



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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**FINANCIAL REPORT OF THE DIRECTOR
AND REPORT OF THE EXTERNAL AUDITOR, 2002-2003**

**Report of the External Auditor
Special Report of the External Auditor into the Anonymous Allegations**

The Director has the honor to transmit to the 45th Directing Council, 56th Session of the Regional Committee of the World Health Organization for the Americas a summary of the report of the External Auditor into the anonymous allegations in 2004.

PAN AMERICAN HEALTH ORGANIZATION

Summary Report of the External Auditor Special Report into Anonymous Allegations 2004

This Summary Report presents the External Auditor's conclusions from the special examination into anonymous allegations, a full report on which has been provided separately to the Directing Council.

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Part 1: Introduction

- 1.1 In March 2004, an anonymous letter was received by the governments of Mexico, the USA and Canada from a 'network of PAHO staff' making allegations about the deliberate use of PAHO technical, political and financial resources to benefit the economic interests of family members and political associates of the current PAHO Director, among others.
- 1.2 The letter also claimed that PAHO has no effective means of identifying misuse of resources as regards conflicts of interest or influence peddling.
- 1.3 The letter referred to general concerns and cited four specific cases. The allegations were accompanied by documents including copies of personal and Organizational e-mails.
- 1.4 The Director subsequently asked me to carry out a special examination into the allegations. This work began in June 2004. The examination was carried out as an independent audit investigation within the mandate, authority and responsibilities of the External Auditor to PAHO, for the purposes of reporting to management and to the Directing Council. The main scope of the examination was confined to PAHO and its transactions, documentation and employees, within the mandate of the External Auditor. (Annex 3 to this report.)
- 1.5 The External Auditor has no authority to require information or co-operation from third parties, although in a number of cases third parties wished to provide information or discuss issues with us; and in all cases where we sought to make audit enquiries, that co-operation was voluntarily given.

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- 1.6 My staff have conducted extensive enquiries into the issues raised in the letter and other matters which emerged in the course of our work. The work involved interviewing current and former PAHO staff and review of relevant contracts files and transaction records. In addition to enquiries in PAHO Headquarters in Washington DC, we have undertaken visits to PAHO offices in South and Central America.
 - 1.7 We were also contacted by a number of concerned persons who wished to provide information to us and to remain anonymous; and we made appropriate arrangements to interview these individuals where possible. In reporting on this information and associated allegations, we have maintained the confidentiality that our informants sought.
 - 1.8 We examined the four cases cited in the anonymous letter; and we additionally looked into three further cases which were the subject of information provided to us after our investigation had begun. Audit findings in relation to the allegations are included in my full report, which I have provided separately to the Directing Council.

Part 2: Conclusions in Relation to the Allegations

- 2.1 My staff found that only one of the allegations could be substantiated. We found no corroboratory evidence to substantiate the remaining allegations.
- 2.2 However, our examination and findings give rise to a number of important further issues in relation to good governance and management practice that we believe need to be addressed by the Organization as a matter of priority. These are addressed in Part 3 of this report.
- 2.3 In my audit opinion and report on PAHO's financial statements for 2002-2003 (reproduced at Annexes 1 and 2 to this present report), I drew attention to the anonymous allegations and the fact that I had agreed to carry out a special examination into them. Following that examination, I do not consider that these issues have a material bearing on the presentation of PAHO's financial statements for 2002-2003, which were certified by the External Auditor on 7 May 2004.

Part 3: External Auditor's General Conclusions

3.1 Our review of the allegations and the findings give rise to a number of wider issues concerning governance and management processes that we believe the Organization needs to address as a matter of priority.

These concern issues in relation to:

- Ethical standards and Code of Conduct;
- Recruitment of employees and consultants;
- Complaints procedures;
- Complaints investigation and reporting;
- Management of external relationships; and
- IT security.

3.2 The results of the audit highlight a number of areas concerning the governance of the Organization which fall short of accepted best practice, either in the design of policies or in the enforcement, compared to public sector organisations internationally and in many member states.

3.3 The impact of these shortcomings is such that senior management actions are sometimes poorly understood by at least some staff and therefore may lack transparency. We noted a climate of mistrust in some parts of the Organization which, in an environment without adequate mechanisms to investigate and deal with allegations of the type I was asked to examine, is debilitating for the Organization internally, and ultimately will detract from its ability to achieve its objectives effectively.

Ethical standards and Code of Conduct

- 3.4 PAHO's rules for managing situations where staff may be perceived to have a conflict of interest in dealing with individuals or organisations outside the Organization are set out in the Staff Regulations. PAHO staff regulations on conflicts of interest are to a large extent framed within the standards of the International Civil Service Commission. We were informed that historically and in practice, PAHO Staff Regulations are also based upon WHO rules.

Extracts from the Standards of Conduct for the International Civil Service

Para 2. The International civil service...relies on the great traditions of public administration that have grown up in the member states: competence, integrity, impartiality, independence and discretion...It is incumbent on international civil servants to adhere to the highest standards of conduct.

Conflict of Interest

Para 21 ...Conflict of interest includes circumstances in which international civil servants, directly or indirectly, would appear to benefit improperly, or allow a third party to benefit improperly, from their association in the management or the holding of a financial interest in an enterprise that engages in any business or transaction with the organisation.

Para 22...There can be no question but that international civil servants should avoid assisting private bodies or persons in their dealings with their organization where that may lead to actual or perceived preferential treatment. This is particularly important in procurement matters or when negotiating prospective employment...They should also voluntarily disclose in advance possible conflicts of interest that arise in the course of carrying out their duties. They should perform their official duties and conduct their private affairs in a manner that preserves and enhances public confidence in their own integrity and that of the organisation.

PAHO Staff Regulations on this matter state:

110. Standards of Conduct for Staff members

110.7 The Director shall decide on the compatibility of any interests declared by staff members with Article I of the staff regulations, and on any action to be taken under this Rule:

110.7.1 A staff member who has, or whose spouse or dependant children have, any interest in (including association with) any entity with which the staff member may be required, directly or indirectly, to have official dealings on behalf of the Organization, or which has a commercial interest in the work of PAHO, or a common area of activity with PAHO, shall report the interest to the Director.

110.7.2 As determined by the Director, staff members in designated employment categories shall be required, upon appointment and at prescribed intervals, to file in respect of themselves, their spouses and dependent children, a declaration in a prescribed form disclosing designated types of interests.

- 3.5 I found that often these rules were narrowly drawn without explicit consideration of PAHO's operating environment, and were interpreted or relied upon very precisely without reference to any broader framework of ethical standards or principles. The requirements on staff to declare potential conflicts of interest in advance are operated on a discretionary "honesty" basis, without clear guidance on the particular posts or categories of staff to which they apply.
- 3.6 PAHO policy (110.7.2) requires staff in designated employment categories to make a declaration of any conflicts of interest with respect to their spouses and dependent children. In other words neither the Director nor *designated staff* have a specific obligation to report a potential conflict of interest with respect to brothers, sisters, father, mother or non-dependent children or any other closely related family member. The rationale for the policy as currently drafted is unclear and at odds with current best practice elsewhere.

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- 3.7 Another concern is that PAHO staff regulations do not appear to apply to all staff. Current regulations only require *designated staff* members to file an annual declaration on Conflicts of Interest. We found no evidence that this policy was enforced or that any potential or declared conflicts of interest were investigated. PAHO does not maintain historical filings of such declarations.
- 3.8 The regulations also fail to define what we would refer to as 'related parties'. Related parties should broadly refer to close family and friends, or entities in which an individual may have shares or a financial stake, or an entity from which an individual has or seeks to obtain any benefit, for example preferential treatment. Any definition of 'related parties' should be drawn up by reference for example to current Generally Accepted Accounting Practice and International Auditing Standards.
- 3.9 Similarly, the regulations provide little guidance on what constitutes, for example, interest or preferential treatment. For the avoidance of doubt, such definitions should be clearly defined and appropriate examples given.
- 3.10 We were informed by the Director of Human Resources that the PAHO Director had formed a working sub-group of the Human Capital Group to consider and prepare a Code of Ethics last year. We were unable to ascertain the result of their work at the time of our visit to Washington D.C. in July 2004. Management have since informed us that this sub-group produced preliminary recommendations early this year but these have not yet been finalised.
- 3.11 My staff found little evidence as to how the current rules are enforced, since PAHO has no central record of the outside interests of staff members. It was not clear to us how declarations of interest are managed to ensure in a systematic and comprehensive manner that appropriate standards are adhered to. PAHO does not have a formal
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Code of Conduct procedure for its staff; and there is no requirement on staff that they should provide a regular statement that they have complied with the standards expected of them.

Recommendations

3.12 I recommend that:

- PAHO should develop a framework of ethical principles for the conduct of the Organization's business and the guidance of staff. This should be supported by a comprehensive Code of Conduct applicable to all staff. All staff should be required to confirm at least annually that they have complied with the Code;
- there should be a requirement on all staff in sensitive posts (such as senior management positions, procurement and human resources) to complete comprehensive declarations of interests on a regular basis;
- there should be clear and transparent procedures for investigating alleged breaches of the Code or failure to declare conflicts of interest.

Recruitment of Employees and Consultants

3.13 A number of the matters which I investigated alleged that individuals had used their position to favour particular employees or short term consultants for particular posts or appointments. This may indicate that PAHO's arrangements may not be adequate, for example in the maintenance of up to date central records of accredited short term consultants and short term professionals, and in relation to standard policies and procedures for checking the expertise, competence and suitability of potential candidates for employment.

3.14 There would be advantage in ensuring the formal policy that the engagement of STCs/STPs should be on the basis of open competition, with candidates being required to sign a declaration on the expected ethical standards. It would be appropriate to establish standard policies

for clearly defining the deliverables expected from each contract; and a centrally accessible record of STC/STPs' employment histories with the Organization.

3.15 Other allegations suggested that staff members of the Organization sought to influence the hiring policies of various implementing partners by suggesting individual STCs/STPs for posts. Similar concerns were raised in relation to internal staff appointments.

Recommendations

3.16 I recommend that:

- PAHO maintains an up to date list of accredited STCs/STPs based on a clear policy for assessing their expertise, competence and suitability for employment.
- All STCs/STPs should be recruited on the basis of open competition in all but the most exceptional circumstances. Candidates for short term positions should be expected to abide by the Organization's ethical standards;
- PAHO should apply the same standards and considerations to internal appointments as apply in external recruitment and placement.

Complaints Procedures

3.17 During my investigations I found that the Organization does not have any effective policy or clearly defined procedures to allow staff to report in confidence allegations of fraud, corruption or improper behaviour. Staff members were not only unclear as to whom and how they could report such concerns: they also feared repercussions should it be found out that they had made a report. Others said they believed there was a lack of independence in the investigative process, particularly where concerns related to the actions of the Director.

3.18 The Director created a post of Ombudsman in 2003 but this has not yet been filled. An Ombudsman post should assist staff members individually or collectively with problems and grievances relating to conditions of employment, working conditions, and relations with superiors and colleagues in a manner which contributes to an improvement in the overall working environment within the Organization. The continued vacancy and the absence of any alternative arrangements has been perceived by some staff to imply that senior management do not attach priority to the function. It is conceivable that some of the allegations I was asked to examine would have fallen within the scope of the Ombudsman function. Management have informed us that the post is currently under selection.

Recommendations

3.19 I recommend that:

- PAHO develops clear procedures for dealing with complaints and allegations and communicates this to all staff. This should include a clear timescale for investigating the complaint and agreed procedure for communicating the outcome of the investigation ;
- In the event that staff concerns cannot be resolved through their managers or supervisor they should have access to a confidential hotline to raise their concerns. The investigation of matters raised via the hotline should be subject to supervision by an independent third party able to report to the Directing Council.

Complaints Investigation and Reporting

3.20 I found that the Organization lacks transparent and widely understood policies or standing arrangements and procedures for dealing with allegations of fraud or impropriety. Responsibility for the conduct and oversight of investigations is in my opinion not well codified or communicated. It is therefore not as clear as it should be that

investigations are pursued systematically and by suitably qualified staff; or that the outcome of such investigations is reported in a structured way to senior managers who are in a position to take appropriate follow-up action.

Recommendations

3.21 I recommend that:

- PAHO should have a clear policy for determining the circumstances in which complaints should be investigated and who should be involved;
- There should be clear protocols covering the methodology used for the investigation and for the reporting the outcome;
- The Legal Department should be involved at all key stages.

Management of External Relationships

3.22 My review found that that PAHO lacks effective formal or standardised policies for managing its relationships with third parties, such as national governments, NGOs and private companies. Currently individual units and staff of the Organization have considerable freedom to set the tone of the relationship. In particular there is no formal requirement to communicate and enforce the ethical standards that PAHO expects to see maintained in its relationships. In some instances organisations which had no formal relationship with PAHO have used the Organization's name and logo on websites and letterheads presumably without permission and also without challenge.

Recommendations

3.23 I recommend that:

- PAHO should expect its partners to conform to the ethical standards it sets for itself;

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- PAHO should exert greater control over the use of its name and logo;
 - PAHO should establish appropriate policies and guidelines to cover the management of relationships with third party organisations, supported by Memoranda of Understanding in individual cases to define the relationship, roles and responsibilities of the parties.

IT Security

- 3.24 My staff noted the extent to which those coming forward to make allegations had access to e-mails from within the Organization and in several instances to private e-mails on systems entirely outside PAHO. Some staff, including the Director, make use of private, commercial, e-mail facilities for PAHO business purposes. The security of these facilities and the way staff use them is not within the Organization's control.
- 3.25 It was not within the scope of this exercise to conduct a review of the Organization's IT security but the freedom with which e-mails are available raises some important issues. PAHO's IT security policies and practices may require review.

Recommendation

- 3.26 I recommend that:
- PAHO carry out a review of the current IT security arrangements, including those relating to e-mail facilities;

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- PAHO should adopt a detailed policy on IT security and take steps to ensure that it is enforced.

SIR JOHN BOURN
Comptroller and Auditor General of the United Kingdom
EXTERNAL AUDITOR

23 September 2004

Annex 1: External Auditor's Opinion on PAHO's Financial Statements for 2002-2003 (PAHO Official Document No. 315)

OPINION OF THE EXTERNAL AUDITOR on PAHO's Financial Statements for 2002-2003

To: The Directing Council of the Pan American Health Organization

I have audited the accompanying financial statements, comprising Statement I to X, Schedules 1 to 9 and the supporting Notes to the Pan American Health Organization for the financial period ended 31 December 2003. These financial statements are the responsibility of the Director. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the Pan American Health Organization's stated accounting policies set out in Note 2 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further in my opinion, the transactions of the Pan American Health Organization, which I have tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority, except only in relation to the additional matter referred to in paragraph 4 of my long form report, concerning certain anonymous allegations of impropriety in the use of the Organization's resources.

In accordance with Article XIV of the Financial Regulations, I have also issued a long-form Report on my audit of the Pan American Health Organization's financial statements.

Sir John Boum
Comptroller and Auditor General, United Kingdom
External Auditor

7 MAY 2004

Annex 2: Extract from the External Auditor's Report (2002-2003 biennium) (PAHO Official Document No. 315)

Paragraph 4

ADDITIONAL MATTER

At the time of finalising my report, I was informed of certain anonymous allegations that had been received concerning conflicts of interest and impropriety in the use of PAHO resources to benefit the financial interests of third parties. The Director has asked me to look into these allegations and I have agreed to carry out a special examination to identify whether, in relation to these allegations, irregularities have taken place in connection with PAHO funds or personnel. I will report the results of that work to the Directing Council as soon as my findings are available.

Annex 3: Context, Scope and Terms of Reference of the Audit Examination

The Comptroller and Auditor General of the United Kingdom, head of the National Audit Office, is the External Auditor of the Pan American Health Organization, appointed by the Directing Council.

Responsibilities of the External Auditor

The External Auditor is appointed under the Organization's Financial Regulations and is completely independent and solely responsible for the conduct of the audits which he undertakes. He is empowered under the terms of the Financial Regulations to perform such audit as he deems necessary in order to satisfy himself *inter alia* that the financial transactions reflected in the Organization's financial statements have been in accordance with the rules and regulations and other applicable directives of the Organization; and that the internal controls are adequate. The External Auditor may make such observations with respect to his findings resulting from audit as he deems appropriate to the Conference or the Directing Council or to the Director.

Initial allegations

In March 2004, the Director of PAHO was informed that three of the Organization's member governments - the United States of America, Canada and Mexico - had received an anonymous letter containing a number of allegations in relation to four specified cases.

The letter purported to be written by a network of PAHO staff members and referred to a body of evidence presented to demonstrate the deliberate use of PAHO technical, political and financial resources to benefit the economic interests of family members and political associates of the current PAHO Director, as well as other parties.

In a letter dated 22 April 2004, the Director asked me to carry out an examination into the allegations. I agreed to carry out a special audit examination into the alleged improprieties and to report the results to the Directing Council as soon as possible. I included a reference to that effect in my audit report on the Organization's financial statements for 2002-2003; and my representative confirmed this commitment in presenting my 2002-2003 audit report to the Executive Committee in June 2004.

Subsequent allegations

In a notice to PAHO staff dated 16 June, the Director requested all staff to co-operate fully with the external audit investigation.

In addition, at our request, a further notice was issued to all staff on 23 June by the acting Director of Administration, advising staff of the audit examination then in progress and the audit team's contact details; requesting co-operation with the audit enquiries being carried out; and providing an external National Audit Office e-mail address to PAHO staff for the purpose of communicating directly in confidence with the audit team, if any members of staff had concerns or information that they wished to make available to the auditors. This notice confirmed our undertaking to receive any such approaches in strict confidence.

As a result of this, my staff received further information. The majority of the communications received have related to the original allegations, and the audit team followed these up. In addition, information was received in connection with further allegations, referred to as cases 5 to 7 in this report.

Objectives of the audit examination

The key objective of the examination was to enable me as External Auditor to form a view as to whether the allegations could be substantiated, and to report my audit findings and conclusions to the PAHO Directing Council.

A secondary objective was to make recommendations in the light of any weaknesses in the PAHO internal control environment. An additional consideration was to reflect on the overall impact on PAHO's financial statements.

In reporting to Member States and management through the Directing Council, I also undertook to submit recommendations on any matters arising from the examination in relation to PAHO's governance arrangements or internal control environment.

The special examination was carried out as an independent audit investigation within the mandate, authority and responsibilities of the External Auditor to PAHO, for the purposes of reporting to management and to the Directing Council. It involved examination of PAHO files, documents and records; and interview with PAHO officials and staff members.

Scope of the audit examination

The scope of the examination was confined to PAHO and its transactions, documentation and employees, within the mandate of the External Auditor.

The original written accusations (both in general and in relation to the four specific cases cited) formed the initial focus of the audit enquiries. Further work was carried out in relation to subsequent allegations received.

Throughout the examination, we also considered whether our findings revealed any wider issues and these have been referred to in this present report.

We evaluated the overall control environment in the particular context of the information received and where we have identified weaknesses or failures (such as management override of controls or other issues) we have reported on them.

Approach

The examination initially considered the four specific cases cited in the allegations.

The precise direction of the work was determined in the light of emerging findings and information, and the scope of the work extended according to those findings.

In drawing conclusions from our findings and audit evidence, we set out to assess the findings against various criteria:

- In determining whether there had been irregularities, we investigated whether there was evidence of any breaches of the regulations, rules and procedures of PAHO (in particular the financial and staff regulations).
- In assessing impropriety (improper or unethical behaviour) and management practice, we considered what would be appropriate and inappropriate conduct in relation to each specific circumstance, guided by the Personnel Regulations of PAHO; the International Civil Service standards; and the ethical standards and guidelines of the United Nations and of similar public sector organisations.

The examination was carried out in Washington and in PAHO offices in South and Central America.

We conducted the examination to adduce clear, defensible audit evidence to support or disprove the allegations. The implications of the allegations are considerable and the quality of evidence is a paramount consideration. We considered therefore whether findings were capable of being substantiated and corroborated for audit purposes other than by hearsay or opinion on the part of the informants.

We set out to identify or confirm any evidence of control failures, such as:

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- Declarations of interest not being made;
 - Procurement rules not being followed (such as inappropriate selection of contracts or lack of tendering);
 - Management over-ride of controls; or
 - Inappropriate conduct of business.

In searching for audit evidence, we:

- Assessed all allegations received, and reviewed all supporting documentation.
- Obtained and reviewed other documentation that we considered appropriate.
- Made contact with those making the allegations where possible. Given the sensitivity of the allegations, all matters were dealt with in confidence.
- Carried out audit interviews with relevant personnel.
- Conducted follow-up visits to a number of PAHO country offices.

During the course of our biennial audit, we routinely review controls over procurement and contract tendering. Control failures may give rise to irregularities for audit purposes and would have been followed up had they been detected in our audit tests. From the work carried out in 2002-2003, we did not detect any significant problems or weaknesses in these areas.

In the absence of rights of access to organisations or individuals outside PAHO, and consistent with the responsibilities of our appointment as PAHO's external auditors, we focussed the audit examination on PAHO and its transactions, documentation and employees. Where we felt it necessary to interview persons outside the Organization in order to achieve a better understanding of specific matters, we made contact with those parties. Although under no obligation to us, in all cases those third parties were willing to make themselves available for interview.

The nature of the allegations concerned the use of position and influence outside the Organization. “Off-book” activities or transactions may not yield documentary or corroboratory evidence.

Where allegations were not supported by sustainable evidence that could be confirmed, or where details were vague or incorrect, this limited the extent of work we could carry out in practical terms. The audit examination was carried out between June and September 2004, to provide as complete a report as possible to the Directing Council in September. The allegations that represent cases 5 to 7 were received after the investigation had begun and work continued into September. We have examined and given full consideration to all the cases and incidents referred to by the informants, and to all information provided.

Additional matters

Audit enquiries revealed information on issues of conduct that are not conventionally within the responsibilities or competencies of external auditors, for example allegations of sexual harassment. Those said to have been subject to harassment did not come forward to us directly and it was not appropriate for us as external auditors to pursue this. The report mentions these issues and suggests appropriate action for the Organization to take.

We have treated all our dealings with those making allegations or providing information to us in strict confidence, although where individuals wishing to express concerns or possessing information are unwilling or feel unable to make themselves known for whatever reason, this may inhibit the examination or resolution of the issues.

In the light of the existence of these concerns, and from a good governance perspective, we have made recommendations that PAHO should establish procedures to deal with complaints and concerns, including the establishment

of ombudsperson arrangements and the setting up of a “whistle-blowing” or ethics hotline facility.

Costs

This special examination is outside the scope of the External Auditor’s normal biennial audit and the costs of the work will be the subject of a separate audit fee, on a cost recovery basis.