fund inflationary cost increases for salaries should be instituted.

1.4 The Board reaffirms its recommendation that the Permanent Council implement a planning process that identifies strategic objectives and priorities, allocates scarce budgetary resources to achieve OAS' key goals, helps to generate reliable cost estimates of mandates before their approval, and supports accountability for results.

1.5 The Board reaffirms its recommendation that GS/OAS establish a visible and systematic budget savings initiative that augments the

efficiency of OAS operations and improves asset management.

1.6 The Board recommends that GS/OAS consider other sources of income that are available, including making a decision on how to maximize the potential of its property located at 16th Street and Euclid Street in Washington D.C.

Recovery of Administrative and Oversight Costs

OAS has a requirement that two percent of all new Specific Fund contributions be used to fund administrative support and other overhead expenses. The Board found that OAS often waives this requirement if the contributor specifically states that they do not want the Specific Funds used for overhead.

Although the Board understands the intent behind this type of request, the Board does not believe that the implications are being adequately conveyed to the contributors. As the number of Specific Funds increases, so does the support costs. Without a portion of the contributions going toward recovery of administrative and oversight costs, the Regular Fund, which is already in a difficult financial position, will be strained even more.

The Board is also concerned that the two percent allocation for overhead is not based on a cost analysis. OAS needs to establish an enforceable, supportable, and consistent mechanism for recovering administrative and oversight costs. However, the Board does not believe it is appropriate to institute a uniform, across-the-board fee for each project. Donors should be able to clearly see the benefits they are receiving from providing funds to cover administrative and oversight costs. Some projects might require more administrative support or oversight than other projects. Therefore, OAS needs to tailor a cost estimate for each proposed donation to clearly understand the cost implications for OAS and to be able to quantify an appropriate fee to

charge for these funds. If a donor is unwilling to allow its funds to be used to cover the administrative and oversight charges, OAS management will need to determine whether the funds should be accepted. Having the cost information available will make an informed decision easier to reach.

OAS has established a new office, called the Office of Planning, Control, and Evaluations. One of the missions of this new Office is to work with the Secretary General to develop a new policy on overhead.

1.7 The Board recommends that GS/OAS perform an overhead cost analysis that identifies all administrative and oversight costs used to support Specific Fund donations. This information should be used to estimate the costs associated with each proposed donation to a Specific Fund.

1.8 The Board encourages GS/OAS to develop an enforceable and consistent mechanism for calculating overhead to Specific Funds. The Board also encourages management to work with donors to help them understand the benefits they would receive from funding the administrative and oversight costs. OAS needs to assess any proposed donations that will not fund these costs to determine whether the funds should be accepted.

Reporting Financial and Budgetary Results

OAS' financial statements provide an audited confirmation of how management used and allocated all of OAS' financial resources among different entities and related funds. GS/OAS made improvements in the preparation of the 2005 financial statements. Most of the financial statements were completed earlier than in former years. The Board congratulates GS/OAS for these improvements. However, the Board believes that some additional improvements could

make the financial reporting more useful, timely, and transparent to users.

For instance, the Board believes that OAS' statements could be enhanced by linking the actual use of financial resources to the achievement of specific strategic objectives and priorities. OAS has recently created a new Office of Planning, Control, and Evaluations. One of the areas this Office is planning to focus its efforts is developing a results-oriented budget. Once this is done, the financial statements could be organized in a similar manner. Although the Board believes this might take several years to implement, it would be a useful tool. For this project to be successful, the Board believes that high-level management will need to support the initiative. In addition, GS/OAS will need to get the support of other interested parties.

1.9 The Board recommends that GS/OAS financial reports should provide, to the extent possible, a link between the use of resources and achievement of strategic goals and objectives in a manner that is most useful to Member states, management, and donors. GS/OAS should work with all interested parties before implementing the new financial statements, to ensure that they are comfortable with the new format and information being included.

The Board also believes that OAS's Regular Fund financial statements could be improved by including a Statement of Cash Flow. A cash flow statement shows incoming and outgoing money during a particular period. As an analytical tool the Statement of Cash Flow is useful in determining the availability of funds to cover expenses and would highlight the financial condition of the Regular Fund.

1.10 The Board reaffirms the recommendation that GS/OAS include a Statement of Cash Flow in the audited yearly financial statements of the Regular Fund.

Reorganization

The Board was pleased with OAS' efforts to achieve efficiencies and economies through the 2005 reorganization. It is natural, during a reorganization to see some uncertainty related to roles and responsibilities, issues related to lines of communication or authority, and certain other types of disorganization. During this time of change, the Board would like to encourage OAS management to make conscious efforts to keep lines of communication open and to address organizational issues promptly. The Board did note that policies and procedures and job descriptions related to some of the new organizations had not yet been updated.

1.11 The Board recommends that GS/OAS develop appropriate policies and procedures and job descriptions for all of the new sections created by the reorganization.

Training

Human capital is one of OAS' most significant assets even though it is not recorded in the financial statements. OAS deserves to have a continuing and adequate training program to maintain and upgrade skills of OAS' employees.

As noted above, the quota cap for the past several years imposed the requirement to implement spending reductions throughout OAS. These decreases have led to personnel reductions and have inhibited progress in ensuring sufficient training for OAS staff. The Board feels that professional development is important in any organization; however, in light of the limited staff in many key sections of OAS, adequate training becomes even more essential. This should include cross-training of individuals to ensure that there is adequate coverage of all key functions. The Board continues to support the efforts of Human Resources Services to develop a professional development strategy.

1.12 The Board reaffirms its recommendation to reexamine the training budget. Given the decrease observed in recent years, the Board

encourages GS/OAS to find cost-effective alternative methods to train staff. These methods could include internal instructors, training agreements with appropriate institutions, and self-paced computer training methods. This training should be developed with the input of the Office of the Inspector General ("OIG") to ensure that enhanced training and awareness of key internal controls are covered. In addition, the Board encourages OAS to require all employees performing technical work, in particular accounting and finance functions, to complete annually a minimum number of training hours. This should include cross-training to ensure that all key functions have adequate coverage.

National Offices

The external financial statement auditor, OIG, and OAS management have identified concerns with the control environment at the National Offices. The Board believes that OAS is working to coordinate and reassess the role of the National Offices to ensure they are meeting OAS' intended goals. It will review the results of this effort during the next Board meeting.

However, OAS needs to consider the internal controls in place at the National Offices to ensure that they are appropriate for the current level of staffing. The external auditors reported instances where employees were unclear about the requirements to process disbursements and concerns that the limited staffing in the National Offices (a Director, administrative assistant, and driver/messenger) could lead to inadequate segregation of duties. The OIG also expressed concern that not all of the National Offices were linked to the OASES system.

The staff in the National Offices needs to be adequately trained and monitored. Although OIG tries to audit all of the National Offices on a cyclical basis, its budget is limited and

so it is not able to perform as many of these audits as it once did. OAS may want to consider having experienced staff make short site visits to the National Offices on a regular basis to ensure that policies and procedures are complied with.

1.13 The Board recommends that the GS/OAS ensure that staff at the National Offices are adequately trained and that an appropriate methodology to monitor internal controls at the National Offices is established.

Control Environment

Fellowships

The Board was informed about some serious internal control issues related to Fellowships in 2005. At one point, OAS believed that approximately \$2 million had been spent over what had been budgeted for Fellowships. Funds to cover these additional expenditures had to be borrowed from the Capital Fund. Ultimately, over \$500,000 was deobligated, and GS/OAS was able to use Reserve Funds to reimburse the Capital Fund for the amount borrowed.

OAS reported that this situation occurred principally for two reasons. Fellowships were approved outside of the normal process. A new Director has been put in charge of this area, who informed the Board that no Fellowships will be approved outside of the normal process.

Another reason for the budgetary issues was that the Fellowship managers did not always know the resources available. The new Director indicated that no scholarships will be approved until there is clear information on resources available for Fellowships.

The external financial statement auditors also reported that Fellowship staff was not adequately reviewing the contractor's invoices to ensure proper fees were being paid. The external financial statement auditors reported that the invoices received from the Fellowship contractor did not

include enough detail for OAS to ensure that proper fees were charged. OAS submits a general purchase order for the contractor with an estimate of general expenses in order to obligate funds.

In addition, the Board believes that attention should be given to the length and cost of a study program before a scholarship is established to determine the appropriateness of a particular educational institution and, subsequent thereto, to determine future liabilities.

1.14 The Board recommends that GS/OAS ensure that the internal policies and procedures related to Fellowships are appropriate. In addition, GS/OAS should develop and implement a process to ensure that all internal policies related to Fellowship selection and approval are adhered to and adequately documented.

1.15 The Board recommends that GS/OAS work with the external contractor to modify the contract to clarify each party's roles and responsibilities. GS/OAS should appropriately monitor the external contractor to verify that payments are accurate and made for approved students. GS/OAS should also revise the purchase order process to provide identification of the students approved for fellowships and an estimate of the fellowship cost and administrative fees for each year committed to the student.

Disbursements

Both the external financial statement auditors and the IG noted issues related to disbursements.

There is a formal vendor listing in the OASES system. In order for a requisition to be processed, the vendor name must already be in the vendor listing. However, the Board determined that there was no formal process to ascertain

that new or existing vendors were valid. There was also no formal process to remove vendors no longer needed from the system.

The external financial statement auditors and the IG also reported concerns with the use of “generic vendors” on purchase orders. OAS’ internal policies allow staff, in rare circumstances, to prepare a purchase order without listing the specific vendor that would be used. However, this has become a common practice in National Offices.

OAS’ management has indicated that it has made progress in both of these areas, but has not completed its efforts. Each of these issues increases the risk that unauthorized disbursements and misappropriations of cash would not be identified and prevented.

1.16 The Board recommends that GS/OAS improve controls over approved vendor listings. This should include developing a formal process to ascertain that new and existing vendors are valid.

1.17 The Board recommends that GS/OAS work to eliminate the use of generic purchase orders without advance approval. This approval should only be given in exceptional circumstances.

Information Technology System

OAS has improved controls over people that have “super user” access in the OASES system. However, nine people within the administrative areas still have this type of access. The Board is concerned about this situation. OIG is currently performing an assessment of the OASES system, including the use of super users. The Board is not making a recommendation on this issue in its report. However, the Board believes that OAS should promptly consider any findings or recommendation made by OIG in its assessment.

OAS management informed the Board that they have developed a contingency plan for the computer systems. However, due to budget limitations this plan has not been implemented or tested.

1.18 The Board recommends that GS/OAS ensure that an appropriate contingency plan is implemented and tested.

Contractor Oversight Process

OAS has improved the oversight of the contractor process, but management agrees that there is still room for improvement. For instance, OAS has added a step to ensure that all requests for contractors comply with internal policies and procedures. However, they have not completed automating the process for requesting contractors. The Board is concerned that many offices within OAS rely on contractors to perform regular, day-to-day operations. This is a long-standing issue because the staffing levels are not adequate to complete mandates. However, the intent of the contracting process was not to supplement limited staffing, but instead, to use the funds for limited projects or for specialized technical skills.

1.19 The Board reaffirms its recommendation that GS/OAS continue to strengthen the CPR oversight process and ensure compliance with the Performance Control Rules.

Monitor Compliance With Debt Covenants

During the audit of OAS’ 2004 financial statements, the external auditors noted that there were instances of noncompliance with various debt covenant requirements. Although OAS has improved compliance with these debt covenants, it is still not in complete compliance.

1.20 The Board reaffirms its recommendation that GS/OAS documents all of the debt agreements and other documents with financial compliance requirements and develops a plan to meet all of the requirements.

Travel Advances

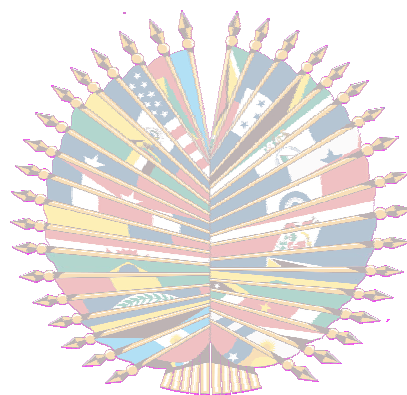
The Board has found that not all employees provide support for their official travel expenditures in a timely manner. OAS does not have an effective process in place to monitor this issue. In addition, there is no effective process in place to monitor the travel advances provided to contractors. OAS management is in the process of developing an automated system which it believes will assist in the oversight of this issue. However, it has not been completed.

1.21 The Board reaffirms its recommendation that GS/OAS review travel expense advances on a timely basis and also consider requiring contractors to provide travel expense support by completing appropriate forms.

Inventory Tracking

Both the external financial statement auditors and the Inspector General noted issues related to the inadequacy of OAS' inventory records. For instance, during a number of audits performed by OIG, it noted items that were not included on the inventory records as well as items that were included that were no longer owned by OAS. Although OAS has taken some steps to address this issue, it needs to continue to improve the inventory recording and reconciliation process.

1.22 The Board reaffirms its recommendation for GS/OAS to improve the reconciliation of fixed asset tracking records and the inventory accounts.



CHAPTER 2

COMMENTS RELATING TO OTHER OAS ENTITIES

The Board is pleased to note that OAS has arranged audits of the various entities within the OAS organizational structure that have material amounts of OAS resources. Independent audits provide information and assurances that controls are in place to protect OAS resources. In the complex organizational structure that constitutes OAS, management attention needs to be focused on all major entities or parts of entities that manage material amounts of OAS resources.

As discussed earlier, the external financial statement auditors expressed unqualified ("clean") opinions, the highest level audit results, on the following 2005 financial statements of OAS entities. The external auditor had not identified any internal control weaknesses that rose to the level of a reportable condition during these audits, although it did identify other internal control or compliance issues that it reported to OAS management in a management letter.

- Leo S. Rowe Pan American Fund (Rowe Pan American)
- Rowe Memorial Benefit Fund (Rowe Memorial)
- Medical Benefits Trust Fund (Medical Benefits)
- Department of Democratic and Political Affairs (DDPA)
- Inter-American Agency for Cooperation and Development (IACD)
- Trust for the Americas
- Inter-American Defense Board Fund (IADB)
- Retirement and Pension Fund

The audit of OAS' Retirement and Pension Funds financial statements was not complete at the time of the board meeting but is include at the end of this report.

LEO S. ROWE PAN AMERICAN FUND

The Rowe Pan American Fund is a trust fund established to provide loans to students from Member states, other than residents and citizens of the United States, and to make loans to OAS employees for educational and emergency purposes. Student loans are interest-free and repayments commence after students have completed their courses of study. Loans to employees bear interest rates equivalent to the prevailing prime rate in the United States. Employees repay these loans through payroll deductions.

New loans to students decreased by 50 percent to \$275,500 in 2005 compared to \$573,800 in 2004. New loans to employees for education or emergencies went down slightly from \$173,884 in 2004 to \$97,462 in 2005. Total assets of the Fund increased approximately four percent to \$13 million in 2005. The main assets of the Fund as of December 31, 2005, were financial investments (78 percent), loans to students (15 percent) and loans to OAS employees (3 percent).

As of December 31, 2005, the Rowe Pan American Fund had outstanding loan balances to employees totaling \$380,679 and students totaling \$1.98 million. The amount of loans collected remained approximately the same and totaled \$631,356 in 2005 and \$644,104 in 2004.



The following table summarizes the financial results of the Leo S. Rowe Pan American Fund for 2005 and 2004:

Financial results
(In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income	\$ 814	\$ 1,082
Expenses	(296)	(317)
Change in net assets	518	765
Net assets, beginning of year	12,410	11,645
Net assets, end of year	\$ 12,928	\$ 12,410

ROWE MEMORIAL BENEFIT FUND

The assets of the Rowe Memorial Benefit Fund have been accumulated principally from contributions received from Dr. Leo S. Rowe, a former Director General of the PanAmerican Union. These assets are held in trust to provide certain welfare benefits for OAS employees and to provide awards of up to \$300 to OAS staff that have made an outstanding contribution. As of December 31, 2005, the Rowe Memorial Fund had \$248,252 in net assets. Activity in this fund is limited.

The following table summarizes the financial results of the Rowe Memorial Fund for 2005 and 2004:

Financial results
(In Thousands)

Year	2005 (Audited)	2004 (Audited)
Dividends and Income	\$ 7,233	\$ 4,998
Subsidies	(2,000)	(12,500)
Official Recognition	(740)	-
Technical Services	(3,500)	(6,500)
Change in net assets	993	(14,002)
Net assets, beginning of year	247,259	261,261
Net assets, end of year	\$ 248,252	\$ 247,259

MEDICAL BENEFITS TRUST FUND

The Medical Benefits Trust Fund provides medical benefits to staff members of OAS. Claim adjudication is handled by Blue Cross Blue Shield.

The following table summarizes the financial results of the Medical Benefits Trust Fund for 2005 and 2004:

Financial results
(In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income	\$ 9,694	\$ 9,742
Expenses	(7,915)	(7,531)
Change in net assets	1,779	2,211
Net assets, beginning of year	12,954	10,743
Net assets, end of year	\$ 14,733	\$ 12,954

DEPARTMENT OF DEMOCRATIC AND POLITICAL AFFAIRS (DDPA)

The DDPA provides assistance to Member states to improve their institutions and democratic processes, supports the generation, dissemination, and exchange of information on political systems and democratic values, encourages the exchange of experiences related to the promotion of democracy, provides assistance in the observation of electoral processes, and supports the process of national reconciliation and peace-building. During 2005, the DDPA received major contributions from The Netherlands, Norway, Sweden, the United Kingdom, and the United States. As of December 31, 2005, the DDPA fund balance was \$8.9 million.

The following table summarizes the financial results of the DDPA for 2005 and 2004:

Financial results (In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income	\$ 28,576	\$ 20,700
Expenses: Including realized and unrealized losses on investments	(32,304)	(16,738)
Change in net assets	(3,728)	3,962
Net assets, beginning of year	10,129	6,167
Net Transfers	2,501	-
Net assets, end of year	\$ 8,902	\$ 10,129

INTER-AMERICAN AGENCY FOR COOPERATION AND DEVELOPMENT (IACD)

IACD was created in 1999 to promote, coordinate, manage and facilitate the planning and execution of programs, projects and technical assistance activities within the scope of OAS. The IACD is financed by transfers from the OAS Regular Fund and by contributions from Specific Funds. IACD's combined fund balance as of the end of 2005 was

approximately \$23 million, a decrease of 22 percent when compared to the 2004 fund balance of \$30 million. Income decreased from \$20.1 million in 2004 to \$9.7 million in 2005 (51 percent).

The following table summarizes the financial results of the IACD for 2005 and 2004:

Financial results (In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income	\$ 9,762	\$ 20,108
Expenses:		
Including realized and unrealized losses on investments	(16,312)	(21,058)
Change in net assets	(6,550)	(950)
Net assets, beginning of year	30,400	31,350
Net assets, end of year	\$ 23,850	\$ 30,400

Currently, all of IACD financial information is included in the GS/OAS financial system (OASES). The Board could not find any internal policies that require IACD to have separate financial statements. The Board believes that OAS could save limited resources (both internal staff who prepare the separate financial statements and the cost of the external audit of those financial statements) by including IACD information in the financial statements for the Specific Funds.

2.1 The Board recommends that GS/OAS no longer issue a separate financial statement for the Inter-American Agency for Cooperation and Development. The financial information for these funds should be included in the financial statements for the Specific Funds.

The Board believes that the mechanisms in place to monitor the execution and technical aspects of the Special Multilateral Fund of the Inter-American Council for Integral Development's (FEMCIDI) projects were weak. The Board

believes that an audit of FEMCIDI projects, from identification to implementation and evaluation, should be performed by the Office of Inspector General.

2.2 The Office of Inspector General should perform an audit of FEMCIDI's projects during 2006.

TRUST FOR THE AMERICAS (TRUST)

The Trust serves to mobilize contributions from IACD and other institutional donors to address extreme poverty and promote democracy. The Trust has a significant grant agreement with the United States Agency for International Development for activities in Colombia. OAS, through IACD, supports the Trust with the provision of financial, material, and staff support. As of December 31, 2005, the Trust for the Americas held \$623,305 in net assets compared to \$269,859 in 2004. Approximately 20 percent of the Trust's \$2.9 million in revenue was related to in-kind contributions.

The following table summarizes the financial results of the Trust for 2005 and 2004:

Financial results
(In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income	\$ 2,874	\$ 1,424
Expenses: Including realized and unrealized losses on investments	(2,797)	(1,819)
Change in unrestricted net assets	77	(395)
Temporarily restricted contributions	276	230
Change in net assets	353	(165)
Net assets, beginning of year	270	435
Net assets, end of year	\$ 623	\$ 270

The external financial statement auditors informed the Board that the Trust for the Americas had modified how they obtained funds from the U.S. government for grants. In the past, the funds were obtained after the funds had been spent (reimbursement). Now, the Trust for the Americas is obtaining funds in advance. Although this is allowed under the grant, the external auditors reported that the Trust for the Americas did not have adequate procedures in place to ensure the funds were needed for immediate use and would be spent within a reasonable period of time. The Trust for the Americas and GS/OAS have implemented improvements in the oversight process and plan to meet monthly to improve communications.

2.3 The Board recommends that the Trust for the Americas ensure that it adheres to U.S. government requirements related to grants. In addition, GS/OAS staff should work more closely with staff from the Trust for the Americas to ensure that a reasonable estimate is calculated for the draw downs based on anticipated spending activity.

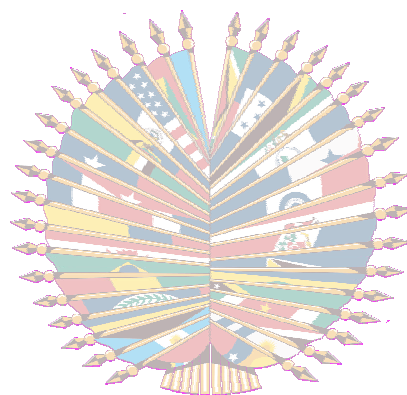
INTER-AMERICAN DEFENSE BOARD (IADB)

IADB was established in 1942 and is comprised of military officers representing the highest echelons of their nation's defense establishments. IADB receives substantial contributions from OAS but has administrative autonomy. The Board's expenses were primarily for four functions: the Council of Delegates, the International Staff, the Inter-American Defense College, and administrative support. In 2005, IADB's net assets increased to \$394,000 from the total amount of net assets in 2004 of \$178,000 (121 percent). The total amount of revenue increased from \$4.6 million in 2004 to \$5.9 million in 2005 (28 percent). In addition, the total amount of expenses increased from \$4.6 million in 2004 to \$5.7 million in 2005 (24 percent).

The following table summarizes the financial results of the IADB for 2005 and 2004:

Financial results
(In Thousands)

Year	2005 (Audited)	2004 (Audited)
Income including net assets released from restrictions	\$ 5,900	\$ 4,643
Expenses	(5,693)	(4,605)
Change in unrestricted net assets	207	38
Change in temporarily restricted net assets	-	(44)
Net assets, beginning of year	178	184
Net assets, end of year	\$ 385	\$ 178



CHAPTER 3

COMMENTS RELATING TO THE OFFICE OF THE INSPECTOR GENERAL

This chapter discusses issues related to the Office of the Inspector General (OIG). The status and role of the OIG within OAS is important to the Board since the OIG is an essential continuing safeguard to assess and maintain the internal control environment. Under Executive Order 95-05, The Internal Audit Function of the General Secretariat and the OIG, is charged with the responsibility of assisting the Secretary General and the governing bodies to monitor various levels of management with respect to the General Secretariat's and OAS' programs and resources, and adherence to the legal system governing them.

Status of Recommendations from the Board's 2004 Report

In its 2004 Report, the Board discussed several issues related to OIG operations and provided specific recommendations to address them. The Board is satisfied with the progress made by OIG in implementing its recommendations despite limited resources. The Board is closing one recommendation that it made in its 2004 report. Five of the recommendations remain open, although the Board has revised some of these to accommodate changing circumstances, and the Board is including one additional recommendation related to training.

OIG Staffing and Budget

The Board has concluded that OIG is not adequately staffed to provide necessary internal audit and investigative support. Currently, OIG staff consists of the Inspector General, two auditors, one junior auditor, and one administrative assistant funded by reimbursements from specific funds. In addition, OIG has one unfilled position (senior auditor), which is currently unfunded.

The IG informed the Board that OAS management has been very supportive of her requests to increase the number of staff in her office within OAS' limited budget. OAS has approved one additional auditor position. In addition, the IG has obtained permission to abolish the unfilled senior auditor position and create two lower-graded auditor positions in its place. OIG plans to transfer contractor funds to cover the additional costs of these positions. However, the IG is not sure whether funding will be available for any of these three positions in 2006 due to severe budgetary constraints within OAS. The IG indicated that the three additional auditors would allow OIG to address important high risk areas.

The OIG's lack of resources is still a barrier that prevents it from adequately responding to OAS audit needs, issuing reports in a timely manner, and performing required follow-up. The Board understands the budgetary



limitations. However, given the importance of the work performed by OIG to ensure a sound internal control environment and the importance of obtaining timely audit results, it is essential to adequately staff OIG.

3.1 The Board recommends that the OIG's request for funds to hire additional auditors be given favorable consideration and priority.

3.2 Given the projected increase in specific funds and projects at OAS, the Board reaffirms its recommendation that GS/OAS work to include a specific provision in project agreements to ensure that OIG receives the necessary funds to perform required audits.

Training and Professional Development

The IG confirmed that all OIG staff had received sufficient training to maintain their auditing skills, especially considering the budget constraints and limited available time. In 2005, in addition to the in-house training offered to all GS/OAS staff, the IG, one senior auditor, and the junior auditor received professional audit training (two courses each). Training was scheduled for the other senior auditor, but it was cancelled due to personal reasons. However, the IG has provided on-the-job training and the training will be rescheduled for later this year.

The IG's training goal for 2006 is for OIG employees to maintain their professional certification credits, to attend systems related courses, and to attend other appropriate courses such as preparing effective and timely audit reports. However, the OIG training budget for 2006 was only \$7,900 (although this was an increase from the 2005 budget of approximately \$4,000.)

3.3 The Board reaffirms its recommendation that the OIG's budget be sufficient to obtain training that meets minimum professional requirements.

3.4 The Board recommends that the IG should develop a formal long-term training plan for all levels of auditors. This plan should be used each year to estimate the budget for training.

Professional Standards Review

The General Secretariat's Executive Order 95-05 makes reference to the need for the OIG to be periodically subject to a comprehensive evaluation or peer review conducted by independent auditors from outside OAS, who shall report on compliance in accordance with the Standards for the Professional Practice of Internal Auditing. The IG stated that as of the date of this report, no evaluation has been performed or scheduled, and no funds have been budgeted for this purpose. OIG should pursue opportunities to participate in the peer review process of another international organization in the Washington D.C. area.

3.5 The Board reaffirms its recommendation of the need for a peer review evaluation to be performed every three years in accordance with standards. The Board recommends that the IG include this item in the annual budget request and recommends that the requirement be properly funded.

Improved Cooperation

The Board was pleased to find improved cooperation between OIG and GS/OAS. The IG now regularly consults with management on high-risk issues, reviews draft policies and procedures, consults with Legal Services on investigations, and attends various OAS meetings related to business processes. The Board encourages both the IG and

GS/OAS to maintain an open and constructive working relationship.

2005 OIG Audit Work Including Status of OIG Recommendations

During 2005, OIG issued five audit reports, two reports based on investigations, and one memorandum related to a review. In addition, OIG conducted audit work on four other issues. Those reports have not been issued as final.

The completed audits covered internal control activities at four National Offices. The objectives of the audits related to the National Offices were to assess the internal controls in place related to operational activities, including cash receipts and disbursements, and verify the offices were executing responsibilities in accordance with internal policies and procedures. In addition, OIG reviewed a demining program. The purpose of the audit of the demining program was to evaluate the internal control over financial transactions and ensure that all parties had complied with the program agreements. The investigations related to maintenance expenses and allegations of improper cell phone use.

OIG issued a total of 38 recommendations (25 were considered high risk, 12 considered medium risk, and one low risk) in its 2005 audit reports. Out of these recommendations, 12 were related to building maintenance expenses, 18 were related to non-compliance with internal policies and procedures, three were related to student loan collections, and five were related to other internal control issues.

OIG reported that as of the date of this report, 25 of the recommendations were in the process of being implemented and 13 recommendations had been implemented. According to OIG, four recommendations from 2004 (two considered high risk and two considered medium risk) remained open at the time of this report. Two of these recommendations

related to system issues; one related to oversight of travel; and one related to student loans.

The following table outlines the audits and investigations performed by OIG and the recommendations for each report by risk level.

Summary of OIG Reports and Recommendations Issued in 2005

Report Number	Date	Entity	Recommendations			
			High	Med	Low	Total
AUD-01	December 2005	GS/OAS Office in Peru	3	2	1	6
AUD-02	December 2005	Action Against Antipersonnel Mines Program in Peru	1	0	0	1
AUD-03	December 2005	GS/OAS Office in Bolivia	1	4	0	5
AUD-04	December 2005	GS/OAS Office in Saint Kitts and Nevis	1	1	0	2
AUD-05	December 2005	GS/OAS Office in Bahamas and Selected Projects	3	5	0	8
INV-01	February 2005	2004 Building Maintenance and other Related Expenditures	12	0	0	12
INV-02	March 2006	Loss of Cell Phones Services by Staff Members of the Office of Conference and Meetings	4	0	0	4
Memo-19	June 2005	Unit for the Promotion of Democracy	0	0	0	0
TOTAL			25	12	1	38

The board recognizes OIG's continuing achievements despite lower resources, and encourages it to continue its ongoing audit follow-up process, so that adequate action is taken on open recommendations.

2006 OIG Work Plan

The IG presented the Board with its tentative 2006 audit work plan. Annually the IG performs a risk assessment to identify areas to audit. Because of the limited resources, the IG must prioritize the work performed. During the planning process, the IG considers recommendations made by the

Board of External Auditors; resolutions from Member states; referrals from other sources; and areas internally identified as high risk. For instance, the IG indicated that, in her opinion, the five highest risk areas for GS/OAS in 2006 are system issues (includes data integrity, system security, and flexibility of systems to meet user reporting needs); use of generic vendors; the internal control environment at the National Offices; inadequate resources for internal audits and investigations; and the ability to meet mandates on a timely basis within the budgetary constraints.

The IG also tries to audit each National Office on a cyclical basis, and will therefore choose ones that have not been reviewed in some time. This is consistent with a recommendation made by the Board in 2002. For 2006, nine of the 15 audits planned (60%) relate to National Offices.

OIG often gets special requests for audits or investigations that must be performed. Sometimes, due to limited staffing, other ongoing work will be delayed to address these special requests. For instance, in 2005, five audits were put on hold due to work on other unexpected projects. In addition, seven projects included on OIG's 2005 work plan were not begun. Five of these seven projects are included in OIG's 2006 work plan.

In order to enhance the effectiveness of the internal control evaluations performed by OIG and the procedures performed by the external financial statement auditors, OIG coordinates its activities with those of the Board and the independent financial statement auditors selected by the Board and OAS management. The Board believes that this process is generally working effectively. However, the Board did note that OIG and the external financial statement auditors should coordinate their audit plans more closely in future years.

3.6 The Board recommends that the Inspector General and the external auditors coordinate more closely during the audit of the 2006

financial statements, especially related to travel to National Offices.

The Board supports and agrees with OIG's planned audit activities for 2006. However, as discussed in Recommendation 2.2, the Board requests that OIG include an audit of FEMCIDI projects in its work plan for 2006. The Board encourages OIG to continue to focus its limited resources on areas with a high degree of risk and/or those with the highest potential for increasing efficiency, economy, and effectiveness within OAS.

