



**Pan American
Health
Organization**



**World Health
Organization**
REGIONAL OFFICE FOR THE **Americas**

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REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES

Introduction

1. The Office of Internal Oversight and Evaluation Services (IES) provides this annual summary report for calendar year 2015. It gives an overview of IES's work in 2015, and provides an internal oversight perspective on internal controls, risk management and related organizational governance matters in the Pan American Sanitary Bureau (PASB).
 2. Financial Regulation 12.1(d) states that the Director of PASB shall "maintain an internal oversight function reporting to the Director." On this basis, IES undertakes assurance and advisory activities so as to assist the Organization to achieve its objectives by improving the effectiveness and efficiency of institutional governance, internal controls, and operations. IES's main activities are the undertaking of risk-based internal audit assignments, the provision of ad hoc advice to the Director of PASB and to management, and the overseeing of the Organization's evaluative activities.
 3. Through assessments of relevant risks, IES establishes precise objectives for individual internal audit assignments. For each assignment, IES prepares a report addressed to the Director of PASB and copied to concerned individuals in PASB. The assignment reports include findings and recommendations intended to promote effective governance by helping management to address risks and related internal controls. Important findings and recommendations from individual internal audit assignments undertaken in 2015 are discussed in paragraphs 14 to 25 below.
 4. In cooperation with the corresponding function in the World Health Organization (WHO), IES has continued to oversee the implementation of the PAHO Evaluations Policy, and it has provided methodological advice for evaluative assignments. IES's evaluation work is discussed in paragraphs 26 to 28 below.
 5. IES also contributes to Organizational governance, risk management, and internal controls through its participation in a number of internal committees and working groups: the Enterprise Risk Management Standing Committee, the Standing Committee on Asset
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Protection and Loss Prevention, and the Integrity and Conflict Management System Committee. IES also provides the Director of PASB with ad hoc advice on emerging risks and matters of importance, including the implementation progress of the PASB Management Information System (PMIS) modernization project. Through these interventions, IES seeks to encourage knowledge-sharing and the timely identification of emerging risks in areas of institutional significance.

Management of the Office of Internal Oversight and Evaluation Services

Independence and Resources

6. Independence is essential for an effective internal oversight service. To maintain its independent character, IES's activities are purely advisory in nature. IES therefore refrains from managerial or decision-making tasks, in order to avoid conflicts of interest.

7. It is difficult to overstate the importance of the "tone at the top" of an institution in safeguarding the independence of an office of internal oversight. The Director of PASB has continued to ensure the maintenance of IES's independent role. In 2015, IES did not encounter any interference both in the scope of its work and its access to records and information.

8. To guide its work and to assist in maintaining the independent character of its activities, IES follows for internal audits the International Professional Practices Framework of the Institute of Internal Auditors, and for evaluations, the United Nations Evaluation Group's Norms for Evaluation in the UN System and related guidance.

9. In 2015, IES's personnel resources consisted of five Professional positions and three General Service positions. (One Professional position was dedicated to internal audits of the *Mais Médicos* project in Brazil, owing to that project's materiality.) IES also incurred expenditure in areas like operating supplies and travel. IES's personnel and other resources were sufficient to implement its 2015 work plan, and no aspects of IES's planned work were either curtailed or deferred for reasons of resource constraints.

Development and Implementation of the Internal Audit Work Plan

10. In consultation with the Director of PASB, the Auditor General establishes a risk-based internal audit work plan that seeks to direct IES's resources towards internal controls of key significance to the Organization's success. The work plan contains both thematic topics and assignments focused on individual PAHO/WHO Representative (PWR) Offices and Pan American Centers. The IES work plan is flexible, so as to respond to the demands of emerging risks. The Director of PASB approves the internal audit work plan and all amendments to it. Annex A summarizes the implementation of the 2015 internal audit work plan.

11. Management has continued to develop an Enterprise Risk Management (ERM) activity to identify risks to the achievement of PAHO's objectives (and related risk

mitigation mechanisms, including internal controls). Although the ERM activity has still been a work in progress in 2015, it has started to generate information that IES has incorporated into the internal audit planning process.

IES's Coordination with other Sources of Assurance

12. IES coordinates its work with PAHO's External Auditor (the Spanish Court of Audit). This coordination maximizes the efficiency and effectiveness of the overall auditing activity. It helps to avoid both gaps and duplications in audit coverage, thereby contributing to the protection of the single audit principle of the United Nations system. IES also shares its internal audit reports with the Geneva-based Office of Internal Oversight Services (IOS) of WHO. In 2015, IOS continued to rely on IES's work and did not perform internal audit assignments in the Region of the Americas.

13. IES receives guidance and advice from PAHO's Audit Committee. IES also participates in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, to identify best practices from other international organizations.

Principal Internal Audit Findings and Recommendations in 2015

14. Paragraphs 15 to 25 below summarize findings and recommendations from IES's 2015 internal audit assignments. IES also provides more general observations on internal controls in PASB in paragraphs 33 to 38 below.

Internal Audits: Thematic

15. In the **"Internal Audit of the Revolving Fund" (IES report 06/15, dated September 2015)** IES found administrative and financial internal controls over the Revolving Fund to be satisfactory. Processes and internal controls were robust, with adequate segregations of duties in the Fund's cross-Organizational activities. It was nonetheless unclear to what extent the PMIS project would meet all the administrative needs of the Fund. IES made recommendations relating to the updating of the Enterprise Risk Management register with Fund-specific risks, and the issuance of Standard Operating procedures that reflect the administrative practices of the Fund. IES also recommended that PASB introduce back-up personnel arrangements for the sole staff member who, at the time of the audit, assessed damage claims for items delivered by the Fund.

16. IES found in the **"Internal Audit of Telephone Expenditure in the PASB" (IES report 12/15, dated January 2016)** that the procedures in place for the recovery of the costs of personal telephone calls were neither effective nor efficient. Although PASB policy requires the reimbursement of personal calls, IES found no clear mechanisms at PASB Headquarters to enforce policy compliance. IES recommended that PASB follow the reimbursement process in place at WHO, where personnel are required to review and certify their telephone bills every month, and the costs of personal calls are deducted

directly from salaries. IES also found that no competitive procurement process had been conducted since the original award of contract, 10 years previously, to the main supplier of mobile telephone services at PASB Headquarters. A competitive procurement process for this service was therefore overdue.

17. PASB's country offices tended to have more rigorous reimbursement practices than IES found at Headquarters, but IES noted inconsistent approaches between offices. This was part of a more general, long-standing problem of unsystematic administrative practices at the country level. This is discussed further in paragraph 37 below.

18. In the **“Internal Audit of the In-House Processing of Medical Claims Originating at Country Offices” (IES report 08/15, dated November 2015)** IES found internal controls to be unsatisfactory. PASB has contracted a third party administrator for staff members' medical claims in the United States of America, but an in-house PASB team administers the claims for staff members in the rest of the Americas. The internal control framework in which the in-house team worked was, in IES's opinion, unfit for the purpose. Procedures were cumbersome, and often informal and undocumented. The information systems used to record transactions had limitations, including insufficient segregations of responsibilities.

19. IES also found limited assurance against fraud or error in the transactions, as a consequence of workload pressure and the complexity of the processes. No medical claim case had ever been referred to the Ethics Office for investigation into possible fraud. The workload pressure on staff appeared to IES to be excessive: an entrenched dependence over many years on very high levels of overtime suggested an imbalance of resources and workload, and raised questions of sustainability.

20. IES raised recommendations to address the issues it found. These built on earlier recommendations from IES report number 09/13, “Review of the AMRO Health Insurance Scheme” (dated February 2014), which included a recommendation to assess the appropriateness of third-party administration of these transactions, to bring them in line with the manner in which staff members' medical claims in the United States are administered. IES also referred to the Ethics Office for investigation a matter uncovered during the audit.

21. As mentioned in paragraph 8 of this report, IES conducts internal audit activity in accordance with the International Professional Practices Framework of the Institute of Internal Auditors. In order to conform to these professional standards, internal audit functions are required to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. They are also required to undergo a periodic assessment by a qualified, independent assessor from outside the Organization. The external assessment results in an opinion on the extent of IES's conformity with professional requirements. To prepare for an external assessment planned for late 2016, IES undertook in 2015 an internal review of its compliance with professional standards, reported in the **“Preliminary Review of the Quality Assurance and Improvement Program of the PASB's Internal Audit Function” (IES report**

10/15, dated December 2015). IES identified six areas for improvement in its procedures and documentation prior to the 2016 assessment. All the recommendations in this report were addressed to IES itself.

Internal Audits: PAHO/WHO Representative Offices and Pan American Centers

22. In 2015, in addition to four internal audits of the *Mais Médicos* project in Brazil (as discussed in paragraph 25 below), IES undertook five internal audits at PWR Offices and Pan American Centers, with the principal objective of reviewing the internal controls that mitigated administrative and financial risks. The locations audited were the PWR Offices in Colombia, Guatemala, Nicaragua and Uruguay, and the Pan American Foot-and-Mouth Disease Center (PANAFTOSA) in Brazil.

23. IES found the results of all the PWR Office and Pan American Center internal audits to be satisfactory or partially satisfactory, except for Uruguay, for which IES considered the operation of internal controls to be borderline unsatisfactory. PASB Headquarters management responded quickly to the findings of the audit at Uruguay: the Director of Administration rapidly followed up the internal audit with an on-site visit to the office in Montevideo, to address measures to enhance internal controls. At the Office of the PWR Nicaragua, IES found strong internal controls. In the context of continuing inconsistencies in administrative routines between country offices (as discussed below in paragraph 37), IES suggested to PASB Headquarters management that Nicaragua's internal controls over Letters of Agreement and other matters demonstrated a rigorous approach from which the other country offices as a whole might learn.

24. In the country office audit reports, IES's recommendations focused on recurring themes, including policy compliance for Letters of Agreement; segregations of responsibilities between personnel for administrative tasks; information technology security; the rigor of documentation for events like training courses and seminars; and internal controls over inventory and transactions in the Expanded Textbook and Instructional Materials Program (PALTEX). Some of the findings of country office internal audits had implications for management at PASB Headquarters in Washington, D.C., in cases for which Organization-wide solutions to internal control weaknesses were required.

25. Four internal audits covered the *Mais Médicos* project in Brazil, covering Program Support Costs; procurement; a database that controls the logistics of participants in the project; and travel expenditure. In all these assignments, IES found internal controls to be satisfactory. Of particular significance has been the development of the database of the Cuban medical personnel who participate in the project. Together with the related Invoice Verification System, the database provides strong logistical controls over the project and its flow of funds. Owing to the materiality and complexity of the project, and the consequent need for adequate internal oversight, IES plans to continue to perform *Mais Médicos*-specific internal audits for the duration of the project.

Evaluations

26. In 2015, IES provided advice and guidance to PASB management on evaluative methodology, to encourage compliance with the PAHO Evaluations Policy. IES also updated the register of planned, ongoing and completed evaluation assignments. IES has continued to collaborate with WHO's evaluation function, to promote a systematic and harmonized approach to evaluative work. IES has distributed and promoted the WHO's Evaluation Practice Handbook in PASB, in its digital and hard copy formats; at the time of this writing, the Handbook is available only in English. To assist Spanish-speaking personnel from PASB's country offices, IES prepared a Spanish-language webinar, available through PASB's intranet, to present the key guidelines of the Evaluation Practice Handbook. In 2015, IES also facilitated PASB aspects of the WHO Presence in Countries evaluation, for which Mexico was one of eight countries worldwide selected for in-depth case studies.

27. The undertaking of evaluation assignments in PASB has tended to be driven by external funding partners. For this reason, the geographical and thematic distributions of evaluative work have tended to be uneven across PASB. IES has advised PASB management to enhance the internal planning of evaluation assignments, in order to address areas of pressing programmatic importance, thereby to complement both the evaluations arising from externally-funded projects and the internal monitoring that is part of the periodic Results-based Management and Performance Monitoring and Assessment activities. (The results of Enterprise Risk Management activities are another good source to assist in prioritizing topics for evaluation.) IES has provided proposals to this effect, to encourage an evaluation work plan that proactively reflects the concerns of management as well as those of stakeholders, thereby fully to realize the use of evaluation findings to assess performance and to assist institutional learning and decision-making.

28. IES participates in the United Nations Evaluation Group, and it shall participate in the Global Network on Evaluation once the latter is reactivated by WHO.

Other Areas of Activity

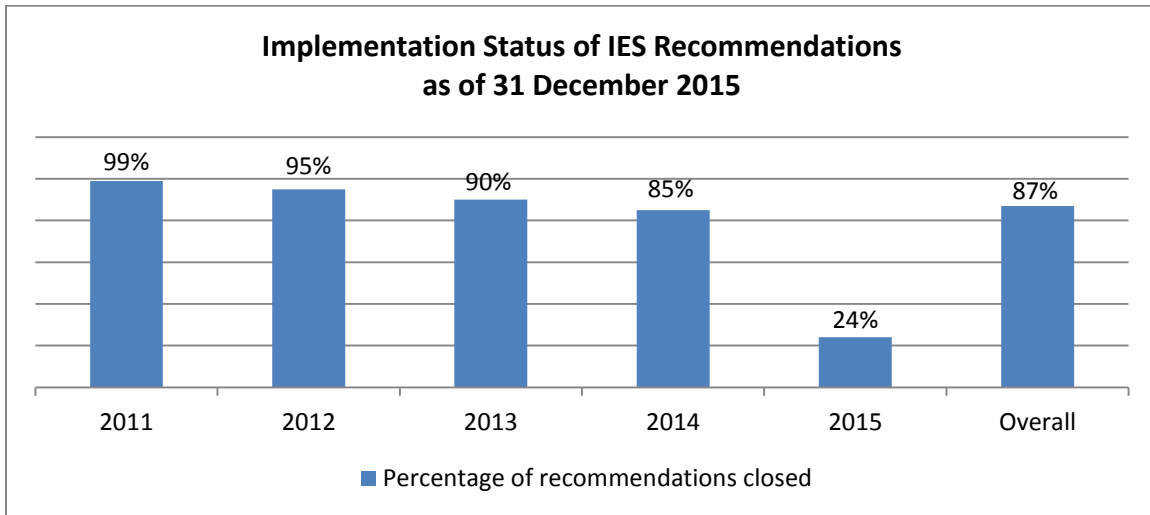
29. IES did not undertake any investigations in 2015. Investigative activities continued to be performed by PASB's Ethics Office.

The Implementation Status of IES's Recommendations

30. In 2015, the Director of PASB accepted all the internal audit reports and recommendations issued by IES. Following the Director of PASB's acceptance of individual internal audit reports (usually within two months of their issuance), IES monitors the implementation status of the recommendations included in the reports.

31. In monitoring the implementation status of internal audit recommendations, IES pays particular attention to the time distribution of the pending recommendations, with a

focus on the longer-pending issues. The following graph shows the implementation rates for all the years from which recommendations remained pending as of 31 December 2015. The oldest pending recommendations dated from 2011. The overall implementation rate of 87% was comparable to rates in other international organizations. (The low implementation rate for the 2015 recommendations reflected the usual time lags between the issuance of internal audit reports, their acceptance by the Director of PASB, and their subsequent follow-up.)



32. In 2015, as in previous years, the Director of PASB chaired a meeting to discuss with department directors and heads of offices the status of pending IES recommendations in their areas of work. These meetings were a catalyst for the resolution of many recommendations, and they illustrated the way in which the “tone at the top” of the Organization encouraged management to address IES’s recommendations. The oldest pending recommendations addressed some of the most stubborn challenges facing PASB—these included the need for a rigorous project management framework; clarifications to the policies for Letters of Agreement; the inadequacy of analyses of travel expenditure; the preservation of institutional memory through the use of networked repositories to store the Organization’s information; and administrative challenges at the Latin American and Caribbean Center on Health Sciences Information (BIREME) in Brazil. Some of these matters may be addressed in 2016 by the improved information flows expected to accrue from the PMIS project.

IES’s Overall Opinion on the PASB’s Internal Control Environment

33. Internal controls are procedures and mechanisms that manage risk and thereby increase the likelihood of the achievement of an Organization’s objectives. Internal controls cover a wide variety of risk-mitigating measures, from the physical custody of assets to the use of handover notes to capture the institutional memory of separating personnel. The justification for every internal control is the risk (or risks) to institutional objectives addressed by the internal control. The overall internal control environment

places individual internal controls within the Organization's overall operating style: it covers operating policies and practices, and the assignment of responsibility and accountability to personnel.

34. Based on the findings of its internal audits and its other internal oversight activities in 2015 (and in previous years), and taking into account the findings of other sources of assurance, IES's overall opinion is that PASB's internal control environment continues to provide reasonable assurance for the safeguarding of assets; the accuracy and timely recording of transactions; and the mitigation of risks to the achievement of the Organization's objectives.

35. A large-scale information systems development like the PMIS modernization project entails implementation risks, but it also offers a major opportunity to enhance the efficiency and effectiveness of PASB's internal control environment. At the time of this writing, it is too early to assess the impact of PMIS on internal controls. However, PMIS is expected to result in a significant improvement in internal controls by embedding controls into automated processes and by improving information flows, thereby reducing risks in the execution of administrative and financial transactions.

36. Under the "three lines of defense" concept of institutional governance theory, management is responsible for the system of internal control. The first line of defense is provided by the day-to-day, risk-mitigating operations and internal controls that management has set in place. The second line comprises managerial review activities, including Enterprise Risk Management and the monitoring of compliance with regulations, rules and policies. The third line of defense, which operates behind management's first and second lines, is the assurance provided by internal auditors (and others). PMIS should provide better information and clearer audit trails, thereby ameliorating all three lines of defense.

37. Absolute assurance on the internal control environment is, of course, impossible, owing to inherent limitations for most internal controls. Some internal controls may be rendered temporarily inadequate, owing to factors like error, intentional overriding, and evolutions in the risks that the internal controls address. A current inhibiting factor on the improvement of internal controls at the country office level is the outdated Manual for Country Office Operations, whose most recent revision took place in 2007. In the near-decade since the Manual was last reviewed, the evolution of administrative practices, the introduction of International Public Sector Accounting Standards and the PMIS project have all introduced new working practices. IES's internal audits have found inconsistencies in administrative practices at the country office level, as individual country offices have introduced local practices in the absence of clear guidance from PASB Headquarters. PASB management has indicated to IES that it is considering a replacement of the outdated Manual by new Standard Operating Procedures. This initiative will be a significant step in encouraging a greater consistency in Organization-wide administrative practices.

38. To further strengthen PASB's internal control environment, the linking of risks to Organizational objectives and to risk-mitigating internal controls needs to be clearer. Management is currently working on a more clearly-defined Internal Control Framework and, in parallel, a more focused Enterprise Risk Management process that prioritizes key risks and their mitigating measures. In this way, the connections between the Organization's objectives, risks, and risk-mitigating internal controls are becoming gradually clearer.

Annexes

Annex A**Implementation of the 2015 Internal Audit Work Plan**

	Thematic Internal Audits	Date and Reference Number of IES Report
1.	Internal Audit of the Revolving Fund	September 2015, 06/15
2.	Internal Audit of Telephone Expenditure in the PASB	January 2016, 12/15
3.	Internal Audit of the In-House Processing of Medical Claims Originating at Country Offices	November 2015, 08/15
4.	Preliminary Review of the Quality Assurance and Improvement Program of the PASB's Internal Audit Function	December 2015, 10/15
	Country-Specific Internal Audits	
5.	Pan American Foot-and-Mouth Disease Center (PANAFTOSA), Brazil	March 2016, 13/15
6.	PWR Barbados and the Eastern Caribbean Countries (ECC)	Postponed to 2016 owing to the impact of Tropical Storm Erika
7.	PWR Colombia	May 2015, 03/15
8.	PWR Guatemala	April 2015, 01/15
9.	PWR Nicaragua	November 2015, 07/15
10.	PWR Uruguay	August 2015, 04/15
11.	Internal Audit of Program Support Costs in the <i>Mais Médicos</i> project	May 2015, 02/15
12.	Internal Audit of Procurement in the <i>Mais Médicos</i> project	September 2015, 05/15
13.	Internal Audit of the COLPADI Database in the <i>Mais Médicos</i> project	November 2015, 09/15
14.	Internal Audit of Travel Expenditure in the <i>Mais Médicos</i> project	February 2016, 11/15

ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES

1. Agenda item: 5.7 - Report of the Office of Internal Oversight and Evaluation Services

2. Responsible unit: Internal Oversight and Evaluation Services (IES)

3. Preparing officer: David O'Regan, Auditor General

4. Link between Agenda item and [Health Agenda for the Americas 2008-2017](#):

There is no explicit link, but IES's activities touch on the general institutional mechanisms that underpin PASB's role in contributing to the Health Agenda.

5. Link between Agenda item and the [PAHO Strategic Plan 2014-2019](#):

This document links principally to Category 6, *Corporate Services/Enabling Functions* and in particular to:

6.2, *Transparency, Accountability, and Risk Management* ("PAHO operates in an accountable and transparent manner and has well-functioning risk management and evaluation frameworks.")

6.3, *Strategic Planning, Resource Coordination, and Reporting* ("Financing and resource allocation aligned with priorities and health needs of the Member States in a Results-based Management framework.")

6.4, *Management and Administration* ("Effective management and administration across the three levels of the Organization.")

6. List of collaborating centers and national institutions linked to this Agenda item:

None.

7. Best practices in this area and examples from countries within the Region of the Americas:

None.

8. Financial implications of this Agenda item:

IES's recommendations address issues of risk mitigation, and organizational efficiency and effectiveness, and many have financial implications.