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**To:** Carrie Hessler-Radelet, Acting Director  
Daljit Bains, Chief Compliance Officer

**From:** Kathy A. Buller, Inspector General 

**Date:** February 20, 2014

**Subject:** Final Report on the Audit of Peace Corps/Armenia (IG-14-03-A)

Transmitted for your information is our final report on the audit of Peace Corps/Armenia.

Management concurred with all four recommendations. We closed all four recommendations. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. Our comments, which are in the report as Appendix E, address these matters.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Bradley Grubb at 202.692.2914 or to Senior Auditor Waheed Nasser at 202.692.2905.

Please accept our thanks for your cooperation and assistance in our review.

cc: Stacy Rhodes, Chief of Staff/Chief of Operations  
Jacklyn Dao, White House Liaison  
Bill Rubin, General Counsel  
Carlos Torres, Acting Associate Director, Global Operations  
Joseph Hepp, Chief Financial Officer  
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Armenia Desk



# Peace Corps Office of Inspector General

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*Peace Corps Volunteer Lorraine Moore (right) and an Armenian teacher (left) interact with students*



*Flag of Armenia*

## **Final Audit Report: Peace Corps/Armenia IG-14-03-A**

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**February 2014**

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# EXECUTIVE SUMMARY

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## BACKGROUND

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The Office of Inspector General (OIG) conducted an audit of Peace Corps/Armenia (hereafter referred to as “the post”) from April 1 to April 13, 2013. We previously performed a follow-up audit September 6-12, 2007 and issued our report in October 2007 (IG-08-01-FUA).

### Staff:

- U.S. direct hires: 3
- Foreign service nationals: 1
- Full-time personal services contractors (PSC): 24

### Funds (approx.):

- Fiscal Year (FY) 2012 post spending - \$1.8 million
- Average regional overhead - \$418,400



**Map of Armenia**

## WHAT WE FOUND

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The post’s financial and administrative operations were effective and in overall compliance with agency policies and federal regulations. We noted a few areas in need of improvement, specifically the post:

- paid \$41,604 in compensation to PSCs over the U.S. Embassy’s local compensation plan (LCP) without adequate justification;
- maintained an underused vehicle that was unnecessary and could be sold allowing government funds to be put to better use; and
- incorrectly used “PC/Armenia” as a generic vendor name to charge \$8,742 in payments as a rental property object class code.

## RECOMMENDATIONS IN BRIEF

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Our report contains four recommendations directed to the post. The post took corrective actions and OIG closed all four recommendations. We commend the post for its responsiveness and cooperation with this audit.

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## BACKGROUND

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We conducted the audit of the post April 1-13, 2013. We previously performed a follow-up audit September 6-12, 2007 and issued our report in October 2007 (IG-08-01-FUA).

More than 830 Peace Corps Volunteers have served in Armenia since the inception of the program in 1992. At the time of our audit, 86 Volunteers were working in two sectors: education and community/youth development. The post had three U.S. direct hires, one foreign service national, and 24 full-time personal services contractors (PSCs). The post's FY 2012 spending was approximately \$1.8 million. In addition, at headquarters, the Europe, Mediterranean, and Asia (EMA) region incurred an average of approximately \$418,400 per overseas post.<sup>1</sup>

Our overall objective in auditing overseas posts is to determine whether the financial and administrative operations are functioning effectively and in compliance with Peace Corps policies and federal regulations during the period under audit. Appendix A provides a full description of our audit objective, scope, and methodology.

### **Notable Practices**

The EMA region and the post had implemented cost-effective mechanisms to promote efficiency. The Government Accountability Office, "*Standards for Internal Control in the Federal Government*," discusses the need for monitoring within an organization and the role of separate evaluations. It states:

Separate evaluations of control can also be useful by focusing directly on the controls' effectiveness at a specific time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector General or an external auditor.

The PC/Romania director of management and operations (DMO) conducted a review of administrative functions at PC/Armenia. The review included an assessment of the post's imprest fund operations, cash counts, transactions and support for leases, PSCs, purchase cards, travel cards, and travel card logs. It identified 21 findings, which the post took action to remediate. We verified that several of the post-initiated corrective actions helped remedy deficiencies that are often identified by our audits. We encourage the Europe, Mediterranean and Asia region and the posts to continue with this form of monitoring.

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<sup>1</sup> The agency was unable to provide the total cost per post as certain costs are centrally budgeted and managed by headquarters offices including the salaries and benefits of U.S. direct hires. The Peace Corps Office of Budget and Analysis provided the total cost of \$8.3 million incurred by the Europe, Mediterranean and Asia region in direct support of its 20 overseas posts in FY 2011, which is an average of \$418,000 per post.

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## AUDIT RESULTS

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### VEHICLE MANAGEMENT

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*The post did not conduct sufficient analysis of vehicle usage to ensure the appropriate number of vehicles.*

Presidential Memorandum “Federal Fleet Performance,” states, “...the Federal fleet should operate only as many vehicles as needed to work efficiently....” (May 24, 2011). The *Peace Corps Manual* section (MS) 527 and the Peace Corps’ *Vehicle Fleet Management Guide* provide guidance on establishing the maximum number of vehicles a post is authorized (vehicle ceiling).

Our analysis of the vehicle usage for 12 months ending in August 2012 indicated that the post regularly used four of its six vehicles. The other two vehicles accounted for approximately nine percent of total kilometers driven and 11 percent of maintenance costs incurred for the same period. According to the general services manager, the post did not use its 2005 Toyota pick-up truck regularly due to its three passenger capacity. In addition, the post only used its 12-passenger Toyota Minibus three months out of the year for its Volunteer training events.

The post’s annual vehicle status report in August 2012 listed six authorized vehicles with an annual operating cost of approximately \$15,281 U.S. Dollar Equivalent (USDE) to support 86 Volunteers. The post had approximately one vehicle for every 14.5 Volunteers, which is better than the agency-wide ratio of one vehicle for every 12 Volunteers.

**Table 1. FY 2012 Annual Vehicle Maintenance and Fuel Cost (in USDE)**

Vehicle Type	Fuel Cost	Maintenance Cost	Total Cost	Mileage (Km)
Land Cruiser - 2005	\$189	\$201	\$390	733
Minibus - 2008	1,498	110	1,608	7,624
Nissan - 2009	4,410	679	5,089	24,090
Land Cruiser - 2010	4,279	535	4,814	28,238
Land Cruiser - 2010	1,316	480	1,796	26,790
Avensis - 2011	773	811	1,584	4,815
<b>Totals</b>	<b>\$12,465</b>	<b>\$2,816</b>	<b>\$15,281</b>	<b>92,290</b>

Based on our analysis, the post could operate effectively with only five vehicles by reducing its vehicle ceiling by one vehicle. During the course of our audit the post conducted a cost-benefit analysis of its vehicle fleet and ultimately decided to reduce its vehicle fleet by one vehicle, the 2005 Land Cruiser. We commend the post for its responsiveness for promoting efficiency in the management of its vehicle fleet. By reducing its vehicle fleet ceiling the post will avoid the costs associated with replacing the Land Cruiser, saving approximately \$50,000. The post decided to keep the Minibus because the cost of leasing one for three months a year would be \$5,143, while

the cost of keeping it would be \$4,957. We agreed with the post's analysis regarding the Minibus.

**Figure 1. Minibus used during Volunteer trainings (left) and 2009 Nissan vehicle in the post's parking lot (right)**



**We recommend:**

- 1. That the director of management and operations monitor vehicle usage and ensure the post operates its vehicle fleet efficiently.**

## **LOCAL COMPENSATION PLAN DEVIATION**

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*Seven PSC salaries exceeded the maximum compensation of equivalent positions listed in the U.S. Embassy's LCP.*

MS 743, "Personal Services Contracts with Host Country Residents," Basic Compensation, states:

The policy for basic compensation for Peace Corps personal services contracts is that the negotiated base compensation shall be fair and reasonable. This determination must be made by the Contracting Officer prior to awarding the contract. Contracting Officers should use such factors as salary history and a local market survey (by Peace Corps or other organizations) of positions with similarly required qualifications, skills sets, certifications, and work requirements.

The range of compensation in the applicable State Department Local Compensation Plan may be considered as well for determining fair and reasonable based compensation.

Although MS 743 does not require the post to use the LCP to determine PSC compensations, it suggests that the LCP be used in considering fair and reasonable compensation. The Peace Corps

Office of Human Resource Management provided frequently asked questions (FAQs) regarding compensation of post staff. The FAQs state:

For host country resident personal service contractor [HCRPSC] staff, an equivalency grade should be provided for each contract position as a way to equitably relate pay between employee and contract positions. HRM can assist post management by providing equivalency grades for contract positions using the FSN classification system. Post can then use the Local Compensation Plan as a guideline for setting contract rates. Equity in benefits, both monetary and non-monetary, between FSNs and HCRPSCs should be taken into account before finalizing compensation packages.

The post had seven PSCs whose salaries exceeded the maximum compensation of equivalent positions listed in the U.S. Embassy’s LCP. The post did not provide justification for salary increases, such as a local market survey of positions with similarly required qualifications and skills sets. The excess compensation from January 2010 through the end of current personal service contracts as of December 2013, totaled \$41,604 USDE as detailed below.

**Table 2. Total Basic Compensations in Excess of LCP**

Staff No.*	Date Salary First Exceeded LCP	Excess in USDE
1	01/02/11	1,541
2	01/03/10	4,634
3	01/03/10	4,634
4	01/03/10	15,273
5	01/02/11	2,631
6	01/03/10	11,350
7	01/02/11	1,541
<b>Total</b>		<b>\$41,604</b>

\*Staff number is used in place of actual names

In December 2012, the DMO initiated action to gradually bring the PSCs’ compensations in-line with similar salaries in the LCP. MS 743 procedures states, “PSCs are solely entitled to the compensation and benefits specified within the terms of their contracts unless, in rare cases, local law overrides such agreed upon benefits.” When making adjustments to PSC contracts it is important to understand how PSCs are treated according to local labor laws and their requirements. The DMO consulted the U.S. Embassy but had not consulted the Office of Acquisitions and Contract Management or a local lawyer until our audit identified the need to do so.

We consider the amount of compensation in excess of the LCP maximums as a questioned cost because the post could not provide adequate justification and support for paying amounts above what the LCP considered fair and reasonable.

**We recommend:**

- 2. That the director of management and operations establish a process to determine fair and reasonable compensation, including consideration of the local compensation plan, and ensure the basis for compensation is documented in the personal services contractor files.**

## **GENERIC VENDOR NAMES**

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*The post incorrectly used “PC/Armenia” as a generic vendor name instead of the actual name to record \$8,742 in payments.*

The Peace Corps’ *Overseas Financial Management Handbook, Section 13.14.1* states:

All payments from the imprest fund require a valid receipt, signed by the person actually receiving the funds (not by the staff person who received the interim advance) or a formal receipt issued by a vendor (e.g., register receipt from a grocery store). The “Payee” to be entered into FOR Post therefore must also be the vendor, not the staff member taking the interim advance. (The exception is for “claims,” such as medical or taxi. For claims, the Payee is the staff member or Volunteer.)

In the circumstance where there is no single payee (a group paid together), the “Payee” entered into FOR Post must be a specific description of the Payees or Payments. Good Payee names: “Host Family Allowances” and “PST Supplies.” Bad Payee names: “Peace Corps/Country” and “Misc Payees.”

Our analysis of the post’s disbursements indicated that the post erroneously used “PC/Armenia” as a generic vendor name instead of the actual name to record \$8,742 as a rental property object class code. Using the actual vendor’s name will maintain the integrity of financial data and minimize any potential fraud. Accurate and reliable financial information is necessary for managers to make informed decisions about agency resources and to provide oversight of payments, for example identifying duplicate payments.

**We recommend:**

- 3. That the director of management and operations establish and enforce formal procedures to ensure that disbursements are recorded in the appropriate vendor’s name.**

## INFORMATION TECHNOLOGY

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***The post had an information technology contingency plan, but had not recently tested the plan or included specifics on disaster recovery.***

The National Institute of Standards and Technology Special Publication 800.53, “*Security and Privacy Controls for Federal Information Systems and Organizations*,” requires testing contingency plans for information systems to determine the effectiveness of the plan and the organizational readiness to execute the plan; reviewing the contingency plan test results; and initiating corrective actions, if needed.

According to the information technology specialist (ITS), the post prepared a contingency plan but never tested it. The contingency plan included several essential elements including priorities, disaster types, recovery procedures, and points of contact. The ITS should finalize and test the post’s information system security plan. In addition, the plan could be improved by adding information about manual processes and how the recovery site would be set up and made operational.

**We recommend:**

- 4. That the post test the information technology contingency plan yearly.**

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## OTHER AREAS OF CONCERN

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We noted the following additional areas that could be improved to enhance efficiency.

- **Bills of Collection.** From October 2011 through May 2013, the post processed 201 of 383 or 52 percent bills of collection (BOC) for personal phone usage. The post could minimize its workload in preparing BOCs, general receipts, and following up on outstanding BOCs regarding personal phone usage. The post could also enhance its current phone policy to minimize staff's time processing BOCs and to better limit personal use of phones.
- **PSC Cashier Appointment.** Following changes in the law made by the Kate Puzey Peace Corps Volunteer Protection Act of 2011 (Kate Puzey Act) affecting Peace Corps personal services contractors (PSCs), the agency issued MS 743a<sup>2</sup>, "Personal Services Contracts with Host Country Residents." This MS permits PSCs to perform inherently governmental functions, actions so intimately related to the public interest as to require performance by U.S. government direct hire employees, including serving as cashiers. The Kate Puzey Act permits the agency to deem a PSC an employee for any purpose other than for the purposes of any law administered by the Office of Personnel Management.<sup>3</sup> Prior to this change, PSCs could not be considered employees for any purpose and could not perform inherently government functions. These restrictions were included in their agency PSC contracts.

The post contracted with a PSC to serve as its cashier. However, that individual could not assume cashiering duties for three months because the changes in the law had not been clearly communicated to the Departments of State and Treasury.<sup>4</sup> The cashier was able to perform other tasks in her statement of work while waiting for headquarters to obtain the proper authorizations. However, the agency could have been more efficient with better planning and coordination with the post.

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<sup>2</sup> PSCs whose contracts are awarded or amended bilaterally after the enactment of Kate Puzey Act are considered employees for most purposes.

<sup>3</sup> 22 U.S. Code § 2509(a)(5).

<sup>4</sup> U.S. Department of State Foreign Affairs Manual Volume 4, Handbook 3, "Cashier Management," section H-393.1.1 states, "Only a direct-hire, permanent employee of the Department of State of any nationality or employees hired under personal services agreement (PSA) or personal services contract (PSC) authorities (e.g., 22 U.S.C. 2669, 22 U.S.C. 2396(a)(3), etc.) that are exempt from Office of Federal Procurement Policy (OFPP) Policy Letter No. 92-1 "Inherently Governmental Functions" may be designated by the servicing USDO to be a Department of State cashier."

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## LIST OF RECOMMENDATIONS

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**We recommend:**

1. That the director of management and operations monitor vehicle usage and ensure the post operates its vehicle fleet efficiently.
2. That the director of management and operations establish process to determine fair and reasonable compensation, including consideration of the local compensation plan, and ensure the basis for compensation is documented in the personal services contractor files.
3. That the director of management and operations establish and enforce formal procedures to ensure that disbursements are recorded in the appropriate vendor's name.
4. That the post test the information technology contingency plan yearly.

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## APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

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In 1989, OIG was established within the Peace Corps as an independent entity that reports to both the Director and Congress. The purpose of OIG is to prevent and detect fraud, waste, abuse, and mismanagement and to promote economy, effectiveness, and efficiency in government.

Our objective in auditing overseas posts is to determine whether the financial and administrative operations are functioning effectively and comply with Peace Corps policies and federal regulations. Our audit conclusions are based on information from three sources: (1) document and data analysis, (2) interviews, and (3) direct observation. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit of PC/Armenia covered FYs 2010-12 and up to February 2013. While at the post, we interviewed key staff including the country director, DMO, staff responsible for administrative support, and the lead Peace Corps medical officer. We communicated issues and areas of improvement to post senior staff and Peace Corps management at headquarters, and included significant issues noted during our audit in this report.

Although we could not independently verify the reliability of all this information, we compared it with other available supporting documents to determine data consistency and reasonableness. We relied on the results of the annual Federal Information Security Management Act review, which did not identify significant deficiencies with data reliability that would impact our audit. Based on these efforts, we believe the information we obtained is sufficiently reliable for this report.

Our audit criteria were derived from the following sources: federal regulations, the *Peace Corps Manual*, the *Overseas Financial Management Handbook*, *Medical Technical Guidelines*, and other Peace Corps policies and initiatives.

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## APPENDIX B: LIST OF ACRONYMS

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BOC	Bills of Collection
DMO	Director of Management and Operations
FAQ	Frequently Asked Question
FY	Fiscal Year
ITS	Information Technology Specialist
LCP	Local Compensation Plan
MS	Peace Corps Manual Section
OIG	Office of Inspector General
PSC	Personal Services Contractor
USDE	United States Dollar Equivalent

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## APPENDIX C: QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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We identified funds to be put to better use and questioned costs during the course of the audit.

### Funds Put to Better Use

Finding	Description	Amount
1	Reducing vehicle authority by one vehicle	\$50,000

### Questioned Cost - Unsupported

Finding	Description	Amount
2	Salary payment over the maximum rate listed on LCP	\$41,604

The Inspector General Act defines funds put to better use and questioned costs as the following:

- Funds put to better use: funds that could be used more efficiently if management took actions to implement and complete the recommendation.
- Questioned costs: costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

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## APPENDIX D: MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT

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Since 1961.

**MEMORANDUM**

**To:** Kathy Buller, Inspector General

**Through:** Daljit K. Bains, Chief Compliance Officer *for D.B. O'Connell*

**From:** Kathy Rulon, EMA Regional Director *K.A. Rulon*  
David Lillie, Armenia Country Director

**Date:** January 23, 2014

**CC:** Carrie Hessler-Radelet, Acting Director  
Stacy Rhodes, Chief of Staff  
Joaquin Ferrao, Deputy Inspector General  
Waheed Nassar, Assistant IG  
Carlos Torres, Associate Director for Global Operations  
Nancy Gehron, EMA Chief Admin Officer  
Hill Denham, EMA Expert  
Denise Cagley-Jefferson, Armenia DMO  
Patricia Barkle, Deputy Chief Compliance Officer

**Subject:** Agency Response to the Preliminary Report of Peace Corps Armenia, January 2014

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Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps Armenia, as outlined in the Preliminary Report sent to the Agency on December 16, 2013.

The Region concurs with all 4 recommendations provided by the OIG in its Preliminary Audit Report: Peace Corps Armenia. Post has addressed and provided supporting documentation for 4 of the 4 recommendations.

**Recommendation 1**

That the director of management and operations monitor vehicle usage and ensure the post operates its vehicle fleet efficiently.

**Concur**

**Response:** Post sold the 2005 Land Cruiser in the U.S. Embassy Yerevan auction on May 18, 2013 for \$15.2K. Post is satisfied with the current reduction in vehicle ceiling from six to five and will continue to monitor and analyze vehicle usage annually to ensure fleet efficiency.

**Documents Submitted:**

- Auction Receipt
- Vehicle Disposition

**Documents to be Submitted:** None

**Status and Timeline for Completion:** Completed on May 18, 2013

**Recommendation 2**

That the director of management and operations establish a process to determine fair and reasonable compensation, including consideration of the local compensation plan, and ensure the basis for compensation is documented in the personal services contractor files.

**Concur**

**Response:** Upon arrival at post, DMO analyzed PSC compensation levels and discovered that PSC salaries were not aligned with the LCP. On December 30, 2012, DMO aligned all PSC compensation levels with the LCP, except those of seven PSCs whose compensation was over the LCP salary scale. In consultation with the CD, DMO froze the seven PSCs salaries indefinitely. However, during the IG audit, DMO was advised to consult with OACM, GC and a local law firm for further guidance. With concurrence from Region and OACM, post was instructed by GC to implement the salary reductions. All PSC salaries were aligned with the LCP on December 29, 2013. The PSC files were documented accordingly.

**Documents Submitted:**

- Memo to File dated Dec 30, 2012
- Notice dated Nov 15, 2013
- Memo to File dated Dec 19, 2013

**Documents to be Submitted:** None

**Status and Timeline for Completion:** Completed on December 29, 2013

### **Recommendation 3**

That the director of management and operations establish and enforce formal procedures to ensure that disbursements are recorded in the appropriate vendor's name.

#### **Concur**

**Response:** DMO has trained local staff on the importance of keeping up with current fiscal coding, and additional training was provided to the cashier who attended the Cashier Conference in November 2013. In addition, multiple vendors converted from cash to EFT, reducing the Imprest fund from \$25K to \$10K since Dec 2013. All of the FY13 PST rental property was recorded using the appropriate vendor's name.

#### **Documents Submitted:**

- FORPost Budgeted Funds Used Detail Report for FY10 PST Property Rental
- FORPost Budgeted Funds Used Detail Report for FY11 PST Property Rental
- FORPost Budgeted Funds Used Detail Report for FY12 PST Property Rental
- FORPost Budgeted Funds Used Detail Report for FY13 PST Property Rental
- Imprest Decrease Cable October 2012
- Imprest Decrease Cable December 2013

**Documents to be Submitted:** None

**Status and Timeline for Completion:** Completed on December 18, 2013.

### **Recommendation 4**

That the post test the information technology contingency plan yearly.

#### **Concur**

**Response:** Post tested the contingency plan on September 18, 2013 and will continue to do so annually and submit the report to OCIO.

#### **Documents Submitted:**

- Email to OCIO from ITS to report contingency plan test.

**Documents to be Submitted:** None

**Status and Timeline for Completion:** September 18, 2013

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## APPENDIX E: OIG COMMENTS

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Management concurred with all four recommendations. We closed all four recommendations based on evidence of corrective actions that address the recommendations.

In their response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the region or post has taken these actions, or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

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## APPENDIX F: AUDIT COMPLETION AND OIG CONTACT

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### AUDIT COMPLETION

This audit was conducted under the direction of Assistant Inspector General for Audit Bradley Grubb by Senior Auditor Waheed Nasser. Additional support was provided by Lead Auditor Hal Nanavati.



Assistant Inspector General for Audit  
Bradley Grubb

### OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please contact Assistant Inspector General for Audit Bradley Grubb at [bgrubb@peacecorps.gov](mailto:bgrubb@peacecorps.gov) or 202.692.2914.

# Help Promote the Integrity, Efficiency, and Effectiveness of the Peace Corps

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