

PERMANENT COUNCIL



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ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR GENERAL
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

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



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

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

SG/OIG-58/07

October 18, 2007

Excellency:

I have the honor to submit to you the Activity Report of the Office of the Inspector General for the period January 1 through December 31, 2006.

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

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

Linda P. Fealing
Inspector General

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

Encl.



**Organización de los Estados Americanos
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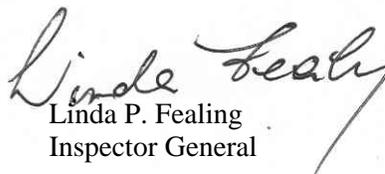
17th and Constitution Ave., NW, • Washington, D.C. 20006

October 18, 2007

Mr. President:

Pursuant to Resolution AG/RES. 1321 (XXV-O/95) and Article 119 of the General Standards I have attached for the Permanent Council's consideration the Activity Report of the Office of the Inspector General for the period January 1 to December 31, 2006.

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


Linda P. Fealing
Inspector General

His Excellency
Ambassador Rodolfo Hugo Gil
Permanent Representative of Argentina
to the Organization of American States
Chairman of the Permanent Council
Washington, D.C.

Encl.

Activity Report
Of the
Office of the Inspector General
January through December 2006

I. Audit Reports

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

The OIG issued twenty reports of thirteen audits, six investigations and one evaluation for activities completed during the year ended December 31, 2006. The reports provided seventy-four (74) recommendations to correct identified internal control weaknesses related to accountability mechanisms, organizational efficiency and effectiveness. Those recommendations were classified as 48 High Risk, 23 Medium Risk and 3 Low Risk. The recommendations addressed OIG findings that identified the need to (1) comply with GS/OAS directives, including the Budgetary and Financial Rules and Administrative Memoranda, (2) update operational manuals and distribute procedural directives, (3) take corrective action regarding Systems related issues and upgrade infrastructure to support high speed connectivity for GS/OAS Offices in the Member States, (4) manage operational processes and projects more effectively, (5) provide staff members with appropriate job descriptions and training and (6) submit selected performance contracts and agreements to the Department of Legal Services (DLS) for review and approval prior to making commitments as required by OAS directives. All reports and recommendations submitted to the Secretary General were approved.

There are no outstanding recommendations for prior years. As of the date of this report, thirty-three recommendations (45%) have been implemented. Forty-one (55%) of the seventy-four 2006 recommendations were still outstanding of which 30 were considered High Risk, 9 were Medium Risk and 2 were Low Risk. The outstanding 2006 recommendations focus on the need to (a) concentrate on Systems infrastructure, applications, security and controls (b) address staffing requirements (c) develop and amend procedural directives, (d) improve operational efficiency and controls by complying with directives for achievement of objectives and mandates. The Inspector General is satisfied that every effort is made by the General Secretariat to implement OIG recommendations within budgetary constraints. The OIG continues to monitor efforts made by the General Secretariat to address audit findings and implement recommendations.

Audit SG/OIG/AUDIT-01/06 was performed to assess the level of strategic risk that may be associated with the proposed sharing of OAS technical infrastructure and connectivity through the signed Memorandum of Understanding between Educational Portal of the Americas and a third party and evaluate the OAS relationship with that supplier. By letter dated August 9, 2006 the Chief of Staff to the Secretary General suspended the agreement with the third party thereby significantly reducing the inherent risk identified during the audit. OIG audit report concluded that there is need for an improved enterprise wide internal security architecture that includes implementation of Intrusion Detection Software and the possibility of encrypting all "sensitive data" stored in the OAS data repositories. The audit also identified the need for evaluating the skills of the personnel within the Department of Information and Technology Services (DOITS), including the Information Security

Officer, to determine whether the current level of expertise within that area is sufficient to effectively carry out the required responsibilities.

Audit SG/OIG/AUDIT-02/06 was undertaken at the request of the Director of the Department for Human Development (DHD) regarding (a) expenditures and reporting of the US\$1.7M Cooperation Fund established in 2001, (b) the creation, development and current status of the Institute for Advanced Studies for the Americas (INEAM), its legal standing and relationship with the Ibero-American Science and Technology Education Consortium (ISTEC), (c) the relationship between the OAS Educational Portal and a publicly traded corporation, and (d) the nature and extent of all commitments made by the OAS Educational Portal of the Americas. The audit covered the period January 1, 2001 through June 30, 2006. In order to ensure that the assets and interests of the Organization are protected, GS/OAS directives require review of agreements with third parties by the Department of Legal Services, prior to making commitments. One of the main weaknesses identified during the audit is that proposed agreements between the OAS Educational Portal of the Americas and third parties were not submitted to the DLS for review and approval prior to signing. The audit noted that internal controls were not satisfactory, there was lack of sufficient supporting documentation for various expenditures and in addition, travel mission reports were not submitted as required. OIG identified the need for effective management of the operational processes of the Educational Portal of the Americas and for directives for operational processes and compliance with GS/OAS rules and procedures.

Audit SG/OIG/AUDIT-03/06 was performed to review the business and financial reporting needs and evaluate data integrity within the GS/OAS computerized system (OASES). OIG conducted an assessment of access granted to OASES systems, options for enabling multi-functional functionality and disaster recovery planning preparations. OIG concluded that there is need to (a) develop job specific procedures along with the appropriate access level and functions in OASES, (b) perform systematic user access reviews on a periodic basis to ensure that user access is appropriate, (c) develop a high level financial reporting strategy and plan regarding determination of the reports to be provided to Technical Units, the Member States and Donors and (d) update Department of Budgetary and Financial Services (DBFS) accounting policy to ensure that accounting periods and fiscal years are permanently closed after the financial statements have been audited. In addition, OIG recommended a series of upgrades in procedures and automation of processes including (1) linking vendor records for employees to their profiles within the HR module, (2) automatic population of the accounting flex-field, (3) developing a mechanism to enforce the price tolerance limits within OASES purchasing module, (4) technical documentation of the OASES System Configuration, including the business processes that flow through OASES, (5) automating the Travel Expense Claim process and (6) developing and testing disaster recovery procedures. The new Director of the Department of Information and Technology Services (DOITS) provided reports to the OIG showing actions taken to address identified weaknesses regarding consolidation of servers, acquisition of SAN storage architecture, installation of a cold back up server, redefinition of OAS back up policy and existing management scripts, segregation of duties related to database servers and infrastructure personnel, as well as evaluation of the skills of DOITS personnel.

Audit SG/OIG/AUDIT-04/06 was performed at the request of the Director of the Department of Human Resources to review 2005 and 2006 claims for Education Grant submitted by twenty-one staff members to determine compliance with Staff Rule 103.13 and the related procedures established by the Department of Human Resources. OIG obtained an opinion from the Department for Legal Services regarding an apparent anomaly in the interpretation of Staff Rule 103.13, eligibility of the education grant and the intent of the Staff Rule regarding "facilitating the child's re-assimilation in the staff member's recognized home country", for children attending educational centers in the home country, while the staff member is located at a duty station outside the home country. The audit report recognized that Education Grants and related travel allowances were not always accurately recorded in

the OAS Enterprise System (OASES). The audit determined there is need to ensure that evidence is available in the respective files in support of all amounts paid to staff members. OIG recommended that (1) an appropriate tracking system should be established to monitor travel allowances and education grants (2) Staff Rule 103.13 and related Personnel Circulars should be updated (3) payments of staff members' claims are supported by appropriate evidence and (4) personnel data should be accurately recorded and systematically up-dated in OASES. Prior to issuing this report, new directives related to the application and eligibility of the education grant were issued to staff members by the Department of Human Resources.

Audit SG/OIG/AUDIT-05/06 was performed in response to the mandate stated in Document AG/doc.4611/06, to assess and evaluate the methodology used to collect contributions for Technical Supervision and Administrative Support (Indirect Cost Recovery). Specifically OIG was required to review whether the method for charging amounts for recovery of Indirect Costs is consistent and reasonable throughout the General Secretariat and to determine if there is a more cost-effective method of establishing indirect costs charged to Specific Fund projects. The audit covered the period January 1, 2004 through August 31, 2006. OIG determined that the policy for recovery of indirect costs was not applied consistently and there is need for improvement in the application of overhead charges and classification of direct and indirect costs. At the time of the audit there was an urgent need for a new policy on Indirect Cost Recovery, to establish an appropriate level of those costs. OIG recommended that written guidelines be distributed to the General Secretariat regarding the recording of overhead awards, charges and expenses and that the new policy on indirect cost recovery be applied with transparency, accountability and consistency. The Secretary General has implemented new procedures for coordinating processes related to Specific Funds, including the establishment of the Project Evaluation Committee (Executive Order 05-11 Rev. 1) and the Committee on Resource Mobilization (Executive Order 05-14 Corr. 1). In addition, Executive Order 05-15 provides that the Department of Planning, Control and Evaluation (DPCE) is responsible to coordinate the planning, control and evaluation processes of the General Secretariat and to develop and administer organized procedures for those processes. Executive Order 07-01 which outlines the new policy on indirect cost recovery was issued on May 29, 2007.

Audit SG/OIG/AUDIT-06/06 The purpose of the CARANA project activities executed by the Department of Trade, Tourism and Competitiveness (DTTC) was to provide funding for two international trade courses to increase trade capacity building for participation in FTAA negotiations. The purpose of this audit was to evaluate the adequacy of internal controls and to (1) determine if the project objectives were achieved, (2) assess if the project activities were carried out in compliance with the project agreements, and (3) determine if project expenditures were made in accordance with OAS General Standards, policies and procedures. The audit covered the period from program inception in 2003 through its conclusion in 2004. OIG found that project activities were in compliance with the project agreement and objectives were achieved. Seventy-six participants received the appropriate training and the project report indicated that program results were satisfactory and recommended similar courses in the future. However, OIG obtained no documentation regarding the funding or actual expenditures to support GS/OAS "in kind contributions" of US \$97,500, as required in the budget of the project agreement. In addition, project expenditures were not established in accordance with the OAS Budget Execution Manual that provides a framework for establishing and tracking project financial information within the project account module. OIG noted that some direct costs were charged against the Overhead/Indirect Cost Recovery Account. OIG recommended that the DTTC should develop a system to clearly identify and account for OAS "in-kind" contributions in support of its projects and develop a system that more equitably distributes its overhead charges among the various project donors.

Audit SG/OIG/AUDIT-07/06 The general purpose of this audit was to evaluate the adequacy of internal controls of project activities executed by the Foreign Trade Information System Division (SICE) of the DTTC during the period January 2005 through September 2006. OIG noted that for the past ten years, SICE has been providing information on the legal, policy and negotiations aspects of international trade through a centralized website accessible to OAS Member States, as well as the general public in the Americas and other interested countries. Over the years the website has been expanded to include trade agreements signed by the Member States and national legislation on trade policies and recent developments and trade articles. SICE also manages a secure website on trade negotiations which is accessible to government officials of the Member States. The main objective of the audit was to determine if project objectives have been achieved, assess compliance with project agreements, and determine if project expenditures were made in accordance with GS/OAS General Standards, policies and procedures. The absence of measurable goals that can be tied to the approved project budget adversely affects the ability to determine whether project objectives have been achieved. The OIG report stated that project justifications are too broad, there is no system in place to monitor project progress, and several contractors were billed based on product only, whereas their activities were a combination of services and products. Those contracts therefore appear to be time based but there is no accountability for either the time spent by some contractors who have been providing services for several years or the compensation related to those services.

In addition to noting the need for compliance with Performance Contract Rules and the terms and conditions of project agreements, the audit recommended that DTTC should (1) implement a project task structure that reflects the measurable goals of the approved budget (2) comply with directives for IT systems, specifically with regard to systems security, segregation of duties for computer access, password monitoring, IT system changes and (3) establish a remote storage to back-up SICE trade data and secure negotiation information.

Audit SG/OIG/AUDIT-08/06 The purpose of the FTAA project that is managed by the DTTC is to provide technical support on trade, study different aspects of trade relations in the Americas, ensure effective coordination with regional and sub regional organizations and strengthen trade information systems. The main objective of the audit of the Project Technical Assistance of the FTAA was to evaluate the adequacy of internal controls of the FTAA project activities. Specifically, OIG examination was designed to (1) evaluate if the project objectives were achieved, (2) assess if the activities were in compliance with the approved budget, and (3) determine if project expenditures were made in accordance with GS/OAS General Standards, policies and procedures, and OAS manuals during the period January 2005 through September 2006.

The audit determined that this project has not implemented a project task structure that reflects measurable goals tied to the OAS Approved Program Budget. Furthermore, DTTC has not implemented a monitoring system to report on project activities and progress and CPRs are billed to the OAS upon delivery of a product only, whereas their activities are primarily for services and some products. There were no recommendations in this report as findings were similar to those identified in audit report SG/OIG/AUDIT-07/06 and appropriate recommendations were provided to correct weaknesses that are common to both projects.

Audit SG/OIG/AUDIT-09/06 The Overhead for Administration and Management Account is managed by the DTTC and was established to record technical and administrative support for the activities financed from Specific Funds. The purpose of this audit was to evaluate if the account was used for the established purposes, determine if expenditures and activities during the January 2005 through September 30, 2006 that were financed with funds from that account, fit in the category of overhead or indirect costs and were disbursed in accordance with projects needs, GS/OAS General Standards, policies and procedures. As part of this audit, OIG evaluated the adequacy of internal

controls of project activities. The audit determined that there was no budget justification for use of those funds, project expenditures were not in accordance with the project agreement, and that DTTC used most of the donor funds to pay for direct expenses of the Trade Division, instead of recovery of overhead costs, as required by the General Standards and the donor agreement. The audit recommended that DTTC should (1) ensure that funds are used for the purposes approved in the donor agreement, (2) comply with Article 80 of the General Standards with regard to the use of those funds for recovery of indirect costs and (3) seek to amend project agreements with the donor or obtain written approval for a change in use of funds, if some of the funds initially programmed for recovery of overhead expenses are needed to directly support project activities.

Audit SG/OIG/AUDIT-10/06 The main purpose of this audit was to review the Performance Contract “CPR” Mechanism as mandated by AG/RES. 2257 (XXXVI-O/06), III.A.1.b.ii that reads “To request the Permanent Council to examine, through the Committee on Administrative and Budgetary Affairs (CAAP), the Inspector General’s report on CPR and make the corresponding recommendation to the Secretary General”. The audit covered the period January 1, 2004 through December 31, 2006. OIG noted that the total amounts disbursed from all funds received during 2004, 2005 and 2006 were US\$27M, US\$33M and US\$27M respectively. OIG determined that the CPR mechanism has become one of the largest expense accounts in the Regular Fund after salaries and the largest expense account paid out of Specific Funds. The audit concluded that GS/OAS extensively utilizes this mechanism to supplement its human resources. However, there is need for improved efficiency and effectiveness in the General Secretariat’s use of the CPR mechanism to ensure, not only cost effectiveness, but also transparency and accountability that will systematically drive business process change and produce results. Other weaknesses identified include (1) non compliance with related policies and procedures and (2) expenses for performance contracts are not always classified as “consultant” and were paid not only from Object 8 as intended in the approved Regular Fund Program Budget, but also from other objects of expenditure. There is need for centralization of frequently used services provided by CPRs, such as Systems and Web related tasks. OIG noted that the timeliness of the semi-annual CPR Reports submitted to the PC has improved, but the report contains “non consultants”, such as local professionals and support personnel who are considered staff members under the Staff Rules.

OIG recommended that the Department of Human Resources (DHR) develop a plan for the Secretary General’s approval towards (a) an adequately controlled and measurable use of the GS/OAS workforce and manpower (including the CPR mechanism), (b) mapping the business functions to identify and quantify the staffing needs required to perform OAS mandates, (c) identifying potential areas of duplication and realignment and (d) classifying levels of all posts for functions paid from all funds. OIG also recommended that the DHR should effectively address the issue of persons who have been providing “time based” services for several years under the performance contract mechanism and also assess whether the CPR mechanism is the best method for contracting Electoral Observers. In order to ensure completeness and accuracy of CPR reports submitted to the Permanent Council, OIG recommended revisiting the systems programs in OASES that are used for generating those reports.

Audit SG/OIG/AUDIT-11/06 The main purpose of this audit was to review and evaluate internal controls in effect over operational activities including cash receipts and disbursements in GS/OAS Antigua & Barbuda, during the period January 1, 2005 through July 31, 2006 and to verify that the Office is executing its responsibilities in accordance with directives. For the most part, OIG ascertained with reasonable assurance, that internal controls are satisfactory in that office for safeguarding assets and providing proper recording of transactions and amounts. The main weaknesses identified were the need for compliance with GS/OAS rules regarding the maintenance of the Petty Cash Fund in the authorized amount, the approval of requisitions for all performance contracts prior to the contract start date and the obligation of total funds for the contract. The audit

also recommended that efforts be made to obtain reimbursement for Fellowships related travel that was cancelled. OIG examined activities for six FEMCIDI funded projects executed in Antigua & Barbuda during the audit period (1) Antigua & Barbuda Centre for Dyslexia Awareness – Teacher Training for Specific Learning Difficulties/Dyslexia, (2) Women’s Political Participation: Training in Governance and Democracy, (3) Offshore Islands Conservation Project 2003, (4) Trade Facilitation for Selected Crop & Livestock Farmers, (5) Agriculture & Tourism Linkages and Agri-tourism and (6) Offshore Islands Conservation Project 2004. Final reports indicated that project objectives were achieved.

Audit SG/OIG/AUDIT-12/06 was performed to review and evaluate internal controls within the GS/OAS Office in Barbados during the period January 1, 2005 through July 31, 2006. For the most part, OIG ascertained with reasonable assurance that internal controls are satisfactory in the GS/OAS Barbados for safeguarding assets and providing the proper recording of transactions and amounts. The main weaknesses identified during the audit related to the need for compliance with the Performance Contract Rules, including processing requisitions and obligation of funds for the full amount of the contract prior to the signing and start date of the contract. OIG reviewed the Masters in International Trade Policy Program (MITP) financed with Specific Funds that was executed by the Department of Trade Tourism and Competitiveness (DTTC). The program was designed to train professionals in International Trade Policy and create an institutionalized capacity to address the ongoing human capacity needs in the area of international policy. OIG determined that in general, the executing Agency has complied with the terms of the Agreement. Twenty-three students were granted scholarships during the 2004 - 2006 periods and successfully completed the program.

OIG also examined reports on activities for two FEMCIDI projects executed in Barbados (1) Strengthening of the Tourism Sector through the Development of Linkages with the Agricultural Sector in the Caribbean and (2) Barbados Beach Management Plan. OIG noted that project activities were successfully completed and objectives were achieved.

Audit SG/OIG/AUDIT-13/06 was undertaken to determine whether the Secretariat of the Inter-American Children's Institute (IIN) fulfills its mandates, to review and evaluate the internal controls in effect over operational activities, and to verify that the Institute is executing its responsibilities in accordance with its statute and the OAS Directives. The audit reviewed financial transactions and operational processes including cash receipts and disbursements, during the period January 2004 through December 2006. OIG determined that, in addition to addressing the staffing requirements of the IIN in accordance with the recommendations in the approved Integrated Planning System, there is need for (a) compliance with the Regular Fund Program Budget for appointments of staff members and (b) classification of posts according to the level and responsibilities required and (c) ensure that job titles and job descriptions agree with the actual functions performed by the individuals assigned to the respective positions. The audit also determined there is need for compliance with GS/OAS directives regarding participants of the OAS Student Internship Program, disbursements from the Petty Cash Fund, accurate recording of transactions and expenditures in the appropriate object of expenditures. In addition, OIG determined that the IIN did not comply with the GS/OAS Procurement Rules regarding selective bidding procedures when contracting external suppliers. OIG also recommended that appropriate arrangements should be made for more effective use of the vacant office facilities in order to maximize the use of the OAS Building. OIG reviewed three of the projects executed by the IIN, with Specific Funds, during the audit period (1) Video Right to Education, (2) CIDA-IIN Infant Work, and (3) Videos Children’s Rights. OIG concluded that there is need for compliance with the IIN mandate to provide equitable distribution of informational products to a wider share of the hemisphere’s targeted audience and improve the dissemination of information on children’s rights. The audit report has been provided to the new Director of the IIN for implementation of recommendations.

II. Investigation Reports

Investigation SG/OIG/INV-01/06 The report of the Task Force (Document CEPCIDI/doc.727/06 dated Feb. 7, 2006) on expenditures related to the Scholarships Program concluded that during 2003 and 2005 the former Director of the Department of Fellowships granted scholarships without authorization from the Selection Committee and without prior obligation of funds. According to that report, those commitments amounted to approximately US \$2M in excess of the amounts provided in the Regular Fund Budget. The OIG investigation was undertaken to determine the reason for the “special” fellowships that were granted without complying with the established procedures, the individuals responsible for these violations of the GS/OAS directives and the amount of the obligations made in excess of the approved budget. The main findings of the investigation related to noncompliance with the GS/OAS directives, including (a) scholarships were granted by the former Director of the Scholarships Program without complying with the authorized selection process established in the Manual of Procedures for the Scholarship and Training Program (b) funds were obligated prior to making commitments and (c) files did not contain the supporting information required by the Fellowships Procedures Manual. The investigation concluded that, in general, there is need for compliance with GS/OAS directives including, General Standards, the Budgetary and Financial Rules, and the Manual of Procedures for the Scholarship and Training Program. Specifically, OIG recommended (1) improved management of the Fellowships Program, including compliance with the established procedures in the award of all scholarships (2) development and distribution of written instructions for operational processes, (3) effective supervision of staff members (4) the evaluation of the services of the major external provider, as well as effective monitoring of the agreements (5) developing, managing and maintaining the Fellowships Program database of students’ records, (6) timely recording of the annual commitments for all awards and (7) submission of appropriate proposals to the Member States for amendments to the Manual of Procedures in order to improve efficiency and ensure transparency and accountability. A new Director and a new Financial Officer were appointed in 2006. Subsequent to the approval of the audit report, amounts due to the General Secretariat were recovered, amendments to the Manual of Procedures were approved by the Member States, staffing needs have been addressed and new operational procedures have been implemented for an improved internal control environment.

Investigation SG/OIG/INV-02/06 The investigation was undertaken specifically to examine evidence regarding allegations that a local supplier provided a fraudulent GS/OAS local purchase order and fraudulent GS/OAS local check to a local company for purchase of computer equipment and office supplies. OIG examined financial transactions processed by former Staff Member EO7575 of the GS/OAS Office in Honduras for the period January 1, 2003 through October 31, 2005 and concluded that internal controls in GS/OAS Office in Honduras were less than satisfactory, including operational processes for the local internal purchase order system. OIG found no evidence that GS/OAS employees were responsible for the fraudulent purchase order and check that initiated the investigation. However, OIG determined that former Staff Member EO7575 violated several GS/OAS directives and fraudulently processed financial transactions during the period under review. In the opinion of the OIG, the absence of effective management by both the current and former directors of that office contributed to an unsatisfactory environment that resulted in several fraudulent transactions related to procurement of goods and services. Prior to finalizing the OIG report, GS/OAS recovered all funds that had been misappropriated. A new Administrative Technician has been appointed and directives have been issued to improve internal controls in the operational processes of that office, including the local internal purchase order system. The Director of GS/OAS Office in Honduras, who was assigned to that office in July 2004, has also notified the OIG of corrective action taken to improve weaknesses identified in the supervision and management of that office, the operational processes carried out in that office including procurements, bank reconciliations and local purchase orders.

Investigation SG/OIG/INV-03/06 The main objective of the investigation of the “Supporting the Development of the Neutraceutical Industry” project executed in Jamaica was to obtain sufficient evidence to determine whether disbursements made after the December 31, 2004 deadline violated the project agreement. OIG confirmed that project expenditures were disbursed after the December 31, 2004 deadline. The investigation concluded that prior to the project deadline, both the Executing Agency and the Director of the GS/OAS Office in Jamaica had notified SEDI of difficulties and delays in acquiring the project equipment that was necessary for achieving project objectives. However, SEDI did not address those concerns and did not provide effective and timely follow-up. Project reports indicate that project objectives were successfully achieved and in the opinion of the OIG, the expenditures executed after the deadline contributed to the successful achievement of the objectives and posed no risk to the Organization.

Investigation SG/OIG/INV-04/06 The main objective of the investigation of the “Let's Save the First Grade” project, executed in Honduras, was to investigate whether the transfer of funds between activities, exceeded the 50% benchmark and violated the project agreement. OIG noted that upon request from the Executing Agency, the project deadline was extended because of several complications affecting the timely execution of the project. In the final report the Executing Agency pointed out some difficulties that were experienced during the execution of the project, including changes in project coordinators, reprogramming of activities, teachers’ strike and delays in responses from Headquarters. The Executing Agency reported that funds in excess of the 50% benchmark were transferred from savings realized from other activities to Activity 3 – Documents, because of a change in strategy, in order to motivate and make the training process more efficient. The investigation concluded that those project transfers were made in excess of the 50% benchmark without SEDI approval. However, OIG noted that in April 2004 the Executing Agency had requested, through the former Director of that office, not only authorization for the extension of the project deadline but also for changing the strategy and reassignment of funds. However, although SEDI approved the extension of the project deadline, effective follow up action was not taken by SEDI to address the other issues included in the request from the Executing Agency. OIG concluded that despite those difficulties faced during the project execution, the objectives of the project were successfully achieved and this pilot project has resulted in similar projects in another Member State.

Investigation SG/OIG/INV-05/06 The regional Pedagogical Support for the Integration of Handicapped Minors up to Six Years Old with Disabilities Project was executed in Mexico. The main objective of this investigation was to determine whether expenditures were made in excess of the approved budget and whether transfer of funds between components, as well as activities carried out after the project deadline, violated the project agreement. OIG noted that although a formal request was not made for the transfer as required by the project agreement, some project expenditures exceeded the amounts approved for those activities and that amounts were transferred from savings realized from another component. OIG also noted that the transferred amounts did not exceed the 50% threshold approved for those activities. In addition, savings were realized in the execution of this project and those savings were returned to the FEMCIDI account. The final project report indicated that objectives were achieved and that the project exceeded expectations but did not disclose that activities were carried out after the established deadline. OIG noted that project activities were carried out after the established deadline because it was necessary to reschedule the project activities due to varying school breaks. In addition, those activities were carried out with local government counterpart funds.

Investigation SG/OIG/INV-06/06 The objective of the Initiative for the Development of the Technical- Pedagogical Capacity in the Management of Education and the Local Development project executed in Nicaragua was to contribute to the development of specialized technical-pedagogical abilities in the teaching process and local development through four post-graduate courses. The

purpose of the investigation was to determine whether the transfer of funds between activities, the execution of activities not programmed in the execution plan and the hiring of a staff member of the Executing Agency violated the project agreement. OIG determined that transfers between activities exceeded the 50% benchmark and were paid from savings realized from other activities. OIG concluded that although no evidence was found that the Executing Agency formally requested the transfer of those funds that exceeded the 50% benchmark, the amount transferred was not significant in relation to approved amounts. OIG also noted that the GS/OAS Office in Nicaragua authorized the request from the Executing Agency for hiring a professional for project monitoring activities that were contemplated within the framework of the Execution Plan, but the Executing Agency had failed to mention that these were new activities were not incorporated in the Execution Plan. The Executing Agency also violated the terms of the project agreement in hiring its Academic Coordinator as the Project Coordinator. The Executing Agency explained that the execution of the courses required more support to follow up on tasks than anticipated and the need for a professional to coordinate all of the courses in each city was fundamental for the success of the project. In addition, the expenditures for the hiring of this professional were met from savings realized from other activities. The final report was submitted directly to SEDI and not through the GS/OAS Nicaragua and concluded that objectives were achieved at the maximum expected output and outputs significantly exceeded expectations. OIG found no evidence that upon receipt of the final report, SEDI brought to the attention of the Executing Agency or notified the Director of the GS/OAS Nicaragua of the deviations from the FEMCIDI rules regarding the hiring of project personnel. OIG noted that SEDI took no action regarding this violation of the terms of the project agreement. In the opinion of the OIG, more effective and timely project management from Headquarters is required to address issues that may arise from project execution including deviations.

The review of SG/OIG/INV-03/06, SG/OIG/INV-04/06, SG/OIG/INV-05/06 and SG/OIG/INV-06/06 concluded that there is need for improvement in project monitoring and management by SEDI project coordinators at Headquarters, as identified in prior OIG reports. As stated earlier in this report, the Department of Planning, Control and Evaluation is now responsible to develop and administer organized procedures and it is expected that those efforts will address this weakness.

III. Evaluation Report

Evaluation SG/OIG/EVAL-01/06 OIG reviewed the operational processes and staffing needs of the Technical Secretariat of the Leo S. Rowe Pan American Fund, with particular reference to Articles 8 and 9 of its Statutes. This evaluation determined there is need to (1) appoint a Technical Secretary in accordance with Article 8 of the Statutes of the Leo S. Rowe Fund as soon as possible (2) redistribute functions in order to improve operational efficiency, taking into consideration the functions performed by the DBFS and the OAS Staff Federal Credit Union (3) make appropriate proposals for the most cost-effective method of collecting accounts in arrears and (4) draft amendments to the Statutes and Regulations governing the responsibilities of the Technical Secretariat of the Leo S. Rowe Fund and the Department of Budgetary and Financial Services for approval by the Committee. Prior to issuing this report, the Inspector General was informed by the Department of Human Resources that a Technical Secretary to the Rowe Fund has been appointed.

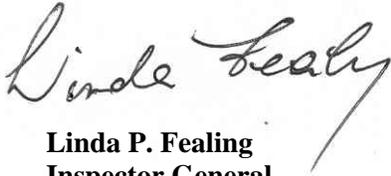
IV. Staffing

In addition to the Inspector General, the staffing of the OIG includes three P3 auditor posts, as well as one P2 Junior Auditor and two P1 Audit Trainees. The Inspector General continues to utilize performance contractors for auditing services to supplement the staffing resources provided by the Regular Fund. In addition to Regular Fund allocations, the OIG received US \$46,773 in 2006 from

the recovery of indirect costs generated by Specific Funds to meet the cost of the services of the Audit Technician.

V. Other

During 2006 OIG observed various meetings of the Permanent Council, CEPICIDI and the CAAP, as well as GS/OAS meetings including the Procurement Contract Awards Committee, Committee for Disposal of Surplus and/or Obsolete Assets (COVENT), the Publications Board Committee, the Resource Mobilization Committee, and the Project Review Committee. The Inspector General continues to meet with the Secretary General and managers of the General Secretariat, to discuss the implementation of audit recommendations, matters that may present potential risk to the Organization, as well as other operational issues related to the internal control environment, including proposals for changes to business processes, implementation of recommendations and other concerns.

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**

October 18, 2007