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

From: Kathy A. Buller, Inspector General 

Date: September 27, 2013

Subject: Final Report on the Audit of Peace Corps/Zambia
(IG-13-06-A)

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

Management concurred with all 12 recommendations. All 12 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.

Attachment

cc: Stacy Rhodes, Chief of Staff/Chief of Operations
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Zambia Country Desk



Peace Corps Office of Inspector General



Zambian Village



Flag of Zambia

**Final Audit Report:
Peace Corps/Zambia
IG-13-06-A**

September 2013

EXECUTIVE SUMMARY

BACKGROUND

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Zambia (hereafter referred to as “the post”) from December 3-21, 2012.

Staff:

- U.S. direct hires: 2
- Foreign service nationals: 2
- Full-time personal services contractors (PSCs): 51
- Part-time PSCs: 49

Spending (approx.):

- FY 2012 post spending: \$7.7 million
- Average regional overhead: \$401,000



Map of Zambia

WHAT WE FOUND

The post’s financial and administrative operations required improvement in a number of areas and did not fully comply with agency policies and applicable federal laws and regulations. Specifically, the post:

- Did not fully utilize the point of sale exemption from Value Added Tax (VAT) and paid approximately \$140,000 from October 2010 to December 2012 without claiming refunds.
- Processed an overpayment of approximately \$19,700 in living allowances to a Volunteer. The overpayment went undetected because of inadequate monitoring of Volunteer reimbursements by the Office of Volunteer and Personal Services Contractor Services’ (VPS). Further, VPS had not developed criteria or a systematic process for selecting and reviewing amounts paid/reimbursed to Volunteers.
- Lacked a process to allocate and track spending from President’s Emergency Plan for AIDS Relief (PEPFAR) and other funding sources, and inappropriately included VAT in the amount charged to PEPFAR funds.
- Allowed sub-cashiers in the provincial offices to maintain bank accounts in their personal name for agency funds without complying with federal law and Peace Corps policy.

We also noted issues with timeliness in submitting vouchers to headquarters, analyzing Volunteer living survey responses, and improper business practices at the provincial offices.

RECOMMENDATIONS IN BRIEF

Our report contains 12 recommendations directed to both the post and headquarters, including: that the post submit requests for VAT refunds and train the staff on the exemption and the process; enhance controls over Volunteer allowances payments; discontinue the practice of

opening bank accounts in staff names; and improve the tracking and recording of PEPFAR expenses.

Our audit work led us to identify agency-wide control issues. As a result, we issued two management advisory reports related to cost saving opportunities in VAT and the certification process for non-recurring payments to Volunteers.

Management concurred with all 12 recommendations. All 12 recommendations will remain open pending documentation described in Appendix C.

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BACKGROUND

OIG conducted the audit of the post December 3-21, 2012. We previously performed an audit in August 2005 and issued our report in May 2006 (IG-06-12-AE).

The first group of Volunteers arrived in 1993 and since then approximately 1,435 Volunteers have served in Zambia. At the time of our audit, 274 Volunteers were working in the following project sectors: education, community development, environment, agriculture, health, and business. The post's FY 2012 budget was approximately \$7.7 million. This amount includes significant funding from PEPFAR: \$3.7 million with an additional \$745,000 available from prior years. In December 2012, the post had approximately 121 Volunteers funded by PEPFAR. The Africa Region at headquarters incurs an additional \$401,000 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

VALUE ADDED TAX

The post did not fully utilize the point of sale exemption from VAT and paid approximately \$140,000 in VAT from October 2009 to December 2012 without claiming reimbursement.

The Peace Corps country agreement with the government of Zambia exempts equipment and supplies introduced into or acquired by the U.S. government in the republic of Zambia from all taxes, custom duties, and other charges. The U.S. Embassy provides a book of VAT exemption certificates to the post. The post issues a VAT exemption certificate to the vendor with the purchase order, which allows the vendor to issue invoices without charging VAT (point of sale (POS) exemption). If the Peace Corps inadvertently pays any VAT, the Zambian revenue authority allows it to claim a refund within a certain period.

We noted instances where the post did not claim exemption from VAT when processing payments from the imprest fund or by credit card. These payments primarily pertained to amounts disbursed by its provincial offices, and payments by the post for fuel, utilities and supplies. Further, the post did not file an application to claim refund for VAT paid from the Zambian revenue authority. The total disbursements in Zambia between October 1, 2009 and

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 \$11.2 million incurred by the Africa Region in direct support of its 28 overseas posts in FY 2011, which is an average of \$401,000 per post.

December 31, 2012 were approximately \$22.3 million U.S. dollar equivalent (USDE) and payments by credit card and from imprest fund were approximately \$1.7 USDE and \$1.8 USDE, respectively. Based on our analysis, we estimated that the post failed to claim a POS exemption and paid approximately \$140,000 USDE in VAT from October 1, 2009 to December 31, 2012.

Table 1. Estimated VAT Paid by the Post

Payment Type	VAT (USDE)
Citibank	\$ 36,300
Fuel	\$ 66,200
Imprest	\$ 37,500
Total VAT	\$140,000

Per the director of management and operations (DMO), the post did not claim VAT exemptions or file a claim for the refund primarily due to a lack of oversight and awareness about the POS exemption available under provisions in the Zambia Value Added Tax Act. The provincial offices did not claim the POS exemption because the post did not provide them with the VAT exemption form. The post failed to claim POS from fuel because Zambian gas stations were not able to process the VAT exemption.

During our audit, the DMO initiated corrective actions to claim the VAT refund and to distribute the books of VAT exemption certificates to the provincial offices.

We have identified the issue of posts not claiming exemption and or refund for VAT in our previous post audits. When posts fail to claim VAT exemptions and refunds, they overlook cost savings opportunities. We issued the [Management Advisory Report: Cost Savings Opportunity on Value Added Tax](#) to alert agency management and to make recommendations to the Office of the Chief Financial Officer (OCFO) for better management of VAT at all posts.

We recommend:

1. That the director of management and operations accumulate the Value Added Tax receipts and file a refund claim with the appropriate Zambia revenue authorities in accordance with local laws and regulations.
2. That the director of management and operations provide training to staff about applicable Value Added Tax exemptions and the process for claiming Value Added Tax refunds from the appropriate Zambian revenue authorities.

VOLUNTEER ALLOWANCES AND REIMBURSEMENTS

The Volunteer In-Country Allowance Payment System (VICA) is a web-based application used by posts to order monthly, non-recurring allowances and reimbursements for Volunteers. VICA allows posts to manage key Volunteer service dates by starting and stopping allowance payments to Volunteers based on dates entered into the system.

The volunteer support coordinator or the financial assistant at the post processes changes to Volunteer information, allowances, and monthly reimbursement amounts for expenses. VICA requires the DMO's approval for the changes to be effective. The review and approval by the DMO is the critical control to prevent and detect errors in payments made to Volunteers.

VICA generates an exception report to allow the staff in VPS to identify unusual payments and obtain explanations from the post prior to approval of payment by the certifying official. A financial management officer from VPS certifies the VICA reports submitted by the posts for payment.

The post processed an overpayment of approximately \$19,700 in living allowances to a Volunteer, and the overpayment remained undetected due to inadequate monitoring.

In July 2012, the post overpaid approximately \$19,700 USDE to a Volunteer for rent allowance. The overpayment remained undetected until we selected the disbursement for review. Based on further analysis, we noted that the amount paid to the Volunteer was unusually large. The overpaid Volunteer received approximately \$24,300 USDE while the remaining 261 Volunteers received a total of approximately \$96,700 USDE, or an average of \$371 USDE per Volunteer.

According to the DMO, the error occurred when the financial assistant processed rent payments for three months in VICA and mistakenly entered 114,000,000 instead of 11,400,000 Zambian Kwacha. The Volunteer did not report the overpayment to the post.

After we identified the overpayment, the post issued a bill of collection for the amount due from the Volunteer and collected the funds in January 2013. This error occurred because the post did not conduct a proper review of allowances entered in VICA, and VPS did not implement adequate controls and/or the controls did not operate effectively to prevent the overpayment.

Post Level Control. The review and approval by the DMO is a primary control point for preventing and detecting errors in Volunteer payments. However, the DMO did not conduct an adequate review of the data input in VICA and the post did not incorporate a process to reconcile the allowances and reimbursements processed in VICA with supporting documents prior to approving VICA submissions.

VPS Exception Report. VPS had established an exception report to assist in its review of Volunteer payments and identify potential overpayments to Volunteers. However, this control was not adequate because the report for this specified period included over 1,500 transactions, which was too many for staff to do an in-depth review. Further, the exception report format was complex and the exception amounts were listed in local currency only (did not include the USDE), which made it difficult for the reviewer to identify large U.S. dollar amounts. After analyzing the reasons for overpayment, OCFO modified the VICA exception report to include exceptions based on a higher threshold and include the allowance amount in USDE.

This error remained undetected, because under current policy, it appears that neither the post, region, or OCFO analyze allowances and reimbursements to Volunteers.

VPS had not developed criteria or a systematic process for selecting and reviewing supporting documents for amounts paid/reimbursed to Volunteers through VICA.

During our review, we noted that payment requests in VICA included: recurring Volunteer allowances (such as living and leave allowances) based on pre-established rates for each Volunteer listed by VPS and other Volunteer payments for recurring and non-recurring expenses (such as housing or tutoring allowance). During fiscal years (FYs) 2010 and 2012, the post processed over 10,700 transactions totaling \$1.2 million USDE for other Volunteer payments through VICA. Of these, 84 transactions were in excess of \$2,500 representing over 19 percent of other Volunteer payments totaling approximately \$231,000 USDE. The post retains the support for these reimbursed expenses and does not submit the support to VPS.

We analyzed the total disbursements made by the agency for FYs 2010, 2011, and 2012 and noted that the FMO did not review approximately \$3.6 million in transactions over \$2,500. As a result, we issued the Management Advisory Report: Processing Volunteer Reimbursements to communicate this issue to agency management and recommend procedures in VPS to review Volunteer reimbursements for all posts.

We recommend:

3. That the director of management and operations implement enhanced controls to verify the accuracy of Volunteer allowance and reimbursement amounts entered into the Volunteer In-Country Allowances system.
4. That the Office of Chief Financial Officer develop an exception report that supports the financial management officer in the Office of Volunteer and Personal Services Contractor Services to identify errors and enhance controls over monitoring of Volunteer allowance payments through the Volunteer In-Country Allowances system.

The post did not complete an analysis of responses from the Volunteer living survey completed in January 2012, until December 2013.

According to the *Overseas Financial Management Handbook* (OFMH), “The Post must conduct a living allowance survey following the guidance in MS [Manual Section] 221, “Volunteer Allowances,” and using the automated Living Allowance Survey Tool.”

According to the *Peace Corps Manual Section* (MS) 221:

At least annually, the post must conduct a living allowance survey of the Volunteers, using the survey and analysis software issued by the Office of the CFO. This survey is intended to help the Country Director determine the most appropriate level of goods and services needed to ensure the health and effective service of Volunteers, and to determine if a different locality supplement is warranted for a particular site type or location.

The post should analyze the Volunteer survey responses in a timely manner and adjust Volunteer living allowances accordingly. However, the post did not use the online Volunteer Living Allowance Survey Tool and instead obtained the responses manually and had staff enter them in Excel worksheets to complete the analysis, which delayed the process. In FY 2013, the post

completed the Volunteer survey using the automated survey tool to analyze the adequacy of Volunteer allowances.

We recommend:

5. That the director of management and operations use the online Living Allowance Survey Tool to conduct analysis of Volunteer responses to determine if the current Volunteer living allowance is adequate.

PEPFAR

PEPFAR is a U.S. government initiative to address global HIV/AIDS. PEPFAR funds are appropriated to the U.S. Department of State, and then distributed to implementing agencies, including the Peace Corps.

The Peace Corps has received PEPFAR funding since FY 2004 and has leveraged it for vital programming and training enhancements, including: supplemental Volunteer training, funding of additional 27-month Volunteers, Peace Corps Response Volunteers², third year extensions, and activities benefiting community members such as capacity building, grants, or community-initiated activities.

Each post receiving PEPFAR funding has a country operational plan (COP) that outlines the goals, objectives, indicators, activities, and budgets. From the COP, the implementation plan (IP) captures all planned PEPFAR-funded activities and costs at the post level.

The Office of Global Health and HIV (OGHH) manages the PEPFAR program for the Peace Corps. OGHH provides agency-level policy guidance, overall leadership, and general supervision, direction, and coordination of the Peace Corps' domestic and foreign HIV/AIDS activities. It also provides technical and operational support to Peace Corps posts and headquarters' offices.

The post lacked a process to allocate and track spending from PEPFAR and other funding sources.

The post received significant funding from PEPFAR. The total budgeted funding for FY 2012 was approximately \$3.7 million with additional \$745,000 available from prior years. In December 2012, the post had approximately 121 Volunteers funded by PEPFAR. During our audit, we could not verify the accuracy and completeness of amounts charged to PEPFAR by the post for the reasons noted below.

Volunteer Allowances. We identified approximately 70 Volunteers where the post used multiple sources (appropriated and PEPFAR) for funding Volunteer allowances. The post paid approximately \$406,000 USDE to these Volunteers and charged \$222,000 USDE to appropriated funds and \$184,000 USDE to PEPFAR Funds, respectively. Between October 2010 and

² Response Volunteers are seasoned professionals the opportunity to undertake short-term, high-impact assignments in various programs around the world.

December 2012, the post paid approximately \$3 million USDE in Volunteer allowances of which approximately \$1 million USDE (33 percent) was funded by PEPFAR. Normally, Volunteers are assigned to a specific program and the Volunteer allowance-funding source is determined by the nature of the program assigned. Per PEPFAR IP guidance for FY 2012 issued by OGHH, “the posts that fund Volunteers should plan on an implementation period that extends through funded Volunteers close of service (COS).”

The post did not implement procedures to verify the accuracy of the funding source for monthly Volunteer allowance payments; prepare and retain supporting documents to justify changes made to the funding source for Volunteers; or review allowance payment reports to detect and correct errors made in Volunteer allowance payments. After our audit, the post established a review and approval process to verify the accuracy of funding sources for Volunteer allowances.

Allocation for Individual Events. The post allocated direct spending for individual events based on the nature of the event or the funding source associated with the Volunteers and staff attending the event. However, based on our review of selected disbursements, we determined that post miscoded the funding source for some expenses by assigning PEPFAR-related activities to appropriated funds and vice versa. For example, during our limited sample testing, we noted that the post charged approximately \$4,500 in pre-service host family allowance for Volunteers supported by appropriated funds to PEPFAR and approximately \$7,900 in pre-service living allowance for Volunteers supported by PEPFAR funds to appropriated funds.

Allocation of Common Expenses. The post lacked a system to allocate general spending on supplies, medical, utilities, and vehicles to various funding sources. The post also lacked a method to track whether the actual expenses charged to various funding sources complied with the COP and budgets for each spending source. Therefore, we were unable to verify the actual spending with respect to COP for prior years included in our review. In addition, the post has developed an Excel worksheet to track amounts committed and disbursed for PEPFAR activities against the annual IP.

We recommend:

6. That the director of management and operations implement a procedure to verify that Volunteer allowances are charged to appropriate funding source.
7. That the director of management and operations develop a process to verify that expenses are charged to proper funding sources.

The post inappropriately included VAT paid to vendors in the amount charged to PEPFAR funds.

The PEPFAR IP for FY 2012 issued by OGHH states:

- a. Value Added Tax (VAT), customs duties or other similar taxes may not be included in the cost of a purchase, unless subsequently reimbursed by the taxing authority.
- b. Follow normal post procedures for recovering VAT with appropriated funds and credit VAT reimbursements to the original fund.

As we noted in the section on Value Added Tax, the post did not claim the POS exemption from certain invoices. When these invoices pertained to PEPFAR-related expenses, the post charged the total amount paid to the respective PEPFAR funding source. The post allocated approximately \$370,000 USDE to PEPFAR, which included approximately \$51,000 USDE for VAT. As noted above, the agency is precluded from charging VAT to PEPFAR funds, so OCFO must initiate appropriate action to correct the amounts overcharged.

We recommend:

8. That the post reconcile expenses charged to the President's Emergency Plan for AIDS Relief to the country operating plan.
9. That the Office of the Chief Financial Officer process appropriate entries to correct amounts overcharged to the President's Emergency Plan for AIDS Relief.

DISBURSEMENTS

The post did not submit collections and vouchers with supporting documents to the Office of Global Accounts Payable (OGAP) in a timely manner.

OFMH section 66.9 requires that the post send vouchers to OGAP on a weekly basis for payment and retain reference copies for reconciliation

At the time of our review, we noted that the post had not submitted certain collections items for nine weeks and paid vouchers for 11 weeks. For instance, the post did not submit:

- Supporting documents for 13 collection transactions amounting to approximately \$2,600 USDE. The dates of these vouchers were between October and December 2012.
- Twenty-five paid imprest vouchers and sub-vouchers amounting to approximately \$41,000 USDE. The dates of these vouchers were between September and December 2012.

The director of OGAP reminded the post of the requirement to submit vouchers in a timely manner. The primary reason for the large number of open vouchers was that OGAP received a large number of vouchers on a single day. When posts accumulate open transactions for several weeks, it creates delays in processing vouchers at headquarters. Although the certifying officials have not detected irregularities, OGAP has noted instances where the vouchers were carelessly prepared and incomplete, in addition to being late.

According to the DMO, the delay in sending vouchers occurred when the newly hired cashier was undergoing training to manage the cashiering operations. Delays also occurred because the post has to obtain and consolidate documentation for disbursements made by its six provincial offices.

We recommend:

10. That the director of management and operations monitor open collection documents and initiate steps to close collections and vouchers in a timely manner and forward them to the Office of Global Accounts Payable on a weekly basis.

PROVINCIAL OFFICES

The post has six provincial offices in various provinces of Zambia. The primary purpose for operating these provincial offices is to provide direct support to Volunteers serving throughout the country. Zambia has limited transportation infrastructure and poorly maintained roads. Provincial offices reduce the amount of time Volunteers spend traveling to the post for needed resources and support. The provincial offices provide Volunteers access to basic medicines to treat many common ailments and provide critical and timely support for sick and injured Volunteers. Provincial offices have medicine cabinets stocked with a variety of medications for Volunteers.

The post allowed Peace Corps volunteer leaders (PCVLs) to control prescriptions at provincial offices and permitted the Volunteers to take medicine per instructions from the Peace Corps medical officer at the post.

The post maintained a stock of selected prescription and non-prescription medications at all of its provincial offices. The PCVL kept the medicine in a locked cabinet. When a Peace Corps medical officer (PCMO) determined that a Volunteer needed a prescription medication available at one of the provincial offices, the PCMO issued a prescription to the Volunteer. The PCVL then reviewed the prescription and allowed the Volunteer access to the medical cabinet to pick the medicine.

Typically, the PCMO dispenses the medical supplies either at the post or by sending them with Peace Corps staff traveling to nearby Volunteer locations. The process of storing medical supplies at the provincial office and having PCVLs dispense the medicine increases the risk that medical supplies may be misused and may lose accountability. During our visit, we noted that neither the PCMO nor the post management provided adequate training to the PCVL to manage medical inventory and track medications received and taken by other Volunteers. In addition, the medication was stored in plastic Ziploc bags or unsealed bottles, the expiration dates were handwritten, and one of the medicines was expired.

The Office of Health Services (OHS) at headquarters was aware of this practice, but had not documented how to mitigate any potential risks from allowing a PCVL to manage prescription medicine at the provincial offices. After our observation, the country director and the PCMO contacted OHS to obtain adequate authorization, guidance, and to formalize the procedures and enhance controls over medical supplies issued to provincial offices.

We recommend:

11. The country director, in coordination with the Office of Health Services, develop procedures for storing and dispensing medical supplies at provincial offices and train the Peace Corps volunteer leaders on these procedures.

Sub-cashiers in the provincial offices maintained bank accounts in their personal name for agency funds without the U.S. Department of State's Financial Service Center approval.

One or two personal services contractors (PSCs) manages the provincial offices. These offices maintain a small amount of imprest funds to successfully conduct their assignments and to have funds available in case of emergencies. During our visit to the provincial office in the central region, we noted that the sub-cashier designee was a PSC working as the provincial general services assistant.

Title 31 U.S.C. section 3302 states:

- (a) Except as provided by another law, an official or agent of the United States Government having custody or possession of public money shall keep the money safe without-
 - (1) Lending the money;
 - (2) Using the money;
 - (3) Depositing the money in a bank; and
 - (4) Exchanging the money for other amounts.

OFMH chapter 13 states:

Peace Corps posts may not open/maintain establish bank accounts overseas without the authorization of the Departments of State (State) and/or Treasury (Treasury).

A cashier may not place impress funds in a personal bank account or safe deposit box unless specifically authorized to do so by the Secretary of the Treasury or designee.

When we conducted the cash count of funds at the provincial office, we noted that the sub-cashier had deposited approximately \$200 USDE into a local bank account. However, when we reviewed the bank statement to confirm the balance, we noted that the bank account was in the personal name of the PSC instead of the Peace Corps. The post did not obtain approval from the U.S. Department of State's Financial Service Center to operate a bank account in the name of the sub-cashier and, therefore, did not comply with Federal law and Peace Corps policy.

We recommend:

12. That the director of management and operations discontinue the practice of opening bank accounts in the name of staff members or request that the director of the Office of Global Accounts Payable obtain authorization from the U.S. Department of State's Financial Service Center to operate bank accounts in the names of staff members.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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

Funds to be Put to Better Use

Recommendation number	Description	Amount
1	Unclaimed VAT refunds	\$140,000

We identified the following questioned costs during the course of the audit.

Questioned Costs

Recommendation number	Description	Amount
4	Overpayment of rent allowance	\$19,300

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

- Funds to be 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.

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of management and operations accumulate the Value Added Tax receipts and file a refund claim with the appropriate Zambia revenue authorities in accordance with local laws and regulations.
2. That the director of management and operations provide training to staff about applicable Value Added Tax exemptions and the process for claiming Value Added Tax refunds from the appropriate *Zambian* revenue authorities.
3. That the director of management and operations implement enhanced controls to verify the accuracy of Volunteer allowance and reimbursement amounts entered into the Volunteer In-Country Allowances system.
4. That the Office of Chief Financial Officer develop an exception report that supports the financial management officer in the Office of Volunteer and Personal Services Contractor Services to identify errors and enhance controls over monitoring of Volunteer allowance payments through the Volunteer In-Country Allowances system.
5. That the director of management and operations use the online Living Allowance Survey Tool to conduct analysis of Volunteer responses to determine if the current Volunteer living allowance is adequate.
6. That the director of management and operations implement a procedure to verify that Volunteer allowances are charged to appropriate funding source.
7. That the director of management and operations develop a process to verify that expenses are charged to proper funding sources.
8. That the post reconcile expenses charged to the President's Emergency Plan for AIDS Relief to the country operating plan.
9. That the Office of the Chief Financial Officer process appropriate entries to correct amounts overcharged to the President's Emergency Plan for AIDS Relief.
10. That the director of management and operations monitor open collection documents and initiate steps to close collections and vouchers in a timely manner and forward them to the Office of Global Accounts Payable on a weekly basis.
11. The country director, in coordination with the Office of Health Services, develop procedures for storing and dispensing medical supplies at provincial offices and train the Peace Corps volunteer leaders on these procedures.

12. That the director of management and operations discontinue the practice of opening bank accounts in the name of staff members or request that the director of the Office of Global Accounts Payable obtain authorization from the U.S. Department of State's Financial Service Center to operate bank accounts in the names of staff members.

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/Zambia covered fiscal years 2010-2013. While at the post, we interviewed key staff, including: the country director, the DMO, the lead PCMO, and administrative support staff. As part of the audit process, we briefed the country director and DMO. At headquarters, we conducted a general briefing for regional staff. 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:

- Bills of Collection
- 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 was 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

CD	Country Director
COP	Country Operating Plan
COS	Close of Service
DMO	Director of Management and Operations
FMO	Financial Management Officer
FY	Fiscal Year
OCFO	Office of Chief Financial Officer
OFMH	Overseas Financial Management Handbook
OGAP	Office of Global Accounts Payable
OGHH	Office of Global Health and HIV
OIG	Office of Inspector General
PCMO	Peace Corps Medical Officer
PCVL	Peace Corps Volunteer Lead`
PEPFAR	from President's Emergency Plan for AIDS Relief
POS	Point of Sale
PSC	Personal Services Contractor
USDE	U.S. Dollar Equivalent
VAT	Value Added Tax
VICA	Volunteer In-Country Allowance
VPS	Volunteer and PSC Services

APPENDIX C: MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Daljit K. Bains, Chief Compliance Officer 

From: Dick Day, AF Regional Director 
Thomas Kennedy, Zambia Country Director

Date: September 24, 2013

CC: Carrie Hessler-Radelet, Acting Director
Stacy Rhodes, Chief of Staff
Joaquin Ferrao, Deputy Inspector General
Hal Nanavati, Lead Auditor
Carlos Torres, Acting Associate Director, Global Operations
Vince Groh, AF Chief of Operations
Alyssa Karp, AF CAO

Subject: Agency Response to the Preliminary Report of Peace Corps/Zambia, December 2012

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Zambia, as outlined in the Preliminary Report of the Audit of the IG Audit sent to the Agency on August 14, 2013.

The Region concurs with all twelve recommendations provided by the OIG in its Preliminary Audit Report: Peace Corps/Zambia. Post has addressed and provided supporting documentation for six of the twelve recommendations and will work to address the remaining recommendations by the set target dates.

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 accumulate the Value Added Tax receipts and file a refund claim with the appropriate Zambia revenue authorities in accordance with local laws and regulations.

Response: Concur

Peace Corps Zambia is only able to collect Value Added Tax (VAT) on receipts issued with a Tax Invoice, as opposed to the normally provided Cash or Sales Invoice, date-stamped on the day of the transaction and submitted less than a year after the date of the transaction. In order to provide the Tax Invoice, vendors must be registered with the Zambian Revenue Authority (ZRA) and not all of Peace Corps' historical vendors have been registered, preferring to legally operate and report income along with the proprietor's individual earnings. In these cases, VAT is assumed by the ZRA as being paid, but cannot be collected as the vendor cannot provide a Tax Invoice.

New process in place as of September 2013: Peace Corps Zambia has been issued "blue books" or stamped VAT receipts which can be issued to ZRA-registered vendors at the point of sale to avoid paying VAT at the point of sale. If the blue book is not available, staff have been trained to collect Tax Invoices and process them through the Peace Corps Zambia Lusaka office. Outside of Lusaka, Peace Corps Zambia may encounter difficulties purchasing some basic site development supplies from ZRA-registered vendors. Provincial staff will be supported in September and October by Lusaka staff visits to establish ZRA-vendors who can act as intermediate retailers. Peace Corps Zambia has established the expectation that 100% of VAT will be avoided at the point of sale or subsequently collected. We have provided training and blue books to Lusaka and provincial staff. The only challenge remaining is establishing normal business operations with ZRA-registered vendors who can support all our Agency needs in country.

Documents Submitted: *Guidelines for diplomatic agencies describing the Value Added Tax (VAT) reimbursement request process.*

Status and Timeline for Completion: Completed September 2013

Recommendation 2

That the director of management and operations provide training to staff about applicable Value Added Tax exemptions and the process for claiming Value Added Tax refunds from the appropriate Zambian revenue authorities.

Response: Concur

Post received special permission from the Embassy to hold multiple blue books, thereby allowing provincial offices to avoid VAT payments at the point of sale. All relevant

personnel in Lusaka and the Provinces have been trained by the Financial Assistant (FA). The FA had gained expertise in filing the VAT reimbursement request for post and is also responsible to analyze past transactions for collectable VAT and missing receipts. Training was provided during August 2013 in Lusaka for the Provincial staff.

Documents to be Submitted: *Provincial team training schedule and staff who received training*

Status and Timeline for Completion: Completed September 2013

Recommendation 3

That the director of management and operations implement enhanced controls to verify the accuracy of Volunteer allowance and reimbursement amounts entered into the Volunteer In-Country Allowances system.

Response: Concur

Peace Corps Lusaka trained and transitioned the VICA system maintenance and process to the Volunteer Support Liaison (VSL), Claudette Thornicroft, as supervised by the Senior Director for Management and Operations (SDMO). With further training of the VSL and review by the SDMO, Peace Corps Zambia is providing adequate oversight to the payments processed to volunteers through VICA.

Documents Submitted: *SOW for Volunteer Liaison*

Status and Timeline for Completion: Completed April 2013

Recommendation 4

That the Office of Chief Financial Officer develop an exception report that supports the financial management officer in the Office of Volunteer and Personal Services Contractor Services to identify errors and enhance controls over monitoring of Volunteer allowance payments through the Volunteer In-Country Allowances system.

Response: Concur

The exception report that was used at the time of audit to identify errors and enhance controls in VICA was cumbersome and did not add sufficient oversight to the payment process. In response to this finding, CFO has already implemented several exception reports to identify and select for review any payments that exceed 2500 USD. In addition, CFO will be reviewing the efficacy of these reports and will enhance the reports as needed.

Documents Submitted: *Exception report*

Status and Timeline for Completion: Completed September 2013

Recommendation 5

That the director of management and operations use the online Living Allowance Survey Tool to conduct analysis of Volunteer responses to determine if the current Volunteer living allowance is adequate.

Response: Concur

Post has been issuing Living Allowance surveys over the past years, but has not been using the LA Survey Tool. The next LA survey will be implemented using the LA survey tool and the spreadsheets have already been created. In addition, prior year surveys were entered into the LA survey tool to have historical data.

Documents Submitted: September – November 2013 electronic survey form

Status and Timeline for Completion: To be completed December 2013

Recommendation 6

That the director of management and operations implement a procedure to verify that Volunteer allowances are charged to appropriate funding source.

Response: Concur

Post has confirmed that the current funding sources utilized for volunteer allowances are now correct. Post has implemented a tracking worksheet for Volunteer allowances and funding sources.

Documents Submitted: Tracking worksheet for Volunteer allowances

Status and Timeline for Completion: Completed April 2013

Recommendation 7

That the director of management and operations develop a process to verify that expenses are charged to proper funding sources.

Response: Concur

Peace Corps Zambia staff entering obligations, liquidations or disbursements, as well as, VICA reimbursements have been trained on the use of VICA and VIDA to confirm the status of volunteers as it relates to which fund should be charged for specific volunteer expenses. Further, the Budget Analyst has been removed from responsibilities for routine operations so he can act as an in-house consultant and auditor of our processes as it relates to charging specific funds. With our fast moving and complicated post operations,

this process requires ongoing diligence of the Administrative staff members as well as active communication with the programming and training staff.

Status and Timeline for Completion: Completed April 2013

Recommendation 8

That the post reconcile expenses charged to the President's Emergency Plan for AIDS Relief to the country operating plan.

Response: Concur

All PEPFAR budgets have been moved into Peace Corps Oracle based system called Hyperion. In Hyperion, there is a tracking tool that allows post to generate a report that can compare actual expenditures to the Country Operating Plan's budget. In addition, this tool allows posts to create working planners to track and project expenses. This working planner can be compared to the implementation plan and the current budget authority. This system is synched to our FOR Post accounting system, so all expenses charged to PEPFAR show up in Hyperion immediately.

Documents Submitted: *Hyperion report of Actuals versus Implementation Plan*

Status and Timeline for Completion: Completed September 2013

Recommendation 9

That the Office of the Chief Financial Officer process appropriate entries to correct amounts overcharged to the President's Emergency Plan for AIDS Relief.

Response: Concur

The Office of the Chief Financial Officer will verify that the calculations of PEPFAR VAT expenses are correct. From there, we will create journal entries to move these VAT expenses out of PEPFAR. The VAT that was paid under PEPFAR will be credited back.

Documents to be Submitted: *Journal vouchers*

Status and Timeline for Completion: To be completed December 2013

Recommendation 10

That the director of management and operations monitor open collection documents and initiate steps to close collections and vouchers in a timely manner and forward them to the Office of Global Accounts Payable on a weekly basis.

Response: Concur

Post has put a system in place that Cashier Bureau Vouchers must be closed at a minimum of once a week and immediately be signed and sent to HQ for processing.

Documents Submitted: *Copies of the 365 and 99 cashier reports*

Status and Timeline for Completion: Completed April 2013

Recommendation 11

The country director, in coordination with the Office of Health Services, develop procedures for storing and dispensing medical supplies at provincial offices and train the Peace Corps volunteer leaders on these procedures.

Response: Concur

Guidance was given to PC Zambia on July 17, 2013 in the form of a memo from OHS outlining procedures for storing and dispensing medications at the provincial houses which includes training of the Peace Corps Volunteer Leaders assigned to each house. A copy of that notification (email) is attached. Peace Corps Zambia conducted a training of the provincial staff and PCVLs on August 26/27.

Training of PCVLs and Provincial staff completed. Procedures are in place. Air conditioning units need to be installed in each of the provincial houses. Post expects the air-con units to be installed in all the provincial houses by November 15, 2013.

Documents Submitted:

- Confidentiality agreement for PCVLs
- *Email from OHS outlining procedures*
- Prescription medications to add to med kits
- Procedure for monitoring the use of the Medicine Cabinets
- Regional house Medicine Cabinet inventory
- Regional house temperature record

Status and Timeline for Completion: To be completed November 2013

Recommendation 12

That the director of management and operations discontinue the practice of opening bank accounts in the name of staff members or request that the director of the Office of Global Accounts Payable obtain authorization from the U.S. Department of State's Financial Service Center to operate bank accounts in the names of staff members.

Response: Concur

Peace Corps Zambia expects to submit all documentation for retroactive delegations by October 30, 2013. Further Post expects to submit documentation related to accounts in

the name of Peace Corps by December 2013. The delay for the Peace Corps accounts relates to lack of clarity from Barclay's Bank as to what they need to address this issue. That clarification was received following a meeting between Peace Corps and Barclay's Bank on September 3.

Documents Submitted: *Retroactive delegation from Peace Corps Washington for existing accounts*

Documents to be Submitted: *Application to accept new accounts for Provincial Offices in the name of Peace Corps.*

Status and Timeline for Completion: To be completed by December 2013

APPENDIX D: OIG COMMENTS

Management concurred with all 12 recommendations. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. All 12 recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. 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 Auditor Hal Nanavati performed the audit of Peace Corps/Zambia.



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 e-mail Assistant Inspector General for Audit Bradley Grubb, at bgrubb@peacecorps.gov, or call him at 202.692.2914.

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