



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES

Introduction and Scope of Work

1. The Office of Internal Oversight and Evaluation Services (IES) provides this summary annual report of its work for calendar year 2010.
2. Financial Regulation 12.1(d) states that the Director of the Pan American Sanitary Bureau (PASB) shall “maintain an internal audit function which is responsible for the review, evaluation, and monitoring of the adequacy and effectiveness of the Organization’s overall systems of internal control. For this purpose, all systems, processes, operations, functions, and activities within the Organization shall be subject to such review, evaluation, and monitoring.”
3. IES undertakes independent and objective assurance and advisory activities, which are designed to improve and add value to the Organization’s operations. Through a systematic, risk-based approach, IES assists the Organization to achieve its objectives by auditing and evaluating the effectiveness and efficiency of organizational governance, internal controls, operations, and processes.
4. IES’ main activity is to conduct internal audit and evaluation assignments; to this end, precise objectives have been established through an assessment of the relevant risks. Upon concluding an oversight assignment, IES prepares a detailed report which is submitted to the Director of PASB, with copies distributed to concerned individuals in the Secretariat. Assignment reports to management include findings and recommendations to address risks, maintain or enhance internal controls, and encourage effective governance. This report highlights important findings and recommendations from oversight assignments carried out in 2010. Annex A lists IES assignments in 2010.

5. In addition to undertaking internal audit and evaluation assignments, IES also provides ad-hoc advice to management on emerging risks and issues; it also participates in several internal committees in an advisory capacity.

Management of the Office of Internal Oversight and Evaluation Services

Independence and Resources

6. IES' independent status within the Organization is essential for the Office to be able to deliver an objective and impartial oversight service. IES, therefore, avoids any involvement in managerial decision-making, and only provides advice and issues recommendations. In 2010, IES did not encounter any impediments to maintaining its independent role in organizational and governance structures, nor any obstacles or restrictions to the scope of its work or to its access to records and information in the performance of its duties. To guide its work and to assist in maintaining the independent character of its activities, IES follows the International Professional Practices Framework of the Institute of Internal Auditors (IIA) for conducting internal audits, and the United Nations Evaluation Group's "Norms for Evaluation in the UN System" (29 April 2005) for carrying out evaluations.

7. Given the fact that IES has only recently been established within the Secretariat, the Office has emphasized to the Organization the importance of its independent function. IES has pursued this independence in the contents of its reports, in its contributions at management meetings, and by developing an IES intranet site that provides information on its activities. The newly-established Audit Committee, which first met in 2010, has reinforced PAHO's governance structures and IES' independent role.

8. At the end of 2010, IES had seven staff members, six of which were fixed-term posts. This staffing level has been adequate for IES to undertake its annual Work Plan. Although recruitment in IES in 2010 was intense, one fixed-term post (the P4 Internal Auditor post) remained vacant at the end of 2010. IES has found recruitment for this post to be difficult, owing to a low level of suitable applications. The post has been re-advertised, and IES expects to fill it in the first semester of 2011. In the meantime, the use of short-term staff members and consultants has ensured the continuity of the Office's oversight.

9. In addition to staffing costs, IES incurs expenditures in areas such as travel and minor operating supplies. In 2010, IES' funding was sufficient to cover necessary work expenses, and no aspect of IES's work was either curtailed or deferred for funding reasons.

Development and Implementation of the IES Work Plan

10. The Auditor General, in consultation with the Director of PASB, has established a level of annual oversight assignments that balances an adequate level of internal oversight (given PAHO's size and complexity) with a reasonable level of resources. Annually, IES plans to conduct ten internal audit assignments (four of which have a thematic focus, and six of which focus on individual Country Offices and Centers) and two large-scale evaluations, to be supplemented by three or four smaller scale, evaluative reviews of limited scope. These smaller scale reviews offer IES a way to provide a rapid evaluative response to emerging risks and issues.

11. The Secretariat follows some risk-management practices, but currently these tend to be fragmented, without any formal or systematic process to handle organizational risk management. IES has championed the establishment of organizational-wide (or enterprise-wide) risk management. In the meantime, IES has developed its Work Plans based on its own risk assessments of topics for potential audit and evaluation. IES follows the IIA's definition of risk as "the possibility of an event occurring that will have an impact on the achievement of objectives," and that "risk is measured in terms of impact and likelihood." To supplement its risk-based planning, IES consults with PASB management, the external auditor, and the oversight function of the World Health Organization (WHO). The Director of PASB comments on and approves the IES' Work Plan.

12. The IES Work Plan is flexible, capable of evolving to meet the demands of emerging risks. Annex A shows the implementation status of the 2010 IES Work Plan. IES completed and reported on all its planned assignments for 2010, except for an internal audit of the Latin American and Caribbean Center on Health Sciences Information (BIREME), which has been postponed until 2011.

IES' Advisory Role and Coordination with other Sources of Assurance

13. IES also contributes to organizational governance, risk management, and internal controls by providing ad-hoc advice to management and participating in several committees. For example, IES sits in PAHO's Integrity and Conflict Management System (ICMS) committee and the Asset Protection and Loss Prevention (APLP) committee as an observer. IES also has agreed with management that it will participate in the Contracts Review Committee in 2011 as an observer. Through these activities, IES provides forward-looking recommendations related to risk, thereby contributing to areas of institutional importance on a timely basis.

14. IES has continued to cooperate with the external auditor and with WHO's Geneva-based Office of Internal Oversight (IOS) to maximize the efficiency and

effectiveness of all sources of assurance in PAHO, and to avoid duplication of assurance efforts. IES shares its Work Plans with IOS and with the external auditor and it provides copies of all its internal audit reports to the external auditor. On request, IES also has provided overview information on its 2010 structure and staffing to the United Nation's Joint Inspection Unit.

Principal Internal Audit and Evaluation Findings and Recommendations in 2010

Internal Audits–Thematic

Internal Audit of Knowledge Transfer, the Separation of Personnel, and the Safeguarding of PAHO's Institutional Memory

15. This audit's main objective was to assess the adequacy of internal controls for safeguarding institutional memory upon the separation of personnel from PAHO. IES found that existing internal controls were only partially effective. IES recommended that management extend the requirement for "End of Service Reports" from professional staff members to all personnel categories who work at PAHO for more than six months. It also suggested that the contents of these reports be more detailed to encourage a more complete transmission of knowledge between separating and new personnel. IES also encouraged management to implement additional, formal mechanisms for capturing institutional memory. IES found that the risks of losing institutional memory were intensified by the age structure of the Secretariat's workforce. A significant number of fixed-term staff was scheduled to retire in the coming three years—as of August 2010, 23% of all fixed-term, professional grade staff members were set to retire in that time frame, a number that reached 65% and 50% for grades P6 and D1, respectively. This situation has implications that go beyond the loss of institutional memory, potentially affecting expenditures in such areas as post-retirement benefits; and it may significantly burden PAHO's recruitment capabilities.

Value-added Review of the PASB's Travel Arrangements

16. This assignment's main objective was to identify and assess the challenges presented by the practices and costs of the PASB's current travel arrangements. IES found that the Organization faced significant risks from fundamental weaknesses in its travel arrangements. Particularly, IES determined that PAHO's travel arrangements were handled almost exclusively manually and needed to be upgraded to a modern electronic workflow process to increase their efficiency and effectiveness. IES also found that the Secretariat's travel policies were fragmented and out of step with standard practices in the United Nations Common System, in areas like the use of lump sum options and in the application of the Daily Subsistence Allowance (DSA). Moreover, IES found weaknesses in management's oversight of travel expenditure. This led to an over-reliance on (largely

uncorroborated) financial information provided by the contracted, on-site travel agency, rather than using internally generated financial information. Best practices in other international organizations showed a greater level of fixed-term staffing resources allocated to the travel function than PAHO had in place. Having reviewed travel arrangements in the Secretariat in 2010, IES planned to undertake a complementary internal audit of the planning aspects of travel in 2011.

Review of Risk Management in the PASB

17. The main objectives of this internal audit were to assess the PASB's risk management and recommend an appropriate way forward for implementing a system to carry it out in a manner consistent with existing governance and managerial structures. As part of this exercise, IES also reviewed and learned from best practices in other international organizations. The Office found that, despite repeated recommendations from PAHO's external auditor since 2004, the Secretariat had yet to begin to develop a formal, holistic organizational (or enterprise) risk management process. The Secretariat's isolated and fragmented risk management activities currently in use offer no Organization-wide risk-management assurance. Consequently, IES recommended that management begin to identify, track, and address important risk exposures, and to issue regular reports to Executive Management. The process should be institutionalized by capturing the required information in the regular Biennial Work Program planning. IES also recommended that PAHO consider following, in broad terms, the risk management framework already developed by the WHO's General Management Cluster, while tailoring it to accommodate some of PAHO's specific activities (including PAHO's procurement activity). IES emphasized that the development of a risk management process should not be perceived as merely (or mainly) intended to comply with external audit recommendations. A formal risk management process offers inherent benefits that sufficiently justify its development and practice.

Internal Audit of Voluntary Contributions in PAHO

18. The main objectives of this assignment were to review the efficiency and effectiveness of internal controls that mitigate the risks of voluntary contributions, the operational challenges involved in the receipt of voluntary contributions and the implementation of related activities, and the resource mobilization initiatives currently in place in the Secretariat. IES found that the position of voluntary contributions in the incremental funding patterns of PAHO's integrated budget give rise to sensitive economic and behavioral considerations. Of particular concern is the difficulty in deploying voluntary-contribution funding for which external partners' priorities carry conditions and earmarked preferences. This challenge has wide Organizational implications in areas such as the Results Based Management process and the internal

control framework. Although IES found that the Secretariat had notably succeeded in mobilizing voluntary contributions, the Office recommended that management should continue to strengthen its resource mobilization strategy and should improve and deepen its activities in relation to its external partner portfolio. IES also found weaknesses in PAHO's project management framework; a need to revise the outdated policy for program support costs; and an often inefficient, disjointed, and prone-to-delay handling of voluntary contributions agreements. IES's recommendations addressed all these issues.

Internal Audits — Country Offices and Centers

PAHO/WHO Venezuela Country Office

19. This assignment assessed the robustness of the basic internal controls that mitigate risks in the areas of administration and finance. The external auditor had found problems in these areas in June 2009, and specifically requested IES to undertake a follow-up internal audit in early 2010. IES found that, despite improvements since the external audit, internal controls remained unsatisfactory. This Country Office experienced a large turnover in administrators, with six administrators holding the post between 2004 and 2009. IES issued more than 50 recommendations to improve reporting to management, ranging from local procurement to the completeness and accuracy of customs documentation. Most of these recommendations were of modest significance individually, but when considered as a whole, they addressed what IES considered to be a serious overall level of risk. The Country Office's management responded quickly to address the recommendations, and regional-level management has stepped up its supervision of this Country Office. IES plans to conduct a second on-site follow-up audit in 2011, to assess progress in improving internal controls.

PAHO/WHO Jamaica Country Office

20. The objectives of this internal audit were to assess the effectiveness of internal controls in administration and finance. IES found that, overall, the operation of internal controls was satisfactory. However, IES identified several areas for that needed improvement, particularly in regard to disbursement processes and the supporting documentation for payments.

PAHO/WHO Brazil Country Office

21. This assignment's objectives were to review and assess the efficiency and effectiveness of internal controls that mitigate financial and administrative risks, to test compliance with organizational policies, and to follow up on recommendations made by the external auditor. The volume and materiality of this Country Office's activities give rise to inherent risks to PAHO as a whole, and IES found that regional-level management had justifiably been paying close attention to this Office in 2010. Overall, IES found internal controls to be satisfactory, but also found areas that needed management's attention. In particular, IES found that the security of information systems required improvement, that the implementation of prior external audit recommendations had been too slow, and that standard organizational practices for procurement and the engagement of consultants had not always been followed for activities relating to Letters of Agreement. IES also drew attention to the importance of rigorous cut-off procedures for accounting transactions at the financial year-end (of particular importance owing to the implementation of International Public Sector Accounting Standards in 2010).

Institute of Nutrition of Central America and Panama (INCAP)

22. Under the transitional agreement for INCAP's administrative independence from PAHO, IES is providing the Institute with internal auditing services for 2010 and 2011. The 2010 internal audit assessed the efficiency and effectiveness of internal controls that mitigate financial, administrative, and information systems risks; assessed the implementation of recommendations made previously by IES and the external auditors; and considered the most appropriate ways for establishing an internal auditing service for INCAP in the longer term. IES found that the standards of internal control for accounting, procurement, and general administration were generally satisfactory, but also found weaknesses in the area of information security. IES issued recommendations to address the risks of loss of information from the current financial information system and to fill gaps in the terms of reference for the contract for INCAP's planned new Enterprise Resource Planning system. IES also recommended that INCAP solicit quotes from local providers of outsourced internal auditing services, in order to secure the center's internal auditing function after IES' support ends.

The Latin American and Caribbean Center on Health Sciences (BIREME)

23. Given changes in BIREME's senior management in 2010, IES agreed with management to defer this internal audit to 2011.

Caribbean Epidemiology Center (CAREC)

24. This assignment reviewed the Center's financial and administrative internal controls. IES found that, overall, internal controls were operating satisfactorily. However, it also found a discrepancy of more than US\$ 100,000 between regional and local CAREC records for the balance of the CAREC Provident Fund—the two sets of information had not been reconciled for several years. This matter was resolved before the end of 2010.

Evaluations

Evaluation of the Regional Program Budget Policy (RPBP)

25. The main objective of this assignment was to evaluate the implementation of the RPBP, which had been approved by the 45th Directing Council of PAHO through Resolution CD45.R6 (2004). IES assessed the RPBP's architecture; achievements, problems, and constraints in its management; lessons learned from its implementation; and the necessity to update its defining criteria. IES found that the development and implementation of the RPBP had been a significant achievement for the Secretariat and the Member States, in that the RPBP had provided a transparent, systematic, and consistent methodology for allocating PAHO's biennial regular budgets between regional activities, subregional activities, and Country Offices. IES confirmed that the RPBP had been implemented correctly. IES also considered that the RPBP's great strength—its rigid formula—was to some degree a source of weakness. The RPBP locked PAHO into an allocation methodology that left little room for marginal, incremental funding decisions. IES recommended that the qualitative aspects of the RPBP be enhanced, such as by increasing the “country variable allocation” (CVA) beyond its level of 2% of the regular budget. Other IES recommendations included a reconsideration of the “core” minimum budget thresholds for country allocations, and a further consideration of alternative population smoothers in the needs-based index of the country allocations. IES also proposed that as Member States and the Secretariat review and elaborate the future RPBP they consider extending the current RPBP methodology through the 2012–2013 biennium. Management immediately implemented the latter recommendation.

Evaluation of the Incorporation of Cross-Cutting Priorities (CCPs) in the Biennial Work Plans of the PASB

26. This assignment sought to evaluate the effectiveness of the implementation of CCPs in the PASB's Biennial Work Plans to date, review the reasons for low incorporation rates in specific Biennial Work Plans, and recommend ways to improve the rate of incorporation of CCPs in the future. IES found that the CCPs (gender, ethnicity,

human rights, health promotion, primary health care, and social protection in health) represented the core ethical principles of the Organization and that they needed to be considered in all programs and activities. However, the incorporation of the CCPs into Biennial Work Plans had been weak, owing to inconsistent interpretations of the CCPs in the Secretariat; widespread comprehension and communication problems in relation to the Results-based Management (RBM) process, a lack of training in CCP and RBM concepts, and a certain degree of institutional inertia in terms of changing older ways of planning. IES also found that the Operational Planning Manual that underpinned this activity needed improvement, and that although a much-needed Spanish-language version of the manual had been prepared, it had been neither publicized nor disseminated.

Limited Scope Evaluative Reviews

Lessons Learned from the 2008–2009 Results-based Management (RBM) Process

27. IES found that personnel in the Secretariat generally recognized and responded to the importance of RBM, but that the way in which RBM had been implemented was problematic. Specific areas of concern were a lack of clarity in terms of RBM-related instructions and resources; inadequate training in RBM; unreasonably short deadlines for RBM information collection exercises and reporting; the use of unrealistic performance measurements; and the cumbersome nature and poor “user-friendliness” of the AMPES–OMIS system which recorded RBM information. As the implementation had been largely a heuristic, “learning-by-doing” exercise, IES stressed that it was important for the Organization to learn from its experiences on a timely basis.

Information and Knowledge Sharing (IKS) Strategy

28. IES coordinated activities related to the updating of the IKS strategy, approved originally by PAHO’s Executive Management in 2005. The strategy’s updating took into account new developments in the field of knowledge management, as well as organizational changes since 2005. IES worked with the area of Knowledge Management and Communications (KMC) on this assignment, establishing several internal working groups to ensure a region-wide participation of personnel in the exercise. The working groups made many suggestions for the updating of the strategy.

PAHO’s Tobacco Control Strategy and Program

29. IES reviewed the challenges and opportunities facing PAHO’s Tobacco Control team in strengthening the capacity of Member States to implement the provisions and guidelines of the WHO Framework Convention on Tobacco Control. IES shared its findings with the Tobacco Control Team, which included the following key findings: a funding reliance on voluntary contributions with a consequent need to avoid an undue

focus on external partner-driven priorities, and the importance of a greater degree of collaboration with other entities in the Secretariat.

PAHO Observatory of Human Resources for Health

30. The concept of Human Resources Observatories promoted by PAHO in the Americas has been innovative and dynamic. Observatories are inter-programmatic committees established by Ministries of Health and formed by government agencies and academic and other institutions. Owing to their success, other WHO regions have recently adopted PAHO's approach. IES evaluated this activity and found that a reliance on time-sensitive (and sometimes earmarked) voluntary contributions generated difficulties for the sustainability of the projects. IES also noted that each Member State was free to organize its Observatory of Human Resources for Health as it wished, leading to very different organizations and patterns of collaboration. While this diversity might have been justified in the initial phases, IES recommended that PAHO should intensify its efforts to identify a set of common criteria to define the observatories of the Americas. IES also found that more needed to be done in (and for) PAHO's priority countries.

Other areas of activity

31. IES did not undertake any investigations in 2010.

Follow-Up of the Implementation Status of IES Recommendations

32. In 2010, IES established a mechanism for following up its recommendations on a quarterly basis, and reports to the Director each quarter. For follow-up purposes, IES created a database of oversight recommendations that took as its starting point 1 January 2006, before the establishment of IES. This starting point was chosen because in the 2004–2005 biennium most of the results of the pre-IES internal audit function were reported as part of the framework of WHO's oversight office. Beginning in 2006, pre-IES internal audits were brought in-house. However, prior to the establishment of IES, PAHO's oversight activity was undertaken by one person who mainly focused on applying a standard set of audit tests to Country Offices and Centers, with minimal thematic or regional emphasis. Therefore, the recommendations that derive from the period before the establishment of IES were based on a very restricted scope of oversight work.

33. Given that IES was created only recently and that the preceding oversight function's work was very limited in scope, IES considers that it is probably too early to produce and analyze truly meaningful statistics of the implementation rates of its recommendations. (In 2010, however, IES found that the overall cumulative implementation rates were along the order of 80%, which is in line with implementation rates in other United Nations system organizations.) As a way to move forward, IES

intends to use the follow-up mechanism as a platform to prioritize important and long-pending recommendations for management's attention. IES has adopted an Audit Committee suggestion to stratify its recommendations into levels of priority, and this stratified approach shall facilitate the identification of the most significant recommendations.

IES' Overall Opinion of the Internal Control Environment

34. The IIA has defined an internal control as “any action taken...to manage risk and increase the likelihood that established objectives and goals will be achieved.” This deliberately broad definition covers risk mitigating actions as varied as the use of authorizing signatures to approve travel expense claims, the password control of access to information systems, the physical security of the Organization's premises, and the use of “End of Service Reports” to capture the institutional memory of separating personnel. The IIA has stated that the internal control environment “provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements—integrity and ethical values; management's philosophy and operating style; organizational structure; assignment of authority and responsibility; human resource policies and practices; competence of personnel” (glossary to the IIA's International Professional Practice Framework, October 2010).

35. Based on the findings of its oversight activities, IES' overall opinion is that PAHO's internal control environment is adequate. However, PAHO's internal control environment needs to be improved in order to raise it to a more satisfactory level of rigor and transparency. In particular, internal controls need to be less manual in nature, and should be embedded to a greater extent into information systems' processes. Management also should consolidate internal control procedures into readily accessible documents, primarily the PAHO/WHO E-manual, to eliminate their current fragmentation between sometimes contradictory sources (including Directives and General Information Bulletins, in addition to activities “legitimized” by customary, unwritten practices). In IES' view, the development of an organizational risk management process is also of fundamental importance for the strengthening of the Organization's internal control and accountability framework. The justification for every internal control should be the risk (or risks) that the internal control addresses. In the absence of an articulated organizational risk culture, the purported purposes of internal controls are inevitably less transparent and less effective.

Annexes

IMPLEMENTATION OF THE IES WORK PLAN, 2010

Thematic Internal Audits		Month/reference number of IES report
1	Internal audit of knowledge transfer, the separation of personnel, and the safeguarding of PAHO's institutional memory	December 2010, No. 07/10
2	Value-added review of travel arrangements in PASB	August 2010, No. 04/10
3	Review of enterprise risk management in PASB	July 2010, No. 03/10
4	Internal audit of voluntary contributions in PAHO	February 2011, No. 12/10
Country Office and Centers Internal Audits		
5	Venezuela Country Office	March 2010, No. 01/10
6	Jamaica Country Office	December 2010, No. 09/10
7	Brazil Country Office	December 2010, No. 08/10
8	Institute of Nutrition of Central America and Panama (INCAP)	September 2010, No. 06/10
9	Latin American and Caribbean Center on Health Sciences Information (BIREME)	(Assignment taken forward to 2011)
10	Caribbean Epidemiology Center (CAREC)	June 2010, No. 02/10
Evaluations		
11	Evaluation of PAHO's Regional Program Budget Policy	September 2010, No. 05/10
12	Evaluation of the Incorporation of Cross-Cutting Priorities in the Biennial Work Plans of PASB	January 2011, No. 11/10
Limited scope evaluative reviews		
13	Lessons Learned from the 2008–2009 Results-based Management Process	March 2010
14	Information and Knowledge Sharing Strategy	August 2010
15	PAHO's Tobacco Control Strategy and Program	October 2010
16	Observatory of Human Resources for Health	November 2010

Note: the limited scope evaluative reviews do not have formal assignment numbers: they are generally reported in memorandum format, to facilitate the timeliness of completion of this category of rapid, smaller-scale assignment.



PAN AMERICAN HEALTH ORGANIZATION
Pan American Sanitary Bureau, Regional Office of the
WORLD HEALTH ORGANIZATION

CE148/19 (Eng.)
Annex B

ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES

- 1. Agenda item:** 5.2 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, Office of Internal Oversight and Evaluation Services (IES).
- 4. List of collaborating centers and national institutions linked to this Agenda item:**

None.
- 5. Link between Agenda item and Health Agenda for the Americas 2008-2017:**

There is no direct link, but IES addresses PAHO's general institutional mechanisms for addressing the Health Agenda.
- 6. Link between Agenda item and Strategic Plan 2008-2012:**

Strategic Objective 15, Region-wide Expected Result 15.1: "Effective leadership and direction of the Organization exercised through the enhancement of governance, and the coherence, accountability, and synergy of PAHO/WHO work to fulfill its mandate in advancing the global, regional, subregional, and national health agendas."
- 7. Best practices in this area and examples from countries within the Region of the Americas:**

None.
- 8. Financial implications of this Agenda item:**

Many of IES' recommendations address issues of organizational efficiency and effectiveness, some of which may have financial implications.