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

From: Kathy A. Buller, Inspector General 

Date: December 3, 2013

Subject: Final Report on the Audit of Peace Corps/Macedonia
(IG-14-02-A)

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

Management concurred with all four recommendations. All four recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. 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 D, address these matters. Please respond with documentation to close the remaining open recommendation within 90 days of receipt of this memorandum.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Bradley Grubb at 202.692.2914 or to Lead Auditor Hal Nanavati at 202.692.2929.

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

cc: Stacy Rhodes, Chief of Staff/Chief of Operations
Elisa Montoya, White House Liaison/Senior Advisor to the Director
Bill Rubin, General Counsel
Carlos Torres, Acting Associate Director, Global Operations
Joseph Hepp, Chief Financial Officer
Paul Shea, Deputy Chief Financial Officer
Kathy Rulon, Acting Director, EMA
Samuel Taylor, Budget Officer
Susanna Karap-Szilagyi, Director, Global Accounts Payable
Brenda Goodman, Deputy Associate Director, Office of Health Services
Patricia Barkle, Deputy Chief Compliance Officer
Hill Denham, Chief of Operations, EMA
Carol Melo, Chief Administrative Officer, EMA
Kathleen Corey, Country Director, Macedonia

James Zalansky, Director of Management and Operations, Macedonia
Macedonia Country Desk



Peace Corps Office of Inspector General



Peace Corps/Macedonia Volunteer Lori Weaver at the elementary school where she teaches



Flag of Macedonia

Final Audit Report: Peace Corps/Macedonia (IG-14-02-A)

December 2013

EXECUTIVE SUMMARY

BACKGROUND

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Macedonia (hereafter referred to as “the post”) from April 15-26, 2013.

Staff:

- U.S. direct hires: 3
- Foreign service nationals: 2
- Full-time personal services contractors (PSCs): 16
- Part-time PSC: 1

Spending (approx.):

- Fiscal year (FY) 2012 post spending - \$1.7 million
- Average regional overhead - \$418,000



Map of Macedonia

WHAT WE FOUND

The post’s financial and administrative operations were effective and complied with agency policies and applicable federal laws and regulations. We noted few areas in need of improvement: post allowed the medical assistant to maintain a recurring interim advances, post did not separate duties for management of grant projects, and post did not comply with the agency’s policy for disposal of expired medical supplies.

RECOMMENDATIONS IN BRIEF

Our report contains four recommendations directed to the post to improve the monitoring of cash advances, ensure proper separation of duties and timely issuance of bills of collection (BOCs), and compliance with agency policies when disposing of expired medical supplies. Management concurred with all four recommendations. All four recommendations will remain open pending documentation described in Appendix C.

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BACKGROUND

OIG conducted the audit of the post April 15-26, 2013. We previously performed an audit of the post in 2002 and issued our report IG-02-20-A.

The first group of Volunteers arrived in 1996 and since then approximately 500 Volunteers have served in Macedonia. At the time of our audit, 73 Volunteers were working in the education, and community and municipal development project sectors. The post's FY 2012 spending was approximately \$1.7 million. The Europe, Mediterranean, and Asia (EMA) region at headquarters incurs an additional \$418,000 per overseas post.¹

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.

AUDIT RESULTS

The post's financial and administrative operations were effective and complied with agency policies and applicable federal laws and regulations. Overall, the post was managed well, staff were highly qualified, and controls were in place and operating effectively. Staff were knowledgeable of Peace Corps' policies and had developed procedures to ensure compliance. We noted few areas in need of improvement: post allowed the medical assistant to maintain a recurring interim advances, post did not separate duties for management of grant projects, and post did not comply with the agency's policy for disposal of expired medical supplies.

IMPREST FUND INTERIM ADVANCES

The post did not comply with agency policy on interim advances.

The *Overseas Financial Management Handbook* (OFMH) section 13.18 states that:

Peace Corps Trainees, Volunteers, or staff may receive an interim advance to make a cash purchase when it is more economical or expeditious than making the payment by U. S. Government check or EFT.

This interim cash advance must be supported by a copy of the authorized purchase document, and liquidated (accounted for) within three (3) working days. The recipient of the funds is personally accountable for the funds until they are accounted for (with receipts or funds are returned).

An interim advance is used to make authorized purchases and is not a petty cash fund held by employees without cashier designations. When employees receive permanent advances they are

¹ 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 EMA region in direct support of its 20 overseas posts in FY 2011, which is an average of \$418,000 per post.

acting as sub-cashiers rather than occasional money holders, and are therefore required to comply with the *Peace Corps Manual* section (MS) 760. This MS provides guidelines for establishing the sub-cashier function and details the responsibilities and liabilities of employees acting as sub-cashiers.

During the review of imprest fund reconciliation, we noted that the medical assistant received interim advances of approximately the same amount every three days over a period of several months. On several occasions, the medical assistant returned the entire interim advance without making any purchases. As required by the OFMH, the medical assistant brought cash to the cashier to settle the open interim advance every three days (approximately 80 times per year). The cashier then canceled the open interim advance and created a new interim advance for the same amount. The medical assistant created a new purchase document to support the new interim advance.

As these advances remained open indefinitely, they appeared to be permanent advances and did not comply with the interim advance guidelines.

We recommend:

1. That the director of management and operations monitor employees receiving cash advances to ensure advances are only for authorized purchases.

MANAGEMENT OF GRANT PROJECTS

The post did not separate duties for the management of grant projects.

According to the Government Accountability Office (GAO)'s Internal Control Management and Evaluation Tool:

“Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud.

- No one individual is allowed to control all key aspects of a transaction or event.
- Responsibilities and duties involving transactions and events are separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial functions and handling of related assets.
- Duties are assigned systematically to a number of individuals to ensure that effective checks and balances exist.
- Where feasible, no one individual is allowed to work alone with cash, negotiable securities, or other highly venerable assets.

Since the departure of the grant coordinator, the cashier has managed most of the Volunteer grant projects. The cashier conducted the following for small project assistance (SPA) grants:

- coordinated the selection of SPA grants

- created the obligation and liquidation (with the director of management and operation's (DMO's) approval) to disburse the cash to the Volunteer's bank account for all approved SPA projects
- tracked the status of the SPA projects
- reviewed the Volunteer's completion report and supporting documents
- sent the completion report and support for the balance due, if any, to the billing officer to issue a BOC
- collected any unused funds from Volunteers for BOCs

Although we did not identify any improper actions, this concentration of duties in one staff member was not in keeping with GAO principles of internal control and exposed the agency to unnecessary risks.

We recommend:

2. That the director of management and operations follow agency policy and separate the responsibilities of verifying final project costs, creating bills of collection, and collecting reimbursements among different staff members to reduce the risk of error or fraud.

Administrative staff did not properly handle cash received from a Volunteer.

According to MS 777, "Billing and Collection Procedures, Debts and Claims," "...If another office or employee [besides the cashier] receives a remittance it should be immediately delivered to the collection officer [and] the collection officer will issue a separate receipt for each collection received." OFMH section 7.2, "The Billing Process," states, "Billing Officers prepare Bills of Collection (BOCs) when a reimbursement or other payment is due to Peace Corps."

In 2009, a Volunteer terminated his/her service prior to completing his/her SPA project. The Volunteer neither prepared the SPA project completion report nor refunded the balance due to the cashier before leaving the country. Instead, the Volunteer sent the amount due through another Volunteer to settle the account with the post. The other Volunteer handed the funds to a member of the financial staff. The billing officer collected and retained custody of the funds for over five weeks prior to issuing BOCs and issuing a receipt to the Volunteer.

Per the billing officer, the departing Volunteer had the balance of the funds due in a local bank account. It took the post approximately five weeks to complete the paperwork to withdraw the funds. The post did not want to create multiple BOCs so the DMO instructed the billing officer to retain custody of the cash without creating a BOC or receipt, in violation of Peace Corps policy as noted above.

We recommend:

3. The director of management and operations remind the financial staff to create bills of collection as soon as it is determined that amounts are due from the Volunteers and ensure that all cash is provided to the cashier and that a receipt is created.

MEDICAL SUPPLIES

The post did not comply with the agency's policy for disposal of expired medical supplies.

MS 734 requires that medical supplies with expired shelf lives be destroyed in accordance with local waste disposal, and air and water pollution control standards. The local waste disposal requirements in Macedonia require pharmaceuticals to be packaged, labeled, and burned in an approved incinerator. Furthermore, Peace Corps Technical Guidance 240, "Disposal of Outdated Medical Supplies," prohibits the disposal of drugs into any water supply. It states, "Drugs may not be disposed down a sink, flushed down a toilet, discarded into a sewage system, discarded into any body of water, or otherwise discarded via a water system."

The country director and Peace Corps medical officer inappropriately flushed expired medical supplies, including controlled substances, which is in direct conflict with Peace Corps guidance and violates local waste disposal requirements.

We recommend:

4. The country director use the proper method for the disposal of expired medical supplies, including controlled substances, in compliance with the agency policy and local regulations.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We did not identify funds put to better use or questioned costs during the course of the audit.

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of management and operations monitor employees receiving cash advances to ensure advances are only for authorized purchases.
2. That the director of management and operations follow agency policy and separate the responsibilities of verifying final project costs, creating bills of collection, and collecting reimbursements among different staff members to reduce the risk of error or fraud.
3. The director of management and operations remind the financial staff to create bills of collection as soon as it is determined that amounts are due from the Volunteers and ensure that all cash is provided to the cashier and that a receipt is created.
4. The country director use the proper method for the disposal of expired medical supplies, including controlled substances, in compliance with the agency policy and local regulations.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

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/Macedonia covered fiscal years 2010, 2011, 2012, and 2013 up to March 31, 2013. While at the post, we interviewed key staff including the CD, the DMO, staff responsible for administrative support, and the lead Peace Corps medical officer. We communicated issues and areas of improvement to senior staff at post and Peace Corps management at headquarters and included significant issues noted during our audit in this report. We primarily reviewed the following processes and associated controls:

- BOCs
- Contracts and leases
- Cash and Non-cash payments
- Imprest fund
- Credit card transactions
- Information technology general controls
- Medical supplies
- Personal property and vehicles
- Personal services contracts
- Volunteer payments

We relied on computer-processed data from the post's accounting system and verified such data with hard-copy documents, as required. While we did not test the system's controls, we believe the information generated by the system and used by us was sufficiently reliable for our audit objective.

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

APPENDIX B: LIST OF ACRONYMS

DMO	Director of Management and Operations
EMA	Europe, Mediterranean, and Asia
FY	Fiscal Year
GAO	Government Accountability Office
MS	Peace Corps Manual Section
OFMH	Overseas Financial Management Handbook
OIG	Office of Inspector General
PSC	Personal Services Contractors
SPA	Small Project Assistance

APPENDIX C: AGENCY'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Daljit K. Bains, Chief Compliance Officer

From: Kathy Rulon, EMA Acting Regional Director *K.A. Rulon*
Janeen Dorsch, Acting Country Director

Date: November 8 2013

CC: Carrie Hessler-Radelet, Acting Director
Stacy Rhodes, Chief of Staff
Joaquin Ferrao, Deputy Inspector General
Hal Nanvanti, Assistant IG Audit
Rebecca Underhill, Assistant IG Audit
Carlos Torres, Acting Associate Director, Global Operations
Hill Denham, EMA Chief of Operations
Carol Melo, EMA Chief Administrative Officer
Jim Zalansky, Director of Management and Operations: Macedonia
Jon Darrah, Expert Advisor to PC/Macedonia

Subject: Agency Response to the Preliminary Report of Peace Corps/Macedonia, September 2013

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Macedonia, as outlined in the Preliminary Report sent to the Agency on September 25, 2013.

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

The Region will continue to work with Post and the departments identified in the Preliminary Report to ensure closure of these recommendations by the dates included within for outstanding recommendations.

Recommendation 1

That the Director of Management and Operations monitor employees receiving cash advances to ensure advances are only for authorized purchases.

Concur

Response: Advances to the medical unit and General Services Unit (GSU) are for authorized purchases and vary according to anticipated purchase needs.

Documents Submitted: Interim Cash Advances

1. Rec #1- 01 After April 26, 2013 Medical Interim Cash Advance – 1 page
2. Rec #1 -02 May 2013 Medical Interim Cash Advances – 6 pages
3. Rec #1- 03 June 2013 Medical Interim Cash Advances – 6 pages
4. Rec #1- 04 July 2013 Medical Interim Cash Advances – 7 pages
5. Rec #1- 05 August 2013 Medical Interim Cash Advances -7 pages
6. Rec #1- 06 September 2013 Medical Interim Cash Advances -7 pages

Status and Timeline for Completion: April 26, 2013

Recommendation 2

That the director of management and operations follow agency policy and separate the responsibilities of verifying final project costs, creating bills of collection, and collecting reimbursements among different staff members to reduce the risk of error or fraud.

Concur

Response: The duties of verifying final project costs are the responsibility of the Financial Assistant. The bills of collection will continue to be made by the Administrative Assistant and the collections made by the SPA Coordinator/Cashier.

Documents Submitted: Work and Development Plan (WDP) for Locally Employed Staff Embassy Template for Financial Systems Coordinator and Cashier; Statement of Work for the Program Assistant/Administration; All Volunteer Memo; E-mails

1. Recommendation #2 -01 WDP for FSC-3 pages
2. Recommendation #2-02 SOW for PA/Admin-3 pages
3. Recommendation #2-03 WDP for Cashier -3 pages
4. Recommendation #2-04 All Volunteer Memo #15-2013- 2 pages
5. Recommendation #2-05 – Email from FSC to Billing Officer regarding SPA
6. Recommendation #2-06 – Email from FSC to Billing Officer regarding SPA

Status and Timeline for Completion: April 26, 2013

Recommendation 3

The Director of Management and Operations remind the financial staff to create bills of collection as soon as it is determined that amounts are due from the Volunteers and ensure that all cash is provided to the cashier and that a receipt is created.

Concur

Response: Creating bills of collection as soon as amounts are due from Volunteers has been the practice of the administrative staff since this one time occurrence in 2009. In this instance, a Volunteer who was in the middle of completing a SPA project was medically evacuated and passed his SPA funds to another Volunteer. This Volunteer returned the funds to post staff, but staff held onto the funds in anticipation that the Volunteer would return from medical leave. This was not in accordance with the policy that was in place at the time. Post has always required that BOC be processed immediately after funds are returned, and this issue has not happened since the incident in 2009, as post has followed the guidelines in the OFMH regarding bills of collection. The Director of Management and Operations reminded staff on November 7, 2013 that it has always been post's policy to create bills of collection as soon as it is determined that amounts are due from Volunteers, that all cash is provided to the cashier, and that receipts are always created.

When the Financial Assistant closes out a SPA or PCPP project, if there are unused funds, a BOC is made immediately by the Billing Officer, given to the DMO for signature, and returned to the billing officer. The BOC is then presented to the cashier and the Volunteer pays that amount as part of the close out process. The DMO signature is required when a SPA project is being closed which is a double check that a BOC has been issued and payment made. VAT refund requests are prepared by the billing officer, signed by the DMO and the billing officer immediately prepares the BOC for DMO signature. The BOC log and file that is maintained by the billing officer is checked monthly by either the DMO or the CD as part of the monthly cash count, per OFMH 7.2.2, and the results sent to our cashier monitor.

Documents Submitted:

1. Rec#3-01 Macedonia BOC policy
2. Rec#3-02 FY 2009 BOC Personal Cell Phone Use
3. Rec#3-03 FY 2010 BOC Clearing of SPA Project
4. Rec#3-04 FY 2011 BOC Clearing of PCPP Project
5. Rec#3-05 FY 2012 BOC VAT Refund
6. Rec#3-06 FY 2013 BOC Clearing of SPA Project

Status and Timeline for Completion: November 7, 2013.

Recommendation 4

The country director uses the proper method for the disposal of expired medical supplies, including controlled substances, in compliance with the agency policy and local regulations.

Concur

Response: Post has used a proper method for the disposal of medical supplies. Since the audit, post has destroyed its expired medications with those of the U.S Embassy medical unit and has identified another distributor that can legally destroy expired medications for future disposals. The guiding policy for medical disposals has always been the OFMH, which states that medical waste be disposed of in a safe and secure manner in accordance with local laws. The Ministry of Health requires that expired medications be disposed of by burning in a high-temperature incinerator in Skopje. Post follows U.S. Embassy regulations that are in compliance with local ministry requirements. To ensure that all staff is aware of this procedure, post sent a policy reminder to all staff on the 7th of November, 2013.

Documents Submitted:

1. Rec #4-01 (01 through 02) List of PC/M medicines for destruction -4 pages
2. Rec #4-02 (01)Embassy Transport Waste Document -2 pages
3. Rec #4-03 (01) Embassy Request Date for Disposal-2 pages
4. Rec #4-04 (01) Disposal Company Receipt – 2 pages
5. Rec #4-05 (01) Embassy Facsimile -2 pages
6. Rec #4-06 (01)Approval for disposal of medicines with expired dates from the Ministry of Health, Macedonia to the US Embassy, Skopje -2 pages
7. Rec #4-07(01) Peace Corps Macedonia's updated policy on disposal of medical waste, sent to staff on November 7, 2013.

Status and Timeline for Completion: November 7, 2013

APPENDIX D: OIG COMMENTS

Management concurred with all four recommendations. All four recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. In its response, management described actions it is taking, or intends to take, to address the issues that prompted each of our recommendations. 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.

APPENDIX E: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Lead Auditors Hal Nanavati and Rebecca Underhill performed the audit of Peace Corps/Macedonia.



Bradley Grubb
Assistant Inspector General for Audit

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 or 202.692.2914.

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