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## REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES FOR 2019

### Introduction

1. The Office of Internal Oversight and Evaluation Services (IES) provides this annual summary report for calendar year 2019. The report provides an overview of the work undertaken by IES in 2019 and gives the office's perspective on internal controls, risk management, and related matters in the Pan American Sanitary Bureau (PASB or the Bureau).

2. Financial Regulation 12.1(d) states that the Director of PASB shall "maintain an internal oversight function reporting to the Director." IES performs this internal oversight function. Its main activities in 2019 were the undertaking of internal audit assignments, the provision of ad hoc advice to the Director of PASB and to management, and the provision of advisory services for evaluation assignments. An important change in the scope of work of IES is to take effect in 2020. The Director of PASB has decided that, from March 2020, the evaluation function will be relocated from IES to the Department of Planning and Budget; please refer to paragraph 39 below.

3. IES also contributes to the preservation and enhancement of internal controls and related risk management processes of the Bureau through its participation in a number of internal committees and networks. For example, IES advises management on specific matters through the Asset Protection and Loss Prevention Committee, the Enterprise Risk Management and Compliance Standing Committee, the Integrity and Conflict Management Standing Committee, the Property Survey Board, and the Network of Administrators. IES also directly provides the Director of PASB with ad hoc advice on emerging risks. Through these activities, IES seeks to provide forward-looking advice and to encourage knowledge sharing and the identification of emerging risks.

### Independence, Resources, and the "Lines of Defense"

4. To guide the internal audit 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). The IIA identifies three "lines of defense" in terms of institutional risk management and risk-mitigating internal controls. The first and

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second lines of defense are both the responsibility of management: the first line relates to the operation of day-to-day internal controls, and the second line consists of managerial monitoring and compliance. The third line of defense is the independent assurance provided by internal audit. To put this another way, the first line refers to managerial functions that own risks; the second to managerial activities that oversee risks; and the third to the independent internal audit function that reviews and advises on risk.

5. The “three lines of defense” model clearly separates managerial responsibilities from internal auditing. PASB management is responsible for designing and maintaining effective risk management and internal controls, while IES provides assurance and opinions on the effectiveness and efficiency of these controls. The internal audit work of IES is purely advisory in nature and is therefore independent from the activities it reviews. IES necessarily refrains from decision making in relation to PASB management in order to avoid conflicts of interest with its advisory role. IES audits and advisory services do not replace the responsibilities of PASB in the discharge of its operational and management functions.

6. Two important mechanisms, the IES reporting line to the Director of PASB and the sharing of IES findings with the Executive Committee, ensure that the office remains free from managerial interference in planning and performing its work and reporting on the results. To ensure the operational independence of IES, the Auditor General has responsibility for its human and financial resources, which are administered in accordance with the rules and regulations of the Organization.

7. In the performance of its duties in 2019, 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. In addition, IES had personnel and other resources sufficient to implement its 2019 work plan, and no aspects of its planned work were either curtailed or deferred for reasons of resource constraints. At the end of 2019, personnel resources of IES consisted of four professional and two general service positions. However, IES continued in 2019 to experience inadequate and fragmented office conditions in the Virginia Avenue building of PASB. IES has continued its discussions with the Organization’s administration to achieve a permanent solution that would reunite the IES team in a contiguous office space with adequate safeguards and security arrangements to protect the confidentiality of its internal oversight work. IES expects this matter to be resolved in the first semester of 2020.

### **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. To ensure the periodic audit coverage of all PAHO/WHO Representative (PWR) Offices, the planning approach includes cyclical visits to small PWR Offices that typically might not be selected on the sole basis of the risk assessment. 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.

9. IES establishes precise objectives for individual internal audit assignments through an assessment of the relevant risks. For each assignment, IES prepares a report that is addressed to the Director of PASB and copied to appropriate personnel in PASB. The reports contain findings and issues for the attention of management, along with management's action plans to address risks and to maintain or enhance internal controls.

10. In 2019, IES carried out eight internal audit assignments that covered diverse operations and activities. Four audits had a thematic focus, and four were focused on individual PWR Offices. The Annex to this report lists the internal audits undertaken in 2019, with assignment ratings on a four-tier scale:

- a) **Satisfactory:** Risk management practices and internal controls were adequately established and functioning well. Issues identified by the audit, if any, were unlikely to affect the achievement of the objectives of the audited entity/area.
- b) **Partially satisfactory, with some improvement needed:** Risk management practices and internal controls were generally established and functioning, but needed some improvement. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area.
- c) **Partially satisfactory, with major improvement needed:** Risk management practices and internal controls were established and functioning, but needed major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- d) **Unsatisfactory:** Risk management practices and internal controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

11. For the second consecutive year, no individual internal audit assignment produced findings that led to an "unsatisfactory" rating. For PWR Office audits specifically, 2019 was the third consecutive year without an "unsatisfactory" rating. The main findings from the individual assignments are discussed in paragraphs 16 to 30 below.

### **IES Coordination with Other Sources of Assurance**

12. IES has continued to cooperate with other sources of audit and assurance. In 2019, IES coordinated its planning activities with the PAHO external auditors, the National Audit Office of the United Kingdom. This coordination has maximized the efficiency and effectiveness of audit in PASB by helping to avoid both duplications and gaps in audit coverage, thereby contributing to protection of the Single Audit Principle of the United Nations system. IES also copies all its internal audit reports to the Geneva-based Office of Internal Oversight Services of the World Health Organization (WHO). In 2019, the Office of Internal Oversight Services continued to rely on the work of IES and did not perform internal audit assignments in the Region of the Americas.

13. IES also cooperates with the second line of defense against risk (see paragraphs 4 and 5 above) by sharing internal control monitoring dashboards and by following up the findings of the Enterprise Risk Management process used by PASB management. Every internal audit issue and management action plan in IES assignment reports is linked to the Enterprise Risk Management register. This facilitates the matching of risks with the achievement of PAHO objectives and related risk mitigation mechanisms, including internal controls.

14. IES continued in 2019 to receive advice from the PAHO Audit Committee, and it participated in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions to assimilate best practices from other international organizations.

### **Principal Internal Oversight Findings and Recommendations in 2019**

15. Paragraphs 16 to 30 below summarize findings and recommendations from internal audit assignments undertaken by IES in 2019. General observations on the internal control environment are provided in paragraphs 41 to 45 below.

#### ***Thematic Assignments***

16. IES rated the overall findings of the “**Internal Audit of Duty Travel Expenditure**” (IES report 03/19) as partially satisfactory, with some improvement needed. Although internal controls were generally operating correctly, IES raised two priority findings. The first related to extensive (79%) non-compliance with the policy that duty travel must be authorized no later than 10 working days before the date of departure. Non-compliant transactions that should have been exceptional appeared to have been normalized in PASB. The main risk arising from this finding was the incurring of high costs for flights booked at the last minute. IES found no compelling evidence of urgency in travel (for example, in connection with emergency operations) that might have justified widespread non-compliance with the policy. The problem seemed to have originated instead in a culture of poor travel planning and insufficient awareness of the cost implications of tardy planning.

17. The second priority finding related to security risks to personnel from staying in non-standard accommodation while on duty travel. At the time of the audit, PAHO policy specified the purpose of the duty travel per diem allowance as intended to cover all reasonable and customary charges individuals incur on duty travel for lodging, meals, taxes, compulsory service charges, gratuities, personal communications and other minor personal expenses, including certain incidental expenses under US\$30.<sup>1</sup> Prior to 2016, PASB provided personnel with only the meals and incidentals components of the per diem, and refunded the actual cost of hotel accommodation. Following implementation of the Workday system in January 2016, management decided to reimburse the full standard per diem rate, regardless of the actual hotel cost. The decision to pay the full per diem

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

allowance has simplified the processing of expense reports, but it has also created an economic incentive for some personnel to choose low-cost, non-standard types of accommodation with a view to retaining a large proportion of the per diem allowance. This type of accommodation is often incapable of providing an adequate level of security for traveling personnel and their belongings. Although the policy aimed to mitigate this risk by specifying that any hotels for duty travel purposes should be of “good commercial standing,” IES found an increasing trend of personnel opting for cheaper lodging such as bed-and-breakfast establishments and private residences. As a consequence, the health and safety of personnel might have been at risk, and their belongings, including PASB assets like laptop computers and smart telephones, might have been more susceptible to theft.

18. Among the other findings, IES recommended that management close Workday loopholes that had permitted a small number of transactions for which travelers had approved their own travel claims.

19. The “**Internal Audit of the Contracting of Consultants**” began in 2019 but, owing to the scale of the testing that the audit required, it was decided to roll over the assignment to the first semester of 2020. The findings of this audit will therefore be reported in the next IES Annual Report. The preliminary observations and findings as of December 2019 were that the use of consulting contracts has increased significantly in recent years. For example, in the five-year period from 2014 to 2019, there was a 62% increase in the use of international PAHO consultant contracts, while fixed-term staff contracts increased at the lower rate of 13% in the same period. IES noted some weaknesses in the documented evidence of competition in the hiring of consultants, and also noted a continuing trend of retirees returning regularly to PASB on consulting contracts. IES will look into the root causes of these trends.

20. IES rated the findings of the “**Internal Audit of Fixed Assets**” (IES report 07/19) as partially satisfactory, with some improvement needed. A major finding was the effect of decentralized procurement processes on value for money in the acquisition of assets. In particular, the decentralized acquisition of information technology equipment has resulted in the frequent purchase of equipment at high street prices. A centralized purchasing of such assets would probably achieve lower costs through economies of scale and enhanced bargaining power.

21. IES also found a need for policy updates in the administration of fixed assets, and some weaknesses in the information for fixed assets recorded in the Workday system.

22. “**Lessons Learned from the *Mais Médicos* Project**” was a consulting assignment, rather than an internal audit, requested of IES by the Director of PASB. IES undertook an overview of lessons to be learned from the administration of the *Mais Médicos* project, based on the findings published in 17 IES internal audit reports on the project between 2014 and 2018. IES found that PASB successfully administered this complex project, which at the peak of its activity involved the deployment of over 11,400 Cuban doctors in more than 4,000 Brazilian municipalities, focusing on geographically remote areas and on populations in conditions of socioeconomic vulnerability. The project required the

establishment of unique administrative and monitoring structures, including *sui generis* information technology systems.

23. This report did not contain specific recommendations for management to address at this time. Instead, it provided observations on administrative lessons that might be learned and applied to future projects. The topics covered included the importance of adhering to existing regulations, rules, and policies in major projects; human resources considerations and the selection of appropriate categories of personnel contract; operational efficiencies and local transportation challenges; reputational risk; accounting and banking arrangements; the importance of a robust second “line of defense”; and the safeguarding of institutional memory. None of the reported findings were new, as all had been published in previous internal audit reports. IES offered these consolidated observations to assist management in improving risk management for future major projects.

### ***Internal Audits of PAHO/WHO Representative Offices***

24. In 2019, IES undertook four country-level internal audits at the PWR Offices in Brazil, Ecuador, Honduras, and Trinidad and Tobago, with the principal objective of reviewing the internal controls intended to mitigate administrative and financial risks. IES rated the findings of three of these audits to be partially satisfactory with some improvement needed, while one, the audit of the Ecuador office, was rated as satisfactory. Therefore, for the third consecutive year, IES did not give any PWR Office audits an unsatisfactory rating. IES interprets this as an indication of steadily improving internal controls across PAHO’s country offices.

25. In the internal audit of the Brazil PWR Office, IES raised three priority recommendations. The first was for local management to address the office’s decentralized administrative structure, unique among PWR Offices, in which seven cost centers possessed separate support teams for administrative processes, with duplications of roles across the cost centers. These arrangements were found to pose a risk to the efficiency and effectiveness of local operations, and to the optimization of overall administrative costs.

26. The second priority recommendation for the Brazil PWR Office was to develop the local Enterprise Risk Management Risk Register in a more comprehensive manner. The third recommendation covered the need to address a historical legacy of obtaining the services of contingent workers through local procurement transactions, often without competition. Management agreed on the importance of regularizing these human resources services through a differentiation of standard service contracts with individuals and contracts requested by different counterparts as an outsourcing mechanism. Management took steps in 2019 to address all three recommendations.

27. In the Honduras report, IES made two priority recommendations, one to local management and one to Headquarters management. The local recommendation was to further develop the local Enterprise Risk Management Risk Register; this was similar to the recommendation made with respect to Brazil (see paragraph 26 above). The

recommendation for the attention of Headquarters management was to assess the organizational risk appetite for projects that include construction elements, including the refurbishment of buildings. More than \$300,000 has been spent on refurbishing “green” warehouses in Honduras, but the most significant PAHO project of this nature has been the Smart Health Care Facilities in the Caribbean (SMART Hospitals) project, for \$49 million. The Organization has not yet defined its risk appetite and policy framework for such activities.

28. There was one priority finding addressed to local management in Trinidad and Tobago. The PWR Office had recently absorbed several small Caribbean islands (including Aruba and Sint Maarten) into its programmatic and administrative remit. As a result, the office faced challenges in terms of operational capacity and the roles and responsibilities of personnel in adapting to the new circumstances. At the end of 2019 management was reviewing ways to address this challenge.

29. Standard (non-priority) recommendations made by IES to PWR Offices included recurring topics like policy compliance for Letters of Agreement and local procurement transactions; the timely disposal of old or obsolete fixed assets; and the safeguarding of institutional memory.

30. All the internal audit reports arising from the 2019 internal audit work plan have been accepted by the Director of PASB. At the time of this writing, management was actively addressing all the IES recommendations raised in the reports.

### **Implementation Status of Internal Audit Recommendations**

31. Three times per year, IES follows up with PASB management on the implementation status of internal audit recommendations. The objective of the follow-up exercise is to support management in improving risk-mitigating internal controls, as identified in the recommendations. IES classifies its recommendations in three tiers: priority, standard, and low. The categories are summarized as follows:

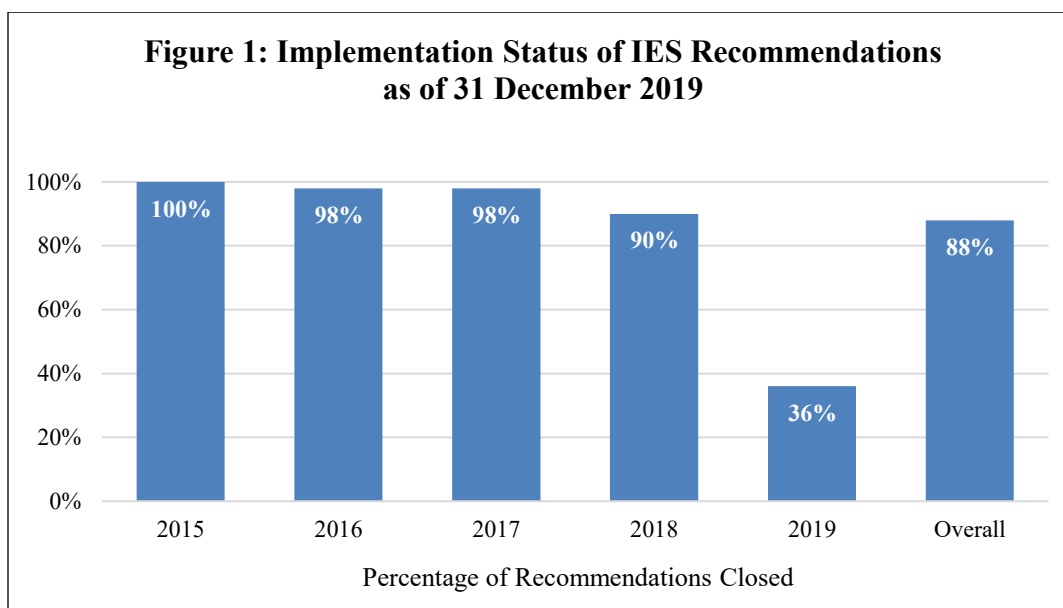
- a) **Priority:** Prompt action is required to ensure that PAHO is not exposed to high risks. A failure to take action could result in major consequences for the Organization.
- b) **Standard:** Action is required to ensure that PAHO is not exposed to risks that are considered moderate. A failure to take action could contribute to negative consequences for the Organization.
- c) **Low:** Action is desirable and might result in enhanced internal controls or better value for money. Low-priority recommendations are communicated verbally between IES and management and are not published in internal audit reports.

32. Priority and standard 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 issuance of the report.

33. In 2019, the Director of PASB continued her practice of chairing an annual meeting to discuss with Executive Management, departmental directors, and PWR Office representatives the status of pending IES recommendations in their areas of work. These meetings have accelerated the implementation of many recommendations. They set the “tone at the top,” illustrating the seriousness of top levels of the Organization in relation to internal audit matters and management responsibilities regarding the recommendations.

34. Figure 1 shows the implementation rates for the most recent six years. The relatively low implementation rate for the 2019 recommendations, as of 31 December 2019, reflects the usual time lag between the issuance of internal audit reports, their acceptance by the Director of PASB, and subsequent follow-up actions. IES found that the statistics in the figure are comparable to those in international organizations of similar size and complexity.



35. In the follow-up process, IES pays special attention to the longest-pending recommendations. In December 2019, there were two recommendations that had been pending for more than two years, both classified as priority. The two recommendations related to the need for updates to the policy framework for the activities of two departments: the Department of Planning and Budget, and the Department of External Relations, Partnerships and Resource Mobilization. Both departments have undergone significant developments in their activities and operations in recent years, and there has been a delay in adjusting their policy frameworks to catch up. Both departments informed IES that they expected to bring their policies fully up to date in 2020.



### **Evaluation Advisory Services**

36. In 2019, IES continued to advise colleagues in PASB on the planning and administration of decentralized, independent evaluation assignments; to provide guidance on evaluative approaches (based on the Norms and Standards for Evaluation of the United Nations Evaluation Group); to collaborate in the arm's-length sourcing of independent evaluators; and to maintain a register of finalized evaluation reports. In addition, IES reported biannually to the Director of PASB and Executive Management on evaluative activity.

37. The IES evaluation function continued to consist of one full-time, professional staff member in 2019. Owing to its limited resources, IES did not conduct or administer evaluation assignments, but maintained an advisory role. Specific assignments for which IES provided advice in 2019 included evaluations of the Regional Immunization Program, the Subregional Level of Technical Cooperation in the Caribbean, and the project on Integrated Health Systems in Latin America and the Caribbean. In late 2019, IES also advised the Department of Health Systems and Services on the planning of forthcoming evaluations of the research function at PAHO and the human resources for health strategy and related plan of action.

38. On a case-by-case basis, IES advised the Director of PASB on participation by PAHO in evaluation assignments commissioned and administered by the WHO Evaluation Office. In 2019, PASB participation in WHO assignments included evaluations of the neglected tropical diseases program, of the utilization of National Professional Officers at country level, and of the WHO Global Coordinating Mechanism on the Prevention and Control of Noncommunicable Diseases, as well as a review of 40 years of implementation of primary health care at country level. In the latter assignment IES collaborated in the data collection phase, extracting information from several case studies. PAHO also provided WHO with valuable feedback and advice for this assignment.

39. In the final quarter of 2019, the Director of PASB decided to transfer the evaluation function from IES to the Department of Planning and Budget so as to link the evaluative work more closely with the planning cycle. IES therefore began handing over the relevant information to the Department of Planning and Budget. IES had been revising the Evaluations Policy and has transferred the draft policy to the Department of Planning and Budget so that the policy can be tailored to this new context.

### **Other Areas of Activity**

40. IES did not undertake any investigations in 2019. Investigative activities were performed by the recently established Investigations Office.

### **IES Opinion on the Overall Internal Control Environment in PASB**

41. Internal controls are procedures, activities, and physical items that mitigate risks and thereby increase the likelihood of the achievement of organizational objectives.

Examples of internal controls include measures to ensure the safe custody of physical assets and to safeguard institutional memory through the secure transmission of institutional knowledge. The rationale for every internal control is the risk(s) to institutional objectives that the internal control purports to mitigate. The overall internal control framework situates internal controls within the operating policies and procedures of the Organization, including its delegation of responsibilities to personnel.

42. As discussed above in paragraphs 4 and 5, the concept of “three lines of defense” sets out institutional responsibilities for risk-mitigating internal controls. The first and second lines of defense are provided by management, the first line consisting of day-to-day, risk-mitigating internal controls, and the second consisting of managerial monitoring. The third line of defense, which operates behind management’s defenses, is the assurance provided by internal auditors.

43. With respect to this third line of defense, IES observed steadily continuing improvements in the internal control environment of PASB in 2019. This is reflected in the absence of “unsatisfactory” ratings for any of the internal audit assignments, as summarized in Annex A. This is the second consecutive year with no “unsatisfactory” ratings. The improvements appear to derive in part from improved information technology systems, most notably those arising from the PASB Management Information System (PMIS) project, and in part from an increased awareness among personnel of the importance of internal controls.

44. Based on the internal audit activity undertaken in 2019, IES did not identify any significant weaknesses in internal controls that would seriously compromise the achievement of the strategic and operational objectives of PAHO. The overall opinion of IES with respect to the PASB internal control environment in 2019 is that it continued to provide reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities and of the safeguarding of assets.

45. As in 2018, IES draws attention to scope for further development of the second line of defense, which, in the office’s view, calls for more systematization. In particular, a more comprehensive assurance mapping between the Organization’s objectives, risks, and risk-mitigating internal controls would further strengthen the internal control environment of PASB. Similarly, the Enterprise Risk Management exercise should articulate more clearly the interconnections between the Organization’s risks, objectives, and internal controls.

#### **Action by the Executive Committee**

46. The Committee is invited to take note of this report and provide any comment it deems pertinent.

Annex

## Annex

## INTERNAL AUDIT ASSIGNMENTS, 2019

Thematic Internal Audits	Reference no.	Rating of Audit Findings
Internal Audit of Duty Travel Expenditure	03/19	Partially satisfactory, with some improvement needed
Internal Audit of the Contracting of Consultants	None	For completion in 2020
Internal Audit of Fixed Assets	07/19	Partially satisfactory, with some improvement needed
Lessons Learned from the <i>Mais Médicos</i> Project*	01/19	Not applicable
Country-Specific Internal Audits	Reference no.	Rating of Audit Findings
Internal Audit of the Office of the PWR Brazil	04/19	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Ecuador	05/19	Satisfactory
Internal Audit of the Office of the PWR Honduras	06/19	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Trinidad and Tobago	02/19	Partially satisfactory, with some improvement needed

\* Consulting assignment.

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