



# Peace Corps

## OFFICE OF INSPECTOR GENERAL

To: Aaron Williams, Director

From: Kathy A. Buller, Inspector General 

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Subject: Management Implication Report – OIG Investigations Have Disclosed Improper Vehicle Disposal Practices and Vehicle Sales That Do Not Generate Fair Market Returns

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**Background:** This report highlights trends uncovered through multiple Office of Inspector General (OIG) investigations that found improper vehicle disposal practices and the underselling of Peace Corps vehicles. Peace Corps vehicle disposal policies and procedures are included in MS 527: Vehicle Acquisition, Disposal and Management, and the Fleet Management Guide.

**Improper Vehicle Disposals:** The OIG initiated a limited review of Peace Corps vehicle disposition practices globally, as a result of apparent fraudulent and improper vehicle disposal sales by a former Peace Corps country director assigned to a South American post. This ongoing investigation disclosed that the country director inappropriately sold three used Peace Corps vehicles with a total appraised value of \$63,000 (\$21,000 USD each) to two non-governmental organizations (NGOs) for a total value of \$9,000. One vehicle was sold for \$1,000 and the other two vehicles were sold for \$4,000 each.

The sales price for the three vehicle sales to the two NGOs is in opposition of Peace Corps policy (Fleet Management Guide section 2.5.2), which states that vehicles must be sold for a fair and reasonable in-country price. The OIG investigation disclosed that one NGOs subsequently resold one of the vehicles for \$20,000 (five times the amount they paid for it), within three months after they purchased the vehicle from the Peace Corps.

During our review we determined that inappropriate vehicle disposition practices are not uncommon at the Peace Corps. For example, the OIG discovered irregularities in the sale of a vehicle at a Peace Corps post in the Pacific. The subsequent OIG investigation revealed numerous irregularities associated with the internal vehicle auction including that the highest bid was not honored and that the auction documentation was lost. Furthermore, the car was awarded to a Peace Corps post staff member who purchased it for approximately \$8,000 and within a year resold the same vehicle for approximately \$18,000, a difference of \$10,000.

Although agency policies have traditionally adhered to arms-length vehicle transactions and a prohibition against direct sales to employees, the Fleet Management Guide (section

2.5.4) was revised in January 2010 to essentially bar Peace Corps staff, including contractors, from acquiring vehicles through Peace Corps auctions or other direct means:<sup>1</sup>

Peace Corps Employees, Trainees, Volunteers, and contractors or their employees, are prohibited from purchasing, bidding on, receiving as a donation, or otherwise acquiring Peace Corps fleet vehicles through direct sale by Peace Corps, through an auction conducted by Peace Corps, or by any other process conducted by Peace Corps.

The OIG inquiry into Peace Corps vehicle disposition practices is ongoing. A preliminary review of vehicles sales in a Central Asian post has raised concerns about internal auction protocols. According to an undated memo it appears that a post sold three vehicles through an auction conducted by the Peace Corps. However, the highest bidder who bid an average of \$11,000 for each of the three vehicles allegedly informed the Peace Corps that he did not want to purchase the vehicles. The next highest bidder paid approximately \$5,600 for one vehicle and the other two vehicles were awarded to two post staff members who paid \$3,200 and \$3,000 respectively.

In addition to the aforementioned examples, our investigations have found multiple irregularities associated with posts that conducted their own vehicle auctions or sales. These irregularities included Peace Corps staff members receiving the winning bids, multiple bids from the same source, the highest bid not being honored, and lost or missing vehicle auction records.

**Trends in Undersold Vehicles:** The OIG elected to review the disposal of Peace Corps vehicles globally to determine if there were other indications of fraud, waste or abuse. We obtained the Post Logistics Support Office's vehicle sale listings and identified all Peace Corps vehicles sold for less than \$10,000 since 2005.

The Office of Chief Financial Officer (OCFO) had conducted a 3-year study of vehicle disposals world-wide (2005 – 2007) and informed the OIG that Peace Corps vehicles generally sell for approximately 42 percent of their original purchase price. With this data we determined that between 2005 and 2009, 148 Peace Corps vehicles were sold for less than \$10,000.<sup>2</sup> Our analysis was limited to 133 vehicles that we were able to ascertain original purchase price. The cumulative original purchase price for the 133 vehicles was \$2,983,002 or approximately \$22,400 for each vehicle.

Using this raw information the OIG calculated that if the Peace Corps had obtained 42 percent of the original purchase price when these vehicles were auctioned/sold, the agency would have received \$1,252,861. Instead the Peace Corps actually received

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<sup>1</sup> The prior agency policy advised that the direct sale of government property, including vehicles, should be conducted as arms-length transactions and that the sale to Peace Corps employees, trainees, Volunteers, or any U.S. Government employee is illegal and is expressly forbidden. Additionally, it noted that all sales must be on a competitive basis.

<sup>2</sup> \$10,000 is approximately 44 percent of the original vehicle sales price. Our review did not include vehicles that had been sold after being involved in an accident and vehicles that were sold after they were no longer operational.

\$839,768 or 28 percent of the vehicles' original purchase price. The net potential loss of \$413,093, based upon a 42 percent fair market value could have been used to off-set the cost of other vehicles purchases. Our analysis is shown below:

Vehicles Included in OIG Analysis	133		
Cumulative Purchase Price	\$2,983,002		
	<b>Expected</b>	<b>Actual</b>	<b>Difference</b>
Average Resale Percentage	42%	28%	14%
Cumulative Resale Value	\$1,252,861	\$839,768	<b>\$413,000</b>

**Methods of Vehicle Disposals:** Section 2.5.2 of the Fleet Management Guide advises that a post may choose from four acceptable methods of disposal:

- Transfer to the Embassy General Services Officer, for disposition through sale by the Embassy. Please note, that this option may not be available to the Peace Corps post depending on the ICASS services selected by post.
- Direct sale to other U.S. Government agencies at fair market value (as determined by the post Administrative Officer).
- Direct sale through commercial, non-government, auction services. (Post should first determine if maximum returns could be obtained through this method).
- Public sale by Peace Corps.

In limited cases we have been able to examine the returns of vehicle sales handled by the Peace Corps compared to vehicle sales handled by the U.S. Embassy or an independent auction houses. For example, in the previously mentioned investigation involving sales to the NGOs at the South American post, the OIG found that five other Peace Corps vehicles of the same brand, make and year were sold at the same time through a U.S. Embassy auction for over \$16,000 each. Those five Peace Corps vehicles were allegedly in worse shape than the three vehicles sold to the NGOs. If the post had utilized the local U.S. Embassy the Peace Corps may have received as much as \$48,000 for the three vehicles rather than \$9,000 (\$39,000 difference).

Per our preliminary analyses and through interviews with the headquarters vehicle manager, it appears that U.S. Embassy and independent auctions receive the highest bids and dollar returns, while posts that conduct their own vehicle auctions or direct sales procure lower sale proceeds. However, data is inconclusive because headquarters management essentially only receives information on vehicle age, miles and proceeds.

#### **MANAGEMENT CONSIDERATION**

Based upon our analysis, it has become apparent that closer oversight of vehicle sales by headquarters is warranted, including guidance for posts to dispose of vehicles through

independent auctions or the U.S. Embassy when possible, to better ensure that the agency receives closer fair market value returns.

When Peace Corps sponsored auctions are necessary, posts should seek specific guidance on the mechanics of conducting a proper auction without any appearance of unfairness or impropriety. In addition, the new rule that prohibits Peace Corps staff from buying vehicles from Peace Corps auctions or other direct sales should be disseminated and highlighted worldwide. A key component to remedy the trend toward under selling vehicles as evidenced in our investigations and analyses is increased transparency in vehicle sales, training, accountability, and consistent reminders to all responsible persons.

In 2002, the OIG Evaluations Unit reviewed vehicle acquisition and disposal practices. [IG 02-09-E] The report recommended that management require vehicle condition and maintenance history as part of the replacement approval procedure for every vehicle. In addition, vehicle disposals should be reviewed and approved individually by the regional Chief Administrative Officers and headquarters management. In consideration of greater management oversight, Peace Corps management may want to consider developing a vehicle data system that facilitates the tracking of pertinent data including, the age of vehicles, maintenance history, mileage, local fair market value, blue book value, and revenue generated from sales.

An agency Fleet Management Information System (FMIS) is mandated by FMR 102-34.340 (General Services Administration Federal Management Regulations: Motor Vehicle Management FMR-15). This would provide Peace Corps a central reliable tool to track inventory (acquisitions/usage/disposal) as well as maintenance, repairs, and other value affecting events or situations.