



Pan American
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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 2016. It provides an overview of the work undertaken by IES in 2016 and it gives an internal oversight perspective on internal controls, risk management, and related 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.” IES performs the role of internal oversight function, undertaking independent and objective assurance and advisory activities that are designed to assist the Organization in achieving its objectives, by improving and adding value to the effectiveness and efficiency of institutional governance, risk management, and internal controls. Using a risk-based approach, IES’s main activities are the undertaking of internal audit assignments, the provision of ad hoc advice to the Director of PASB and to management, and advisory services for evaluation assignments.
 3. IES establishes precise objectives, through an assessment of the relevant risks, for individual internal audit assignments. For each assignment, IES prepares a report addressed to the Director of PASB and copied to appropriate personnel in PASB. The reports contain recommendations to assist management in addressing risks and to maintain or enhance internal controls. Important findings and recommendations from individual internal audit assignments in 2016 are discussed in paragraphs 12 to 29 below.
 4. IES also seeks to contribute to the Organization’s governance, risk management, and internal controls through its participation in a number of internal committees and working groups. For example, IES has advised management on specific matters through the Asset Protection and Loss Prevention Committee, the Property Survey Board, and the Integrity and Conflict Management System Committee. IES also directly provides the Director of PASB with ad hoc advice on emerging risks and related matters, including the progress of the PASB Management Information System (PMIS) modernization project.
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Through these activities, IES seeks to contribute to areas of institutional significance by providing forward-looking advice, and by encouraging knowledge sharing and the identification of emerging risks.

Management of the Office of Internal Oversight and Evaluation Services

Independence and Resources

5. IES's activities are advisory in nature, in order to safeguard IES's independence. IES therefore refrains from making decisions on the management of PASB, in order to avoid conflicts of interest with its advisory role. In the performance of its duties in 2016 IES did not encounter any interference with its independence, nor did it meet any obstacles in terms of the scope of its work and its access to records and information.

6. 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 (IIA), and for evaluations, the United Nations Evaluation Group's *Norms for Evaluation in the UN System*, and related guidance.

7. In 2016, IES's personnel resources consisted of five professional and two General Service positions. The professional positions included an internal auditor hired specifically for assignments related to the *Mais Médicos* project in Brazil. IES also incurred expenditure in areas like travel and operating supplies. IES's personnel and other resources were sufficient to implement its 2016 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

8. In consultation with the Director of PASB, the Auditor General establishes a risk-based internal audit work plan that seeks to balance an appropriate level of annual auditing activity (given PASB's size and complexity) with an appropriate level of resources. The Director of PASB approves the internal audit work plan and all amendments to it. The work plan is intentionally flexible, so that it can respond to emerging risks. In 2016 IES undertook 11 internal audit assignments, three of which had a thematic focus, four were focused on individual PAHO/WHO Representative (PWR) Offices, and four covered the *Mais Médicos* project. Annex A summarizes the 2016 internal audit work plan.

9. Management has continued to develop an Enterprise Risk Management (ERM) process to identify risks to the achievement of PAHO's objectives (and related risk mitigation mechanisms, including internal controls). IES uses ERM findings to guide its work, alongside its own assessments of risk.

IES's Coordination with other Sources of Assurance

10. IES coordinates its activities with PAHO's External Auditor (the Spanish Court of Audit) and with the Geneva-based Office of Internal Oversight Services (IOS) of WHO. This coordination maximizes the efficiency and effectiveness of all sources of audit in PASB and avoids both duplications and gaps in audit coverage, thereby contributing to the protection of the Single Audit Principle of the United Nations system. In 2016, the WHO's IOS continued to rely on IES's work and did not perform internal audit assignments in the Region of the Americas.

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

Principal Internal Oversight Findings and Recommendations in 2016

12. Paragraphs 13 to 29 below summarize findings and recommendations from IES's internal audit assignments in 2016. IES also provides more general observations on internal controls in PASB in paragraphs 41 to 45 below.

Internal Audits: Thematic

13. In the "**Internal Audit of Budgetary Processes in PASB(IES report 11/16)**", IES found internal controls to be unsatisfactory, mainly as a consequence of information systems issues.

14. The integrated budget approach in place from the 2016-2017 biennium detaches the program and budget from its sources of funding, thereby allowing greater flexibility of budgetary use. This flexibility is welcome, but it is important that flexibility of this nature be guided by clear guidance and communicated adequately to staff members.

15. The information systems used to support budgetary processes were problematic in the period under review. In 2014-2015, the AMPES/OMIS system was used, and there were recurring issues with inaccurate information. In 2016 the implementation of the PMIS project led to errors in budgetary balances in the Workday system. In particular, negative balances on Workday cost centers at the output level were not in compliance with Financial Rule 104.7(a), regarding commitments for which funds are not available, and IES found no evidence of either automated or manual controls over these risks.

16. The implementation of the Tidemark budget system envisioned in the PMIS project failed, at a cost in vendor payments of at least US\$ 576,000 (plus an unquantified cost of staff members' time).¹ An in-house system (the Strategic Plan Monitoring System) shall replace Tidemark, at least temporarily. As with all separate information

¹ Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

systems, this will require rigorous reconciliation procedures with the information in Workday. A symptom of the problems with budgetary information arising from the PMIS implementation has been the extensive use of spreadsheets by departments and offices across PASB, as de facto internal control mechanisms for cost center budgets. The use of spreadsheets in this manner gives rise to inherent risks for the consistency of budgetary analysis across PASB.

17. Other matters covered in the report included the ongoing embedding of Enterprise Risk Management into the budgetary process, at the levels of both the department of Planning and Budget and PASB as a whole, and the revenue recognition criteria for the release of funding for voluntary contribution grants.

18. In the **“Review of the Use of Social Media in PASB” (IES report 10/16)**, IES recommended the development of a strategy guiding the approach to social media use. A social media strategy should steer the actions of personnel involved in public information and communication activities, and it should also determine approaches to (and limitations to) personal social media account use when individuals convey comments on the Organization.

19. IES also found, below the level of strategy, that there were no formal policies and procedures specific to the use of social media in PASB, in terms of both institutional and personal use. PASB management had prepared, but not issued, social media guidelines, waiting instead for the publication of a draft WHO policy on the subject. While the WHO policy might serve as the foundation of a PASB policy, IES recommended the prompt publication of PASB’s social media guidelines, as well as the development of a regional social media policy, pending the finalization of the WHO policy. The absence of policies and guidelines for the use of social media increases risks in this area.

20. IES also recommended a reduction in the number of PASB’s social media accounts, to avoid fragmentation and duplication of their content. PASB management agreed to implement the recommendations in this report.

21. In the **“Internal Audit of the Administration of the Health and Wellbeing Unit” (IES report 06/16)**, IES found that the Health and Wellbeing Unit’s procedures and internal controls were unsatisfactory. At the date of the audit, the periodic medical examinations of more than 90 staff members were at least six months overdue, with some examinations overdue by six years. This indicated serious deficiencies in the unit’s administration of PASB’s policy of compulsory periodic examinations for its staff members. Another area of concern was weak internal controls over the condition of medicines under the unit’s custody. At the time of the audit, the unit was storing Tamiflu capsules which had expired six years previously, with an original cost of at least \$200,000. IES also found no evidence of procedures for checking the condition of the medical equipment under the custody of the unit: IES noted cardiopulmonary resuscitation equipment that had been damaged. The unit had also failed to document the health concerns of personnel arising from their consultations with the unit, and had not documented details of medicines it had provided to personnel.

22. The extent and gravity of the problems—the aging of the unperformed medical examinations and the expired medicines; the poor condition of the cardiopulmonary resuscitation equipment; and the lack of record-keeping of consultation with personnel—suggested chronic maladministration within the unit, as well as a wider institutional neglect of the unit’s activities. From 1999 to 2014, PASB had not undertaken a competitive sourcing of the expertise needed to administer the unit, maintaining one individual in situ for a period of 15 years through various contracting mechanisms without competition. Competition in the hiring of staff members and in the contracting of services is a fundamental administrative principle, set out in Staff Regulation 4.3 and Financial Rule 112.17. PASB management did undertake a competitive sourcing of expertise in 2014, and undertook another competitive recruitment exercise in 2016.

23. IES recommended that the unit introduce procedures and internal controls to ensure that all staff members’ periodic medical examinations are undertaken on a timely basis; to maintain records of the quantity, quality, and use of medicines and medical equipment in the unit’s custody; and to document consultations with personnel (and medicines provided to personnel). Management had started to take action to address the recommendations before the end of 2016.

Internal Audits: PAHO/WHO Representative (PWR) Offices

24. In 2016, IES undertook eight internal audits at country offices, with the principal objectives of reviewing the internal controls that mitigated administrative and financial risks, and of following up findings and recommendations from past audits. The offices audited by IES in 2016 were those in Bahamas, Barbados (that also covers the Eastern Caribbean countries), Brazil, Colombia, and Suriname. Four internal audits in Brazil focused on the *Mais Médicos* project, and are discussed in paragraphs 27 to 29 below.

25. IES found that the operation of internal controls in three of the audited country offices was unsatisfactory – in Bahamas, Colombia and Suriname. In the cases of Bahamas and Suriname, PASB management had specifically requested that IES undertake internal audits at these offices, as headquarters management had concerns about local administrative matters. IES’s role in these audits was therefore less in detecting poor administrative practices, and more in assessing the extent of the problems already identified by management. In both the Bahamas and Suriname offices, management used IES’s findings to address administrative weaknesses and to introduce corrective actions in 2016. Although management had identified the problems in these two country offices, and had brought these problems to IES’s attention, the detection of the problems through the Organization’s regular reporting and monitoring processes appeared to have taken a rather long time. IES has therefore recommended that PASB management improve the “second line of defense” of internal control and risk management for all country offices, so as to encourage a more timely detection of potential problems. The “second line of defense” is discussed in more detail below, in paragraph 42, in the context of IES’s overall opinion on PASB’s internal control environment.

26. The internal audit at the Colombia office found that the operation of internal controls had suffered owing to a surge starting in the 2014-2015 biennium in activities funded by National Voluntary Contributions. The scale and tight execution deadlines of these activities had stretched the capacity of the office. The administrative problems arising from this surge of activity had been exacerbated in early 2016 by the implementation of the PASB Management Information System (PMIS), which had added to administrative interruptions and delays. PWR Colombia management already took steps to address these challenges in 2016 and IES agreed with the Director of PASB to perform a follow-up internal audit at this office in 2017. Looking beyond this specific country office, IES advised headquarters management to ensure that the Enterprise Risk Management process capture the administrative risks arising from National Voluntary Contributions across PASB.

27. In four assignments in 2016, IES audited the *Mais Médicos* project in Brazil. The topics covered were the field supervision of Cuban medical personnel; the accuracy of the database of medical personnel; the administration of the project in Brazil's indigenous districts; and the administration of the healthcare arrangements of the project's medical personnel. Overall, IES found internal controls over the project to be satisfactory. In particular, the accuracy of the database of medical personnel provided a reliable basis for the operational and financial information required by the project.

28. In terms of field supervision, IES found that the administrative and logistical needs of more than 11,000 geographically-dispersed Cuban doctors were overseen by a small team of 27 field supervisors. The latter were employed on International PAHO Consultant contracts. The ratio of field supervisors to doctors, along with the complexity of the project, sometimes put significant pressure on the supervisors. Some supervisors at times felt compelled by circumstances to act on their own initiative and, in IES's view, they frequently went far beyond the call of duty to address urgent matters, both to ensure the smooth running of the project and to assist Cuban doctors in need. For example, some of PASB's field supervisors accommodated Cuban doctors, at their own expense, for several weeks or months in their private residences in cases of illness or distress. PASB's *Mais Médicos* Technical Unit was aware of these problems, and had intervened frequently with the Brazilian counterparts on a case-by-case basis to support the work of the field supervisors. However, so that PASB did not over-rely on the goodwill and self-sacrifices of its field supervisors, IES recommended that PASB might provide additional administrative support to its field supervisors to mitigate some of the pressures.

29. Local and headquarters management was actively addressing all of IES's recommendations relating to *Mais Médicos* raised in the 2016 internal audit reports.

Evaluations

30. IES's evaluative activity in 2016 has focused on the implementation of the PAHO Evaluations Policy. Under the policy, IES records, monitors, and provides advisory services for evaluation assignments undertaken across PASB. IES assists management in planning and performing evaluative assignments that comply with the "Norms and

Standards for Evaluation” of the United Nations Evaluation Group (UNEG), and encourages the use of the findings of evaluations to assist institutional learning and decision-making.

31. PASB’s approach to evaluations continues to undergo a cultural transformation. The thematic and geographical distribution of evaluation assignments has tended to be rather uneven in recent years. Many evaluations are commissioned by external funding partners to analyze the performance and outcomes of activities funded by voluntary contribution grants. As a consequence, the undertaking of evaluations has tended to follow grant-giving patterns. In the case of evaluations internally commissioned by management, such assignments have sometimes been perceived as potentially punitive in nature—for example, as a prelude to the closure or retrenchment of an area of activity. To overcome this legacy and to promote evaluative work as an opportunity for organizational learning, requires a profound cultural change. This change in culture has already started. An innovation has been the identification of topics for internally-commissioned evaluations based on the findings of PASB’s semi-annual Performance Monitoring and Assessment (PMA) meetings, at which the implementation status of biennial work plans is discussed. In 2016 the Director of PASB gave the go-ahead for evaluations to be undertaken in several areas, on the basis of the PMA findings: immunization, human resources for health, and the impact of PAHO’s work on legal reforms.

32. IES has developed a register of planned, ongoing, and completed evaluation assignments, and a database of evaluation reports, with abstracts of individual evaluation reports that are shared with staff members via the PASB intranet (along with UNEG-compliant methodological guidance). IES has also created an Evaluation Interest Group in PASB, to encourage a collaborative approach to the transformation of the evaluation culture. IES plans to build on these developments by creating a consolidated reference source for lessons learned from PASB’s evaluations, thereby providing enhanced information flows from evaluative assignments to encourage institutional learning.

33. A significant evaluative activity currently in progress relates to the *Mais Médicos* project in Brazil. There has been significant, high-quality monitoring of project-related indicators, and extensive academic research into the project. IES continues to advise management on how best to develop a UNEG-compliant meta-evaluation of this information, so as to evaluate the contribution of the *Mais Médicos* project to the universality and quality of healthcare in Brazil.

34. IES has continued to collaborate on evaluation-related matters with its peers in WHO’s Evaluation Office. IES provides a participant to WHO’s Global Network on Evaluation and, in 2016 IES facilitated the PASB contribution to the early planning stages of the evaluation of the WHO’s contribution to achieving the Millennium Development Goals.

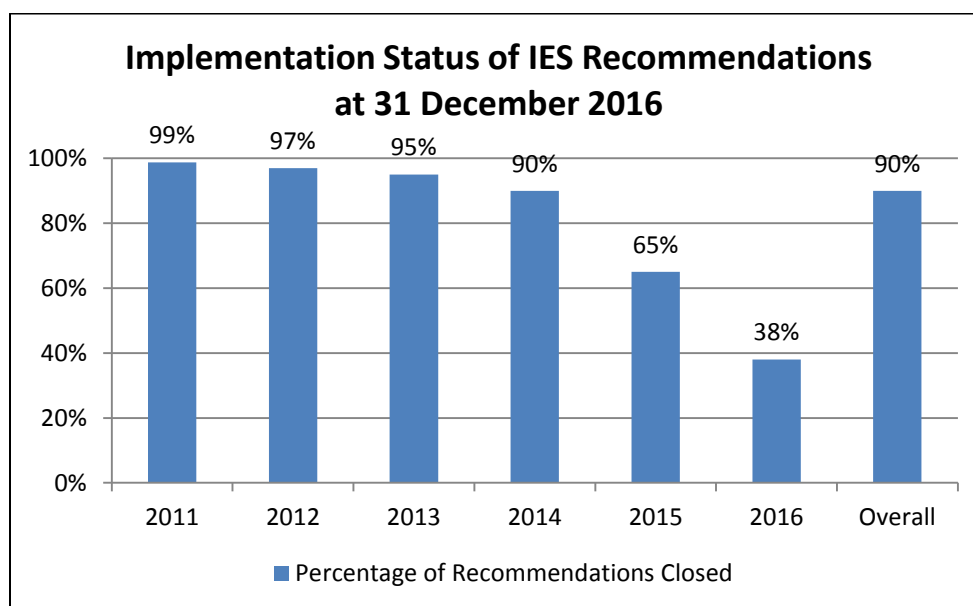
Other Areas of Activity

35. IES did not undertake any investigations in 2016. Investigative activities continued to be performed by PASB's Ethics Office.

The Implementation Status of IES's Recommendations

36. Three times annually, IES follows up with PASB management the implementation status of the recommendations published in internal audit reports. The objective of the follow-up exercise is to support management in improving risk-mitigating internal controls. IES's recommendations are included in the formal follow-up process only after the Director of PASB has accepted the individual internal audit reports that contain the recommendations. The acceptance of a report by the Director of PASB usually takes place two months following the report's issuance. In 2016 the Director of PASB accepted all the internal audit reports issued by IES.

37. In the follow-up process, IES pays special attention to the time distribution of pending recommendations, with a focus on the longer-pending issues. IES also takes into account the gravity of the problems that underpin the recommendations, and classifies some of the recommendations as requiring priority attention from management. The following graph shows the implementation rates for all the years from which recommendations remained pending at 31 December 2016. The relatively low implementation rate for the 2016 recommendations reflects the time lag between the issuance of internal audit reports, their acceptance by the Director of PASB, and their subsequent follow-up.



38. In 2016 the Director of PASB continued her practice of chairing an annual meeting to discuss with Executive Management and departmental Directors the status of pending IES recommendations in their areas of work. These meetings have always stimulated the resolution of many recommendations, and they reflect the tone at the top of the Organization that seriously considers the IES recommendations.

39. At the country level, recurring issues covered by the pending recommendations include the need for annual procurement planning and the completeness of documentation for local procurement transactions; the administration of fixed assets; the administration of and accountability for training and capacity-building events; policy non-compliance for Letters of Agreement; and the overall consistency of documentation for accounting transactions.

40. Two pending, priority recommendations date from 2011, relating to the need for a rigorous project management framework for voluntary contributions, and to sufficient managerial information on Organization-wide travel expenditure. PASB management had made progress with the first of these recommendations by the end of 2016, and the second recommendation should be resolved by enhanced information arising from the PMIS project.

IES's Overall Opinion of PASB's Internal Control Environment

41. Internal controls are the procedures and activities that mitigate risks and increase the likelihood of the achievement of the Organization's objectives, and they cover a wide variety of risk-mitigating measures. Examples of internal controls include the secure custody of Organizational physical assets and the safeguarding of institutional memory through the transmission of knowledge from separating to replacement personnel. The rationale for every internal control is the risk (or risks) to institutional objectives that the internal control purports to address. The overall internal control framework situates individual internal controls within the Organization's overall operating style; its operating policies and practices; and its assignment of authority and accountability to personnel.

42. The concept of "three lines of defense" is commonly used in current institutional governance theory in terms of the protection of the achievement of Organizational objectives. The first and second "lines of defense" are provided by management: the first line consists of day-to-day, risk-mitigating internal control activities, and the second is based on managerial review and monitoring activities. The "third line of defense", which operates behind management's defenses, is the assurance provided by internal auditors and other external sources (such as external auditors).

43. IES had observed a gradual improvement in PASB's first and second "lines of defense" in recent years; but in IES's view, in 2016 there was a deterioration in both these areas. Teething problems with the implementation of the PMIS modernization project disrupted internal controls in 2016, notably in terms of budgetary processes (as discussed in paragraphs 13 to 17 above), and the clarity of general procedures. In the medium to longer terms, the PMIS project is expected to enhance the automation of

internal controls and to improve the efficiency and effectiveness of information flows in PASB. However, in the first year of its implementation the expected benefits were not fully realized, with a resulting reduction in the effectiveness of some internal controls. The deterioration of the internal control environment in 2016 therefore appears to be a temporary consequence of a transitional period until the enhancements of PMIS become established.

44. Notwithstanding the problems arising from the PMIS implementation, IES's overall opinion is that PASB's internal control environment continued in 2016 to provide reasonable assurance over the accuracy and timely recording of transactions, assets, and liabilities; the mitigation of risks to the achievement of the Organization's objectives; and the safeguarding of assets.

45. As in previous years, IES continues to advise management that, 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. The development of a more clearly-defined Internal Control Framework and, in parallel, a more comprehensive ERM process that prioritizes key risks and their mitigating measures, would define more clearly the connections between the Organization's objectives, risks, and risk-mitigating internal controls.

Annexes

Annex A**INTERNAL AUDIT WORK PLAN, 2016**

Thematic Internal Audits	Reference Number of IES Report
Internal Audit of Budgetary Processes in PASB	11/16
Review of the Use of Social Media in PASB	10/16
Internal Audit of the Administration of the Health and Wellbeing Unit	06/16
Country-Specific Internal Audits	
Internal Audit of the Office of the PWR Bahamas	05/16
Internal Audit of the Office of the PWR Barbados and the Eastern Caribbean Countries (ECC)	02/16
Internal Audit of the Office of the PWR Colombia	03/16
Internal Audit of the Office of the PWR Suriname	07/16
Internal Audit of the Office of the PWR Brazil: Field Supervision in the <i>Mais Médicos</i> Project	01/16
Internal Audit of the Office of the PWR Brazil: The COLPADI Database in the <i>Mais Médicos</i> Project	04/16
Internal Audit of the Office of the PWR Brazil: The Administration of the <i>Mais Médicos</i> Project in Indigenous Districts	08/16
Internal Audit of the Office of the PWR Brazil: The Healthcare Arrangements of Medical Personnel in the <i>Mais Médicos</i> Project	09/16



ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES

1. Agenda item: 5.6 - 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 the role of PASB in the Health Agenda.

5. Link between Agenda item and the amended [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. 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 imply financial consequences.