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ANNUAL 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**

17<sup>th</sup> and Constitution Ave., NW, • Washington, D.C. 20006

SG/OIG-96/07

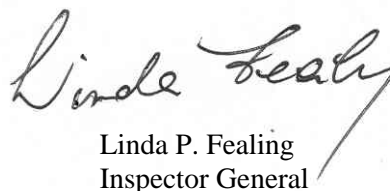
October 18, 2007

Excellency:

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

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

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

  
Linda P. Fealing  
Inspector General

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

Encl.



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October 18, 2007

Mr. President:

Pursuant to Article 119 of the General Standards and Resolution AG/RES. 1321 (XXV-O95), I have attached for the Permanent Council's consideration the Annual Report of the Office of the Inspector General for the period January 1 to December 31, 2006.

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

A handwritten signature in cursive script, reading "Linda P. Fealing".

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.

Annual Report of the Inspector General

January 1 to December 31, 2006

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## EXECUTIVE SUMMARY

The Office of the Inspector General is responsible for ensuring systematic review of internal management and accounting controls, for assisting in strengthening controls and improving the efficiency of all GS/OAS offices, departments, programs, divisions, units, activities and projects, both at Headquarters and in the Member States.

During the period January 1 to December 31, 2006, thirteen audits, six investigations and one evaluation were completed and seventy-four recommendations were issued to correct identified internal control weaknesses. The 2006 audits of operational processes carried out in dependencies at Headquarters included: Strategic Risk Assessments of the Educational Portal of the Americas and OASES Reporting and Data Integrity, as well as audits of operational processes related to the Educational Portal of the Americas, Education Grants, Recovery of Indirect Costs (Overhead) and the Performance Contract Mechanism. Operational activities and financial records of the GS/OAS Offices in Antigua and Barbuda, and Barbados and the Technical Secretariat of the Inter-American Children's Institute were also examined. During 2006 OIG reviewed expenditure and project reports of twenty projects to determine whether activities were carried out according to the terms of the signed agreements and whether objectives were achieved in a cost effective manner. Of the twenty projects reviewed, eight were funded by Specific Funds and twelve were funded by FEMCIDI.

The six investigations conducted during 2006, were related to 2005 scholarship program expenditures, fraudulent transactions processed in the GS/OAS Office in Honduras and four cases of noncompliance with FEMCIDI funded project agreements. In addition in 2006, OIG performed an evaluation of staffing needs of the Technical Secretariat of the Leo Rowe Pan American Fund. The audit activities completed in 2006 are listed in Annex 1 and Annex 2 according to technical areas eight operational and five compliance audits were performed during 2006.

All reports submitted by the Inspector General were approved by the Secretary General.

This report provides a summary of some of the more notable 2006 achievements that have resulted from the combined efforts of the OIG and the General Secretariat, including:

- The Board of External Auditors has assessed the overall internal control environment in the General Secretariat to be effective, unqualified opinions were rendered for the General Secretariat for the 2006 fiscal year and no material weaknesses or reportable conditions were reported.
- A Financial Handbook for Specific Fund Agreements, as well as new and/or amended procedural directives and policies for the Fellowships Program, recovery of Indirect Costs for project administration and oversight and financial and other operational processes, have been distributed throughout the General Secretariat.
- In addition to the design, programming and implementation of Phase 1 of the new Fellowship Management System (FMS), completed with the collaborated efforts of the Department of Information and Technology Services (DOITS), the Department of Human Development has established internal financial and administrative controls to (1) strengthen operational processes to record, substantiate and track supporting documentation for obligations and (2) monitor and validate third party administration of the Fellowships Program.

The use of the OIG hotline encouraging the reporting of financial and administrative misconduct has been effective in providing an additional mechanism for reporting allegations of

unethical behavior, misconduct of staff members or corrupt or fraudulent activities, involving financial transactions processed by GS/OAS staff and performance contractors. Matters referred to the OIG in 2006 that posed an inherent risk to the internal controls of the General Secretariat or anomalies identified in existing rules and policies were investigated for appropriate action.

The implementation rate for approved recommendations is a meaningful factor in the determination of the success of the auditing services provided by the OIG. OIG recommendations issued for 2005 and prior years have been implemented and closed. As of the date of this report, thirty-three (45%) of the seventy-four recommendations that were issued for 2006 were implemented and forty-one (55%) were still in various stages of implementation, of which thirty were considered High Risk. Five of those High Risk recommendations were Systems related and the others addressed the need for improved operational processes, new or amended directives, better internal controls, transparency and effectiveness with a view to improving accountability, proper recording and maximizing the use of OAS assets.

This report provides the Inspector General's opinion of the highest risk areas for the Secretariat for 2007. The 2007 Work Plan is included in this report and includes issues mentioned in the 2006 report of the Board of External Auditors. The OIG Work Plan is designed to focus on examination of activities with the highest degree of risk and those which promote economy, efficiency and effectiveness in GS/OAS operations.

The lack of adequate resources inhibits the ability of the OIG to adequately respond to the GS/OAS audit needs, issue reports in a timely manner and perform systematic follow-up of outstanding recommendations. For a number of years, both the Board and the Inspector General have expressed concern for OIG staffing resources and the Board has recommended that the Inspector General's request for additional resources for the OIG be given priority and favorable consideration. In compliance with the 2006 recommendations of the Board of External Auditors, the Department of Human Resources and the Inspector General have coordinated efforts to address OIG staffing needs and have completed a staffing plan for approval by the Secretary General.

The Inspector General reports directly to the Secretary General and is governed by the Articles of the General Standards for the operations of the General Secretariat, Executive Order No. 95-05 and Budgetary and Financial Rules and Procedures, as well as other OAS directives. The Inspector General has complete independence in planning audit programs and in all audit activities. The OIG enjoys full technical autonomy and the broadest possible managerial autonomy. Despite its operational independence the OIG operates as an essential component of the General Secretariat in achieving responsible administration of resources, as well as creating an atmosphere of accountability, transparency and improved performance in the execution of the OAS programs.

## **I. INTRODUCTION**

Pursuant to Article 119 of the General Standards for the operations of the General Secretariat, I hereby submit for consideration of the Permanent Council the annual report on auditing activities, completed by the Office of the Inspector General (OIG) during the calendar year ended December 31, 2006. The report makes reference to the proposals made by the Board of External Auditors and the adequacy of resources, including the level of staffing allocated to the Office of the Inspector General.

## II. GENERAL INFORMATION

### A. Mandate

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

In accordance with the Standards for the Professional Practice of Internal Auditing, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Organization's operations. The internal audit function provides an ongoing program for appraising performance, maintaining financial integrity and measuring compliance with operational regulations, policies and procedures, safeguarding of assets, economy and efficiency in the use of resources, as well as effectiveness of program and project management for achieving desired objectives. Internal audit is an essential part of comprehensive systems of accountability and assists in detecting and correcting conditions that pose unnecessary risks, identifies opportunities for improvement and helps the Organization achieve objectives, while keeping risks within tolerable limits.

Executive Order No. 95-05 issued by the Secretary General on May 8, 1995 established the Office of the Inspector General as the dependency responsible for applying internal auditing procedures and performing the related functions, and also provided the declaration of responsibility, purpose and authority with respect to internal audits and the composition of the Office of the Inspector General. The purpose of the Office of the Inspector General is to advise and assist the Secretary General and through him the Executive Secretaries, Directors and other General Secretariat supervisory staff in the proper discharge of their responsibilities by providing them with appropriate analyses, evaluations, investigations, recommendations and comments on the activities reviewed. Specifically, the Office of the Inspector General is responsible for ensuring systematic review of internal management and accounting controls, for assisting in strengthening controls and improving the efficiency of all GS/OAS offices, departments, programs, divisions, units, activities and projects, both at Headquarters and in the Member States.

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

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

The OIG reports on the adequacy and effectiveness of the system of internal controls within the General Secretariat, including the integrity of financial information, compliance with



directives for administering OAS programs, the effectiveness of program and project management according to the terms of signed agreements, efficiency and effectiveness of the OASES computerized system, security and application controls, as well as effective use and safeguarding of assets. Audit reports identify the strategic initiatives used by the OIG and recommendations are provided to correct identified weaknesses and improve accountability and performance throughout the General Secretariat. The OIG evaluates elements of internal controls against identified risks within the General Secretariat, including organizational structure, standards of business and the risk thereof in programs or operations. In accordance with the General Standards, audits are conducted with special emphasis on the proposals of the Board of External Auditors, particularly regarding the need to concentrate on High Risk areas. Recommendations are provided for promoting economy, efficiency and effectiveness in General Secretariat operations and to assist all levels of management in the prevention or detection of fraud and abuse.

The OIG provides consulting services to Department Directors and supervisors of the General Secretariat at their request or as an observer at GS/OAS meetings, on matters that may present a potential risk to the Organization, as well as those related to operational processes, emerging issues, proposed organizational restructuring and planned changes to business processes.

OIG enjoys full technical autonomy and the broadest possible managerial autonomy.

## **B. Quality of Work**

The OIG ensures the quality of its work by performing its duties in accordance with the provisions of its mandate, the rules and directives of the General Secretariat and the Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors. Internal Auditing Standards govern the independence, proficiency, objectivity and diligence of the OIG, the scope and performance of the internal auditing work and the professional care to be applied in carrying out auditing services. All professional staff members of the Office of the Inspector General are members of the Institute of Internal Auditors.

## **C. Reports and Implementation of Recommendations**

In accordance with Executive Order No. 95-05, the Inspector General submits reports of audit findings and recommendations to the Secretary General. Findings and recommendations from approved audit reports are transmitted to senior management by the Secretary General. Executive Order No. 95-05 provides that, within 30 days following the receipt of the report transmitted by the Secretary General, managers are expected to ensure that appropriate corrective action is taken or planned and provide a written report on actions regarding the recommendations made or the deficiencies reported by the Inspector General. OIG recommendations are directed at contributing to better management, more accountability, and improved transparency and are rated as High, Medium and Low Risk. High Risk recommendations are considered to have the most far-reaching consequences regarding the General Secretariat's performance and ability to effectively carry out its mandated activities. Implementation of those recommendations may require recovery of amounts due to the Organization and would result in better productivity, workflow and program effectiveness. The Inspector General is responsible for reporting to the Board of External Auditors on the issuance of all reports submitted to the Secretary General.

The implementation rate for approved recommendations is a meaningful factor in the determination of the success of the auditing services provided by the OIG. The monitoring of the actions taken in implementing recommendations is critical in determining the impact of the OIG on the General Secretariat and in measuring improvements. In order to determine the action

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

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

### **III. SUMMARY OF AUDITS CONDUCTED**

#### **1. Completed Audit Activities**

During 2006 OIG auditing activities focused on areas of highest risk that are most likely to affect OAS ability to effectively carry out its mandates, such as vulnerable risks related to operational and financial processes, the use of the CPR mechanism, recovery of indirect project related costs, project management, use of assets, OASES reporting, data integrity, systems security, information infrastructure and applications technology.

During the period January 1 to December 31, 2006, thirteen audits, six investigations and one evaluation were completed and seventy-four recommendations were issued to correct identified internal control weaknesses. The 2006 audits of operational processes carried out in dependencies at Headquarters included Strategic Risk assessments of the Educational Portal of the Americas and OASES Reporting and Data Integrity, audits of operational processes related to the Educational Portal of the Americas, Education Grants, Recovery of Indirect Costs (Overhead) and the Performance Contract Mechanism. The operational activities and financial records of the GS/OAS Offices in Antigua and Barbuda, and Barbados, as well as the Technical Secretariat of the Inter-American Children's Institute, were examined and the staffing needs of the Technical Secretariat of the Leo S. Rowe Fund were evaluated. OIG review of twenty projects included evaluations and examinations of expenditures and project reports, as well as the efficiency and effectiveness of the management of those projects, to determine whether activities were carried out according to the terms of the signed agreements and whether objectives were achieved in a cost effective manner. Of the twenty projects reviewed during 2006, eight were funded by Specific Funds and twelve were funded by FEMCIDI. OIG conducted six investigations, including alleged violations of four FEMCIDI funded project agreements. All reports submitted by the Inspector General were approved by the Secretary General

In addition to recovering funds due to the Organization, more notable 2006 achievements that have resulted from the combined efforts of the OIG and the General Secretariat may be summarized as follows:

- The Board of External Auditors has assessed the overall internal control environment in the General Secretariat to be effective.
- Unqualified opinions were rendered for the General Secretariat for the 2006 fiscal year and no material weaknesses or reportable conditions were reported.
- The Board is satisfied with the progress made by the General Secretariat and the OIG in addressing the 2005 recommendations, despite limited resources.
- Executive Order 07-01 provides a new policy for recovery of Indirect Costs for project administration and oversight.
- Appropriate guidelines that address a number of financial and other operational processes have been clarified, amended or developed and distributed throughout the General Secretariat including recovery of indirect costs, performance contracts, Special Observer Contract mechanism and eligibility for Education Grants. Procedural manuals for the Fellowships Program, as well as a Financial Handbook for Specific Fund Agreements have been distributed throughout the General Secretariat.
- In addition to the design, programming and implementation of Phase 1 of the new Fellowship Management System (FMS), completed with the collaborated efforts of the DOITS, the Department of Human Development has established internal financial and administrative controls to (1) strengthen operational processes to record, substantiate and track supporting documentation for obligations and (2) monitor and validate third party administration of the Fellowships Program.
- Guidelines for standard requirements and operational processes for project agreements to centralize requirements, improve monitoring and evaluation have been developed to ensure compliance with project agreements and the OAS overall goals and objectives.
- The use of Generic Purchase Orders has significantly decreased from \$11M and \$10M in 2004 and 2005 respectively to \$1.5M in 2006, thus considerably reducing the inherent risk in the procurement process.
- The OAS has demonstrated its commitment to promptly take corrective action for all known serious weaknesses in internal control and to ensure that individuals are held fully accountable.
- In 2006 the Secretariat for Administration and Finance considered opportunities to improve operational processes and procedures. Those efforts are designed not only to correct weaknesses identified by the OIG, but also to provide improvements to the Systems infrastructure and the OASES application, including reformulating DOITS teams, enhancing security policies, consolidating servers and creation of a “cold back up” location.
- Efforts were made by the SAF and the Office of the Assistant Secretary General for improving oversight of the GS/OAS Offices, including communication, new guidelines, and site visits.
- GS/OAS Offices in twenty Member States are successfully linked to allow on-line processing of financial activities with Headquarters.
- OIG recommendations issued for 2005 and prior years were implemented and closed. As of the date of the report the implementation rate of the 2006 recommendations was 45%.
- OIG efforts have resulted in improved relationship with the General Secretariat, resulting in a consistent and positive impact on the Organization’s overall efficiency and effectiveness.

## **2. Type of Auditing Activities**

The audit activities completed in 2006 are listed in Annex 1 and Annex 2 according to technical areas eight operational and five compliance audits were performed during 2006. Operational audits review not only records and supporting documentation, but also recommend actions which lead to more efficient operations, improvements in management and accounting controls, reduction in costs, use of OAS assets and prevention of losses. The five compliance audits evaluated the GS/OAS performance with regard to GS/OAS directives and requirements of project agreements.

OIG conducted six investigations during 2006. Those investigations were related to 2005 scholarship program expenditures, fraudulent transactions processed in the GS/OAS Office in Honduras and four cases of noncompliance with FEMCIDI funded project agreements. In addition, OIG conducted an evaluation of staffing needs of the Technical Secretariat of the Leo Rowe Pan American Fund.

Executive Order 05-08, Corr. 1 issued on April 14, 2005 outlines the General Secretariat's policy for encouraging the reporting of financial and administrative misconduct and protection from retaliation for whistleblowers, informants and witnesses. The use of the OIG hotline has been effective in providing an additional mechanism for reporting allegations of unethical behavior, misconduct of staff members or corrupt or fraudulent activities involving financial transactions processed by GS/OAS staff and performance contractors. All matters brought to the attention of the Inspector General for investigation are evaluated against known information for credibility and the impact on internal controls. Matters referred to the OIG in 2006 that posed an inherent risk to the internal controls of the General Secretariat or anomalies identified in existing rules and policies were investigated for appropriate action.

## **3. Audit Coverage**

The 2006 audit work program concentrated on proposals related to the financial and management issues identified in the 2005 audit report of the Board of External Auditors, as required by the General Standards. The 2006 auditing activities were directed towards operations with the highest degree of risk and those with the greatest potential for increasing efficiency, economy and effectiveness within the General Secretariat. The OIG planning methodology ensures that High Risk areas receive primary focus and consequently this approach allows the Inspector General to better prioritize the use of limited resources.

During 2006 OIG examined operational processes performed by six dependencies located at Headquarters. OIG also reviewed transactions and activities performed in two Member States, as well as operational processes performed by the Technical Secretariat of the Inter-American Children's Institute, one of the Specialized Organizations of the OAS. OIG activities included six investigations and an evaluation of the staffing needs of the Technical Secretariat of the Leo S. Rowe Fund. Satisfactory internal control is a requirement for effective measurement of programme delivery and achievement of results. OIG activities included review of transactions and activities of twenty projects for compliance, evaluation of project management and achievement of project objectives.

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

Senior management's full support and commitment to strong controls are key factors in providing a satisfactory and established internal control environment. GS/OAS managers need to implement proper internal control measures to ensure the success of programme activities undertaken towards the achievement of their objectives.

The Member States, the Secretary General and the Board of External Auditors rely on the OIG as an ongoing safeguard for maintaining effective internal controls. The internal audit function provides ongoing reliable information that is useful for appraising performance, maintaining financial integrity and measuring compliance with policies and procedures. The effectiveness of the internal audit function depends on managers' acceptance of their responsibility for established controls, as well as for the timely implementation of recommendations issued from the findings of audit reports. The success and usefulness of the audit function depends on the value and importance senior management places on that function and the way it is integrated into GS/OAS operational activities.

The OIG discusses audit findings and recommendations with senior program managers during the final exit interview, in an effort at explaining and obtaining agreement with the findings and arriving at consensus in the method of implementation of the recommendations, in a cost effective manner. This methodology and the distribution of the draft report for comments not only ensure the effectiveness of the OIG function but also confirm that audit findings and recommendations are communicated to senior management before submission to the Secretary General for approval. In several cases weaknesses were corrected prior to finalizing the audit report and auditees' comments and observations were taken into account in finalizing the audit reports. OIG has observed that this practice allows for greater transparency, acceptance of audit findings and timely implementation of recommendations. The Inspector General continues to maintain a professional and effective working partnership with managers of the various areas of the GS/OAS, to ensure the satisfactory and timely implementation of recommendations to correct those weaknesses that inhibit organizational efficiency and effectiveness.

## **5. Audit follow-up**

The successful implementation rate of OIG recommendations is a positive factor in determining that OIG services have had a consistent and positive impact on the Organization's overall efficiency and effectiveness. The OIG system of tracking actions on recommendations provides systematic follow-up action in compliance with the requirements of Executive Order 95-05. The Board of External Auditors relies extensively on the reports generated by that system in its annual review of the effectiveness and implementation of audit recommendations. This system also provides valuable information in planning future OIG work programs. OIG efforts have contributed significantly towards the achievement of clean audit reports from the Board of External Auditors for all dependencies of the General Secretariat for the 2005 and 2006 financial statements.

The impact of OIG activities on the General Secretariat is significant, as recommendations are directed at raising fiscal awareness among staff members, compliance with OAS directives and project agreements, recovery of amounts owed to the Organization, Systems related issues and operational processes and a heightened awareness of the need for maintaining effective internal controls. The results of the audit activities carried out by the OIG provided seventy-four recommendations for the continuous improvement of programme performance, responsible administration of resources and management accountability that are categorized as forty-eight High Risk, twenty-three Medium Risk and three Low Risk. OIG recommendations also concentrated on efficiency and effectiveness in operational processes, Systems infrastructure, applications, security and controls, compliance with GS/OAS directives and strengthening accountability and performance, as well as the need to address anomalies and provide clarification of directives, amend outdated procedures or establish new guidelines.

Despite the unique challenges and budgetary constraints that faced the General Secretariat in 2006, I am pleased to report that the OIG recommendations issued for 2005 and prior years have all been implemented and closed. As of the date of this report, thirty-three of the

seventy-four recommendations that were issued for 2006 were implemented and forty-one (55 %) were still in various stages of implementation, of which thirty were considered High Risk. Five of those High Risk recommendations that are still in process are Systems Related and the others addressed the need for improved operational processes, better internal controls, transparency and effectiveness with a view to improving accountability, proper recording and maximum use of OAS assets.

The Inspector General is pleased with the successful rate of implementation demonstrated by the GS/OAS, the timeliness in taking appropriate action to address OIG findings and the ongoing efforts of the GS/OAS to maintain open lines of communication in order to keep the Inspector General informed of processes designed to strengthen the internal control environment. The OIG greatly appreciates the continuing efforts and cooperation of the General Secretariat towards overall efficiency and effectiveness.

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

A summary of audit activities for the calendar year ended December 31, 2006 has been submitted to the Permanent Council in accordance with Article 114 of the General Standards and Executive Order No. 95-05 of May 8, 1995.

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

The OIG observes various meetings of the Permanent Council, CEPCIDI and the Committee for Administrative and Budgetary Affairs (CAAP), as well as meetings of the General Secretariat that may impact internal controls.

During 2006, the Inspector General and staff members of the OIG participated as observers in various committee meetings and working groups of the General Secretariat, including the Procurement Contract Awards Committee, the Committee for Disposal of Surplus and/or Obsolete Assets (COVENT), the Publications Board Committee, the Resource Mobilization Committee and the Project Review Committee. During 2006 several department managers consulted with the Inspector General regarding operational matters that may present potential risk to the Organization the implementation of recommendations, as well as other operational issues related to the internal control environment, including proposals for changes to business processes and review of draft operational procedures. This process has contributed strategic value for the achievement of objectives, improved internal communication and coordination and a satisfactory internal control environment within the General Secretariat. The Inspector General greatly appreciates the collaborated efforts of the Department of Legal Services in addressing matters that pose significant risk to the Organization. This proactive consulting approach successfully contributes to the OIG function as an essential continuing safeguard in assessing and maintaining an effective internal control environment.

#### **VI. WORK PLAN FOR THE YEAR 2007**

Executive Order No. 95-05 requires that audit activities are directed towards operations with the highest degree of risk that are most likely to affect the OAS ability to effectively carry out its mandated activities and/or those with the greatest potential for increasing efficiency, economy and effectiveness. OIG is also required to perform systematic and selective audits of all

operations in accordance with a long-term cyclical plan that ensures complete auditing of the General Secretariat within an appropriate time period.

The 2007 Work Plan (Annex 3) is designed to continue the OIG focus on examination of activities with the highest degree of risk and those which promote economy, efficiency and effectiveness in GS/OAS operations.

The process of linking the GS/OAS operations away from Headquarters to the OASES computerized system, to centralize and improve the operational and financial processes of the GS/OAS has not been completed as expected. Although GS/OAS Offices in twenty Member States have been successfully linked, as of July 31, 2007 fifteen entities, to whom responsibility for performing financial transactions in the Member States on behalf of the General Secretariat have been delegated, do not utilize OASES on-line processing of financial activities. In 2007 the OIG plans to continue evaluating the level of risk associated with the financial processes carried out by GS/OAS Offices in the Member States and proposes to monitor the OASES link process. The 2007 Work Plan places emphasis on the proposals of the Board of External Auditors. The Board of External Auditors supports and agrees with this approach to the planned audit activities. In the 2006 audit report, the Board of External Auditors recommended that GS/OAS ensure that each country office has a reasonable staffing level based on work load, that the staff members are adequately trained and that an appropriate methodology to monitor internal controls at those offices is established. The absence of systematic programmed site visits as planned by SAF, as well as the continuing need for training for the administrative personnel of the GS/OAS Offices in the Member States continues to cause concern to the Inspector General. OIG has been informed that the lack of sufficient resources, as well as planned changes to business processes are contributing factors that limit DBFS ability to effectively address these concerns.

Effective audit trails control the quality of the transactions, demonstrate managers' accountability for the tasks assigned and are essential to the OIG in determining the timeliness of the audit. OIG reports have addressed the need for appropriate audit trails in the OASES system and the OIG continues to emphasize the need for the Secretariat for Administration and Finance to effectively address this issue, with the goal of improving transparency and accountability in all transactions processed through the OASES system. In addition to the issues mentioned in the 2006 report of the Board of External Auditors, in the opinion of the Inspector General the areas of highest risk for the General Secretariat for 2007 include: (1) the lack of an appropriate staffing plan to determine human resource requirements that are necessary for fulfilling OAS mandates and also addresses proper classification levels and job descriptions (2) the significant use of the performance contract mechanism throughout the General Secretariat (3) Systems related issues (including the absence of integrated operational processes related to procurement of human services), (4) internal control environment of the GS/OAS Offices in the Member States, (5) inadequate training and systematic DBFS site visits to those offices, (6) need for improved project monitoring, evaluation and management and (7) inadequate or outdated policies and procedures.

The Inspector General is pleased with SAF's efforts towards a more streamlined and accountable financial and administrative management structure in order to commensurate with the Secretary General's vision of the role of the OAS as "the principal Inter-American, multilateral political organ". The establishment of the STAMP Committee is aimed at consolidating, modernizing and strengthening administrative and communication tools, in order to ensure greater efficiency, transparency and accountability in the performance of its responsibilities. SAF has informed the Inspector General of its plans, subject to funding, not only to upgrade OAS systems infrastructure and OASES applications and implementing International Public Sector Accounting Standards (IPSAS) by December 31, 2007 but also developing a new

training program for the Offices in the Member States. The OIG will continue to monitor those efforts during the transition process to ensure not only transparency and accountability but also cost effectiveness, greater efficiency, and overall benefit to the Organization. OIG intends to evaluate the General Secretariat's compliance with the methodology for results based programmes, as well as project evaluation and monitoring that has been developed and implemented for OAS programs and projects. OIG efforts will also concentrate on evaluating the sufficiency of training related to new business processes that is provided to GS/OAS staff members.

## **VII. STAFFING**

The resources available for the auditing activities of the Office of the Inspector General are provided in the Program Budget of the Regular Fund. In 2006 OIG staff positions paid by the Regular Fund consisted of the Inspector General, three (P3) auditors, one (P2) Junior Auditor and two (P1) Audit Trainees. OIG staffing resources are supplemented by performance contractors to the extent of available resources.

In 2006 the General Secretariat received Specific Fund contributions of US\$66.7M whereas expenditures and obligations amounted to US \$57.9M, representing 42% of overall 2006 expenditures. The Board of External Auditors stated in the 2006 audit report that the volume of Specific Fund projects creates significant project management issues. The OIG received US\$46,773 from Overhead Funds generated from Specific Funds to meet the cost of the services of the OIG Audit Technician. The 2006 audit report of the Board of External Auditors recommended that the GS/OAS, in conjunction with the OIG, should develop a methodology to ensure that appropriate funds are provided for audit oversight of Specific Fund contributions.

The Inspector General makes optimum use of available resources to accomplish results that add value to the service provided to the GS/OAS and the Member States. The lack of adequate resources for its strategy initiatives continues to present difficulties to the OIG in fulfilling its mandate for maintaining significant audit coverage throughout the General Secretariat, as well as review of projects administered by the GS/OAS. The lack of adequate resources inhibits the ability of the OIG to adequately respond to the GS/OAS audit needs, issue reports in a timely manner and perform systematic follow-up of outstanding recommendations.

For a number of years, both the Board and the Inspector General have expressed concern for OIG staffing resources and the Board has recommended that the Inspector General's request for additional OIG resources be given priority and favorable consideration. In its 2006 report the Board of External Auditors commented on the OIG staffing and budget, and stated that, 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 the OIG. In compliance with the 2006 recommendations of the Board of External Auditors, the Department of Human Resources and the Inspector General have coordinated efforts to address OIG staffing needs and completed a staffing plan for approval by the Secretary General.

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

In addition to its key role in enhancing skills and knowledge, continuing training empowers the OIG staff members to develop their careers with the goal of providing internal audit services of the highest quality to the OAS. All professional staff members of the Office of the Inspector General are members of the Institute of Internal Auditors. Efforts to provide training to OIG staff members are undertaken to maintain their skill levels and keep up-to-date on developing trends in the professional practice of internal auditing.



In the report of the 2006 Financial Statements, the Board of External Auditors reaffirmed its recommendations of prior years that sufficient funding be available to allow OIG staff to attend training to meet the required minimum annual continuing professional education credits. All OIG professional staff members receive training commensurate with available resources.

## **IX. INDEPENDENCE**

The Inspector General reports directly to the Secretary General and is governed by the Articles of the General Standards for the operations of the General Secretariat, Executive Order No. 95-05 and Budgetary and Financial Rules and Procedures, as well as other OAS directives.

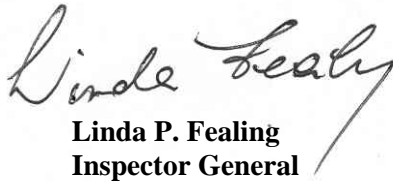
The internal audit function is a management control that operates by measuring and evaluating the effectiveness of other management controls. In order to ensure objective analysis of facts and impartiality of judgment, the OIG does not take part in operating procedures or perform day to day functions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

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

The Board of External Auditors issued unqualified “clean” opinions for the 2006 financial statements of the entities of the General Secretariat and confirmed that it is satisfied with the progress made by the General Secretariat in implementing its recommendations, despite OAS limited resources. The Board also noted that internal control serves as the first line of defense in safeguarding assets, preventing and detecting errors and stated that overall, OAS internal control environment was effective.

The Inspector General continues to address the concerns expressed by the Board and reviews those areas of concern to the extent of available resources. The Board also recognized OIG continuing achievements, despite limited resources and encouraged the OIG to continue its ongoing audit follow-up process so that adequate action is taken on open recommendations.

The 2006 report of the Board of External Auditors addressed the need for funds to address OIG staffing needs, for audit oversight of Specific Funds, Training in Continuing Education for OIG staff and for Peer Review.



**Linda P. Fealing**  
**Inspector General**

**October 18, 2007**

**Annex 1**

<b>General Secretariat of the Organization of American States</b>		
<b>No.</b>	<b>Office of the Inspector General</b>	<b>Audit Type</b>
<b>2006 AUDITS</b>		
01/06	Strategic Risk Assessment of the Educational Portal of the Americas	Operational
02/06	Internal Audit Report of the Educational Portal of the Americas	Operational
03/06	Internal Audit on OASES Reporting and Data Integrity Assessment	Operational
04/06	Internal Audit Report on Education Grant	Operational
05/06	Internal Audit Report on the GS/OAS Policy on Overhead Costs	Operational
06/06	Internal Audit Report on the CARANA Project (SG-TRD/008)	Compliance
07/06	Internal Audit Report on the OAS Executive Secretariat for Integral Development Foreign Trade Information System (SICE)	Compliance
08/06	Internal Audit Report on the FTAA (SG-TRD/002)	Compliance
09/06	Internal Audit Report on the Overhead for Administration and Management (SG-TRD/011)	Compliance
10/06	Internal Audit of the CPR Mechanism	Compliance
11/06	Internal Audit Report of the GS/OAS Office in Antigua and Barbuda	Operational
12/06	Internal Audit Report on the GS/OAS Office in Barbados	Operational
13/06	Technical Secretariat of the Inter-American Children's Institute	Operational
<b>2006 INVESTIGATIONS</b>		
01/06	2005 Expenditures Related to the Scholarship Program	
02/06	Internal Investigation of the Fraudulent Transactions Processed in the GS/OAS Office in Honduras	
03/06	Jamaica: Supporting the Development of a Neutraceutical Industry	
04/06	Honduras: Let's save the first grade	
05/06	Mexico: Pedagogical Supports for the Integration into the Regular School System of Minors up to six years old with Disabilities	
06/06	Nicaragua: Initiative for the Development of the Technical- Pedagogical Capacity in the Management of Education and the Local Development	
<b>2006 EVALUATIONS</b>		
01/06	Evaluation of Staffing Needs of the Technical Secretariat of the Leo S. Rowe Pan American Fund	

General Secretariat of the Organization of American States		
Office of the Inspector General		
2006 Audits, Investigations, and Evaluations by Technical Area		
Technical Area	Technical Area/Subject	GS/OIG/AUDIT
Chapter 2	Internal Audit Report of the GS/OAS Office in Antigua and Barbuda	11/06
	Internal Audit Report of the GS/OAS Office in Barbados	12/06
	Secretariat of the Inter-American Children's Institute	13/06
	Internal Investigation of the Fraudulent Transactions Processed in the GS/OAS Office in Honduras	Inv. 02/06
Chapter 4	Strategic Risk Assessment of the Educational Portal of the Americas	01/06
	Internal Audit Report of the Educational Portal of the Americas	02/06
	Internal Audit Report on the SG-TRD/008 CARANA Project	06/06
	Internal Audit Report on the OAS Executive Secretariat for Integral Development Foreign Trade Information System (SICE)	07/06
	Internal Audit Report on the Project Number SG-TRD/002 Technical Assistance FTAA	08/06
	Internal Audit Report on the Overhead for Administration and Management Project Number SG-TRD/011	09/06
	2005 Expenditures Related to the Scholarship Program	Inv. 01/06
	Jamaica: Supporting the Development of a Neutraceutical Industry (FEMCIDI Project)	Inv. 03/06
	Honduras: Let's save the first grade (FEMCIDI Project)	Inv. 04/06
	Mexico: Pedagogical Supports for the Integration of Handicapped Minors from 6 years to the Regular School (FEMCIDI Project)	Inv. 05/06
	Nicaragua: Initiative for the Development of the Technical- Pedagogical Capacity in the Management of Education and the Local Development (FEMCIDI Project)	Inv. 06/06
Chapter 9	Evaluation of Staffing Needs of the Leo S. Rowe Pan American Fund	Eval. 01/06
	Internal Audit on OASES Reporting and Data Integrity Assessment	03/06
	Internal Audit Report on Education Grant	04/06
	Internal Audit Report on the GS/OAS Policy on Overhead Costs	05/06
	Internal Audit of CPR Mechanism	10/06

General Secretariat of the Organization of American States		
Office of the Inspector General		
2007 Audit Work Plan		
Audit	Technical Area/Subject	Last Audit
1	Risk assessment of the Payroll, Accounts Payable, Disbursement and Procurement processes	-
2	DBFS Operational Processes	2003
3	Accountable advances	
4	Travel Expense Claims	2004
5	Inventory	
6	Petty Cash	2003
7	GS/OAS Office in Ecuador and Selected Projects	
8	GS/OAS Office in Venezuela and Selected Projects	1997
9	GS/OAS Office in Suriname and Selected Projects	2002
10	GS/OAS Office in Guyana and Selected Projects	2001
11	GS/OAS Belize and Selected Projects	2001
12	GS/OAS Guatemala and Selected Projects	2000
13	GS/OAS Nicaragua and Selected Projects	1998
14	Selected projects managed by the Department of Sustainable Development	