



# Peace Corps Office of Inspector General

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*Pinchincha Volcano near Quito*



*Flag of Ecuador*

## **Final Report on Special Review: Peace Corps/Ecuador IG-10-05-SR**

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Acting Assistant Inspector General for Audit

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September 2010

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## EXECUTIVE SUMMARY

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This special review was conducted as a result of allegations received through the Office of Inspector General (OIG) hotline. We received several serious allegations relating to fraud, waste, abuse, and mismanagement at Peace Corps/Ecuador:

- improper purchase and sale of government property;
- employee profiting from his position;
- excess Peace Corps vehicles sold for less than their actual value;
- other allegations indicating possible fraud, waste, abuse, and mismanagement.

As a result, both an OIG auditor and a criminal investigator visited the post to look into the allegations.

### ***REVIEW SUSPENSION***

In accordance with Government Accountability Office (GAO) Standards by the Comptroller General of the United States, avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, illegal acts, or abuse. In some cases it may be appropriate for auditors to work with investigators and/or legal authorities, or withdraw from or defer further work to avoid interfering with an investigation. During the review, certain issues came to our attention that were referred to our Investigative Unit (IU). As a result, this review was temporarily suspended after completing our field work due to a criminal investigation initiated by OIG/IU to avoid interfering with the investigation or related legal proceedings.

### ***POOR INTERNAL CONTROLS FOR VEHICLES PURCHASES***

The Peace Corps' overseas procurement policies, procedures and management oversight were inadequate to detect and prevent fraud, waste, and abuse in the procurement of vehicles overseas at the post. As a result, a former country director appears to have personally benefited from the purchase of Peace Corps vehicles. Additionally, vehicles purchased were not in the best interest of the Peace Corps. This condition occurred because Peace Corps policies and procedures allowed too much discretion to overseas posts, internal control was weak or nonexistent, and headquarters-level management oversight of such procurements was insufficient to prevent the resulting improprieties.

### ***POOR INTERNAL CONTROLS FOR VEHICLE DISPOSALS***

PC/Ecuador sold three vehicles at prices less than their actual value in violation of Peace Corps policy. As a result, we estimate the Peace Corps' net loss for the three undersold

vehicles was \$54,000. This condition occurred because the former country director circumvented Peace Corps policy and procedures in order to directly benefit two non-governmental organizations (NGOs).

#### ***POOR INTERNAL CONTROLS FOR PROPERTY MANAGEMENT***

The post's property inventory database was inadequately maintained and controlled. Internal control over property was deficient, and the post's property inventory database contained numerous discrepancies. There was inadequate segregation of duties because the same person maintained the post's property database and performed the physical inventory verification. Further, the property database was not updated for changes, including the replacement of older computer equipment with new computer equipment. Also, required periodic reconciliations by the property control officer and the administrative officer were not performed.

#### ***EXCESSIVE SEVERANCE AND SEPARATION PAY EXPENSE***

The post experienced an 86 percent staff attrition rate between January 1, 2005 and January 31, 2009. A high staff attrition rate is often an indication of more serious management or systemic problems and can also impact an organization's ability to maintain effective internal control. This high attrition rate caused the post to incur \$1.2 million in severance and separation payments during the three year period under review. Although the post was following local labor laws, we believe that in the 29 termination cases we examined, counseling and/or mediation between staff and post management would have been appropriate and may have minimized the high staff turnover, lessening the budgetary impact for the large unplanned severance and other separation pay-related expenditures. We did not find any evidence of efforts to resolve conflicts between the post's management and terminated employees.

#### ***POOR CONTRACT ADMINISTRATION***

We found the post's personal service contractor (PSC) files were not maintained in accordance with *Peace Corps Manual* (PCM) section 743. PSC contract files were disorganized and there were inconsistencies in the documentation maintained in the files. This condition occurred because Peace Corps has not formally designated roles and responsibilities for administration of contracts awarded at post level, especially for personal services contracts. As a result, we believe that the post could not perform effective contract administration as required by applicable Federal laws and regulations and Peace Corps policy.

### ***INEFFECTIVE CONTROLS OVER MEDICAL SUPPLIES***

The post did not maintain accurate and complete medical inventory records. PCM section 734 3.5 requires the country director and Peace Corps medical officer (PCMO) share the responsibility to maintain effective control over medical supplies to ensure that these items are properly safeguarded, dispensed, and disposed in accordance with Peace Corps policies and procedures and applicable Federal laws and regulations. Assurance that effective controls are in place is achieved through maintaining appropriate segregation of duties, accurate record keeping, secure storage, and periodic inventory verification. As a result of the poor accountability, we were unable to verify the accuracy of medical inventory on hand. Internal control over the supplies was insufficient to prevent and detect fraud, waste, and abuse.

### ***OIG ASSESSMENT OF INTERNAL CONTROL***

Overall, we found a serious lack of internal control throughout PC/Ecuador. Adequate internal control, according to GAO Standards, “serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.” Having strong internal control in place, including implementing proactive supervision and oversight, would strengthen post operations.

Our report contains 24 recommendations, which, if implemented, should strengthen the overall internal control structure at the post and correct the deficiencies discussed.

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## INTRODUCTION

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We conducted this review as a result of allegations of fraud, waste, abuse, and mismanagement received through the OIG hotline. Many of the allegations were substantiated and are discussed in this report.

OIG conducted a review of PC/Ecuador February 24 - March 27, 2009. The scope of our review covered the period FY 2005 through the first quarter of FY 2009. It should be noted that the current country director arrived at post in January 2010. The review focused on incidents that allegedly occurred prior to Calendar Year 2009. Also, prior to the arrival of a new administrative officer in March 2009 there was an acting administrative officer in this position. The program manager for the Agriculture sector served as acting administrative officer from November 2008 to February 2009. Please refer to the Post Staffing section on page 25 of this report for further details on country director and administrative officer assignment history at the post.

In accordance with GAO Standards established by the U.S. Comptroller General, avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, illegal acts, or abuse. In some cases it may be appropriate for auditors to work with investigators and/or legal authorities, or withdraw from or defer further work to avoid interfering with an investigation. As a result, this review was temporarily suspended due to a criminal investigation initiated by OIG/IU to avoid interference with the investigation or related legal proceedings.

Appendix A provides a full description of our review objective, scope, and methodology.

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## **REVIEW RESULTS**

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We found that the post's financial and administrative operations did not fully comply with agency policies and federal regulations. The review identified significant fraud, waste, abuse, and mismanagement at the post.

### ***POOR INTERNAL CONTROLS FOR VEHICLES PURCHASES***

The Peace Corps' overseas procurement policies, procedures and management oversight were inadequate to detect and prevent fraud, waste, and abuse in the procurement of vehicles overseas at the post. As a result, a former country director appears to have personally benefited from the purchase of Peace Corps vehicles. Additionally, vehicles purchased were not in the best interest of the Peace Corps. This condition occurred because Peace Corps policies and procedures allowed too much discretion to overseas posts, internal control was weak or nonexistent, and headquarters-level management oversight of such procurements was insufficient to prevent the resulting improprieties.

### ***POOR INTERNAL CONTROLS FOR VEHICLE DISPOSALS***

The post sold three vehicles at prices less than their actual value in violation of Peace Corps policy. As a result, we estimate the Peace Corps' net loss for the three undersold vehicles was \$51,000. This condition occurred because the former country director circumvented Peace Corps policy and procedures in order to directly benefit two NGOs.

### ***POOR INTERNAL CONTROLS FOR PROPERTY MANAGEMENT***

The post's property inventory database was inadequately maintained and controlled. Internal control over property was deficient, and the post's property inventory database contained numerous discrepancies. There was inappropriate segregation of duties because the same person who maintained the post's property database, also performed the physical inventory verification. Further, the property database was not updated for changes, including the refresh of computer equipment. Also, required periodic reconciliations by the property control officer and the administrative officer were not performed.

### ***EXCESSIVE SEVERANCE AND SEPARATION PAY EXPENSE***

The post experienced an 86 percent staff attrition rate between January 1, 2005 and January 31, 2009. A high staff attrition rate is often an indication of more serious management or systemic problems and can also impact an organization's ability to maintain effective internal control. This high attrition rate caused the post to incur \$1.2 million in severance and separation payments during the three year period under review. Although the post is following local labor laws, we believe that in the few termination cases we examined, counseling and/or mediation between employees and post management would have been appropriate and may have minimized

the high staff turnover lessening the budgetary impact for the large unplanned severance and other separation pay-related expenditures. We did not find any evidence of efforts to resolve conflicts between the post's management and terminated employees.

### ***POOR CONTRACT ADMINISTRATION***

We found the post's PSC files were not maintained in accordance with PCM section 743. PSC contract files were disorganized and there were inconsistencies in the documentation maintained in the files. This condition occurred because Peace Corps has not formally designated roles and responsibilities for administration of contracts awarded at post level, especially for personal services contracts. As a result, we believe that the post could not perform effective contract administration as required by applicable Federal laws and regulations and Peace Corps policy.

### ***INEFFECTIVE CONTROLS OVER MEDICAL SUPPLIES***

The post did not maintain accurate and complete medical inventory records. PCM section 734 3.5 requires the CD and PCMO share the responsibility to maintain effective control over medical supplies to ensure that these items are properly safeguarded, dispensed, and disposed in accordance with Peace Corps policies and procedures and applicable Federal laws and regulations. Assurance that effective controls are in place is achieved through maintaining appropriate segregation of duties, accurate record keeping, secure storage, and periodic inventory verification. As a result of the poor management of the medical inventory, we were unable to verify the accuracy of medical inventory on hand. Internal control over the supplies was insufficient to prevent and detect fraud, waste, and abuse.

### ***OIG ASSESSMENT OF INTERNAL CONTROL***

Overall, we found a serious lack of internal control throughout the post. Adequate internal control, according to the GAO Standards, "serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud." Having strong internal control in place, including implementing proactive supervision and oversight, would strengthen post operations.

This report contains 24 recommendations, which if implemented will improve post management and strengthen internal control.

## ***FINDING A. POOR INTERNAL CONTROLS FOR VEHICLES PURCHASES***

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The Agency's overseas procurement policies, procedures and management oversight are inadequate to detect and prevent fraud, waste, and abuse related to the procurement of vehicles overseas. PCM section 527 is the principal guidance provided to overseas posts for procurement of vehicles. Although PCM 527 encourages posts to maximize resources when purchasing vehicles, it gives overseas posts significant unbridled discretion throughout the procurement process. As a result, a former country director appears to have personally benefited from the purchase of Peace Corps vehicles. Additionally, vehicles purchased were not in the best interest of the Peace Corps. This condition was attributed to failing to follow applicable Peace Corps policy, weak and ineffective internal control, and a lack of sufficient headquarters-level management oversight.

**Background.** PCM section 527, which includes the Peace Corps "Fleet Management Guide," sets out the policies and procedures for the acquisition, management, maintenance, and disposal of the overseas fleet vehicles.

According to this guidance, there are four steps to the vehicle procurement process. These steps are highlighted in the *Peace Corps Fleet Management Guide* as follows:

1. Posts will review replacement eligibility criteria and determine if it has any vehicles eligible for replacement and needs to be replaced to ensure safety and meet the mission of the post.
2. Posts will evaluate conditions in-country to determine three vehicles acceptable for use as replacements.
3. Posts will order the least expensive/best valued vehicle through the Office of Management /Office of Administrative Services / Post Logistic Support (M/AS/PLS) (or request local procurement authority, if it is most beneficial to Peace Corps).
4. Posts will submit a vehicle order request and Justification of Replacement to M/AS/PLS.

**Vehicle Replacement Cycle.** While PCM 527 encourages overseas posts to maximize resources available for vehicle purchases, posts must first justify vehicle replacement based on the following expanded criteria:

1. The 5year/100,000km standard will determine initial replacement eligibility.
2. Posts must further demonstrate that a vehicle exceeding this standard cannot feasibly continue to be used because of either (a) vehicle safety issues or (b) prohibitive maintenance costs.

**Procurement Options.** Two options are available to overseas posts for replace vehicles in their fleets. Vehicles can be procured by headquarters using bulk purchasing from selected dealers and shipped to the post or the post can procure vehicles from a local dealer if such authority is justified and approved by headquarters.

Regardless of the guidance provided to overseas posts, it is evident that Peace Corps policy gives significant discretion to overseas posts for procuring vehicles. For example, PCM 527 specifically states:

*Be advised that posts have great discretion in defining acceptability or unacceptability. Posts should not hesitate to deem a vehicle unacceptable if, for example, a specific vehicle is not available with a diesel*

engine or due to lack of a reputable service dealership in country. This is extremely important in order to justify a higher cost vehicle. (Italics added)

**Personal Benefit from Peace Corps Vehicle Procurements.** In August 2007, the post’s country director received approval from Peace Corps headquarters to replace five vehicles as part of the post’s regular replacement cycle to be purchased from a local car dealership. Approval was also requested for early replacement of three additional vehicles by the country director citing “safety concerns.” Subsequently, eight vehicles were approved for replacement at the same time. During the approval and negotiation process with a local car dealership for the purchase of the eight vehicles on behalf of the Peace Corps, the country director was also negotiating the purchase of a personal vehicle with the same local dealership. Our review of the transactions showed that through a personal arrangement with the dealership, the country director was able to exchange his 3-year old personal vehicle for a new, similar vehicle at no cost. The “no cost vehicle” was valued at \$53,000<sup>1</sup>. The following table shows the sequence of events associated with the vehicle purchases.

**Table 1.**

Date	Event	Comment
March 31, 2007	Country director requests replacement of 5 vehicles	
June 8, 2007	Country director requests approval for 3 additional vehicles citing safety issues	Vehicles records disclosed no problems with safety
August 13, 2007	Headquarters approves 5 Brand “A” SUVs	Brand “A” SUVs deemed best value
August 21, 2007	Country director traded in his 2005 vehicle and received new 2008 Brand “B” vehicle at no cost from local Brand “B” dealership	2005 Brand “B” vehicle originally purchased in 2004 for \$32,400. Country Director sold the 2008 Brand “B” vehicle for \$53,000 in January 2009, a profit of over \$20,000 on used vehicles.
August 27, 2007	Country director requests approval to switch purchase of post vehicles from a Brand “A” vendor to the local Brand “B” dealership	
August 28, 2007	Headquarters approves changing purchase authorizations from Brand “A” to Brand “B”.	Change made although Brand “A” vehicles appear to be lower cost to the Peace Corps
August 28, 2007	Country director completes	Brand “B” dealership

<sup>1</sup> Investigation of this matter is currently pending.

	purchase of 5 Brand “B” vehicles from the local Brand “B” dealership.	representative is same individual for both personal and Peace Corps transactions
August 29, 2007	Country director completes purchase of 3 Brand “B” vehicles from the local Brand “B” dealership.*	Total value of 8 vehicles purchased was \$248,000
*Areas highlighted above draw attention to inappropriate actions taken by the country director.		

The above condition occurred because Peace Corps policies and procedures give too much discretion to overseas posts; internal control over purchase of vehicles from local sources is weak, and management oversight was insufficient in order to prevent and detect fraud, waste or abuse. For example:

- Inadequate Justification for Local Procurement**  
Overseas posts must cite a rationale for local procurement as opposed to bulk procurement by headquarters by writing a justification, which is submitted to headquarters for approval. In the justification submitted to headquarters, the post referred to a past satisfactory experience when purchasing vehicles from local dealerships as a basis for requesting local procurement. In our opinion, this justification was inadequate for local procurement and enabled the post to inappropriately direct the procurement to a specific vendor without taking into consideration the best interest of the Peace Corps.
- Inadequate Competitive Analysis**  
When purchasing vehicles locally, posts must also provide three local quotes for similar vehicles. PCM 527 requires posts to solicit quotes for three similar vehicles from local vendors; however, posts are given discretion to go to any local vendor as long as they stipulate which of the three vehicles is preferred by the post and provide an explanation as to why they prefer a specific vendor over others. We found that the cost comparisons provided by the post to headquarters were misleading and gave the appearance that the Brand “B” vehicles were the lowest price for the Peace Corps, which was not the case. The competitive analysis was flawed because the vehicles used in the comparison did not have the same features and options. Therefore the analysis was not an accurate comparison of similar vehicles. However, headquarters accepted and approved the vehicle quotes, vehicle justifications, and other documentation provided by the post with little or no independent verification.
- Inadequate “Best Value” Justification**  
Price is not the only consideration that posts may use to justify vehicles purchases. According to PCM 527, the lowest price is not the determining factor; a case may be made for “best value.” For example, a higher priced vendor may provide a lengthy and generous parts and service warranty, while a lower priced vendor may not offer the same terms. Nevertheless, we question whether the procurement was the best value because the vehicles purchased by post do not appear to be typical Peace Corps vehicles. All

vehicles purchased included many unnecessary premium luxury options such as sunroofs, leather interior, premium stereo equipment and other options which increase the cost of vehicles. Staff and Volunteers also expressed concern regarding the luxury appearance of some of the vehicles purchased by the post and the high profile perception of the Peace Corps when vehicles visit local villages. In our opinion, the vehicles purchased do not appear to be in the best interest or best value for the Peace Corps.

**Conclusion.** Peace Corps' overseas procurement policy, procedures and management oversight is not adequate and the internal control structure is not effective in detecting and preventing fraud, waste, and abuse associated with the procurement of vehicles by overseas posts.

**We recommend:**

- A.1.1 That the associate director for management and the Office of General Counsel revise *Peace Corps Manual* section 527 to strengthen internal controls in the local procurement of vehicles.**
- A.1.2 That the associate director for management implement procedures to ensure that procurement of vehicles overseas are based upon sound cost analysis resulting in the best value for the Peace Corps.**
- A.1.3 That the associate director for management strengthen internal control, including developing and implementing written procurement approval procedures to detect fraud, waste and abuse in the procurement of vehicles overseas.**

## ***FINDING B. POOR INTERNAL CONTROLS FOR VEHICLE DISPOSALS***

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The post sold three vehicles at prices that were significantly less than their actual value in violation of Peace Corps policy. PCM section 527 incorporates the Peace Corps' policy for overseas vehicle acquisition, disposal, and management. Additionally, the disposal of excess vehicles is authorized subject to compliance with PCM section 511 "Property Management at Overseas Posts" and Volume 14 of the Department of State's *Foreign Affairs Manual*, section 417.

Posts may choose from four acceptable methods of vehicle disposal:

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

**Auction Process.** PCM section 527 further specifies that posts should ask the high bidder to provide a guarantee of funds (e.g., certified check) as soon as possible (e.g., within 24 hours after sale is awarded) before turning over the vehicle. Posts should move to next highest bidder if original high bidder cannot provide appropriate funds. Peace Corps employees, trainees, Volunteers, and contractors or their employees, are prohibited from purchasing, bidding on, receiving as a donation, or otherwise acquiring Peace Corps fleet vehicles through direct sale by Peace Corps, through an auction conducted by Peace Corps, or by any other process conducted by Peace Corps.<sup>2</sup> In accordance with the PCM, vehicles cannot be donated. This policy further states that vehicles must be sold for a fair and reasonable in-country price. All proceeds are directed back into Peace Corps' vehicle budget.

**Vehicles Undersold.** Despite the above policy, the post sold, at the country director's direction, three used Peace Corps vehicles with an estimated value of at least \$20,000 each or total value of \$63,000 to two NGOs for \$9,000. One vehicle was sold for \$1,000 and the two other vehicles were each sold for \$4,000 each. At least one of the vehicles was resold shortly after the purchase from the Peace Corps for \$20,000, and the total loss to the Peace Corps was \$54,000 in this transaction..

**Circumvention of Policy.** This condition occurred because the former country director circumvented Peace Corps policy and procedures in order to directly benefit two NGOs. Additionally, the post falsified documents to give the appearance that the vehicles were legitimately sold through public auction even though the vehicles were actually sold directly to the NGO buyers for a fraction of the value. Public sale by the Peace Corps should be

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<sup>2</sup> Policy revised January 2010. The prior agency policy advised that direct sale of government property, including vehicles, should be conducted as an arms-length transactions and that the sale to Peace Corps employees, trainees, Volunteers, or any U.S. Government employee is illegal and is expressly forbidden. Additionally, it noted that all sales must be on a competitive basis.

accomplished by a sealed bid process to ensure the integrity of the disposal process. Per PCM section 527, these sales must be publicly announced in newspapers, or other such media, for at least three separate days. As a result, we estimate the Peace Corps' net loss for the three undersold vehicles was \$51,000.

**We recommend:**

- B.1.1 That the Peace Corps Director delegate the direct authority and responsibility for any direct sales of Peace Corps property through any auction conducted by Peace Corps, or by any other process conducted overseas by Peace Corps, to the associate director for management. This process may entail sending headquarters-level staff on a temporary duty basis to oversee the conduct of property sales and ensure the integrity of the sales, safeguard assets and prevent and detect fraud, waste, and abuse.**
  
- B.1.2 That the associate director for management revise and implement written procedures to oversee sale or disposal of all property overseas, which may include sending headquarters-level staff to provide guidance, and assistance, or observe the disposition of property at overseas posts.**

## ***FINDING C. POOR INTERNAL CONTROL OVER PROPERTY MANAGEMENT***

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The post's property inventory database was inadequately maintained and controlled. PCM section 511.5.5 requires that posts:

Ensure that all changes [to its property inventory] have been entered in the property management database.

Before beginning inventory, the Property Officer should check the property management records against written documentation of property/equipment changes to ensure that all changes have been entered in the property management database.

Further, PCM section 511.6.1 requires that "the administrative officer reconcile the inventory against receiving reports and requisition forms at least once a quarter."

Additionally, the GAO Internal Control Standards state: "Key duties or responsibilities need to be divided or segregated among different people.... No one individual should control all key aspects of a transaction or event."

**Unreliable Inventory Records.** We selected a judgmental sample of 50 items listed on the post's inventory records to verify the accuracy of the post's property management records. We found 24 issues or a 48 percent discrepancy rate:

- Five items were not located
- Seven listed items were duplicates
- Four items were not properly marked as broken or excess
- Six items no longer had barcodes
- Two items were not in the location indicated on the inventory records

As a result, we determined that the post's inventory records were unreliable and could not be relied on to properly account, maintain, and control the post's property assets.

**Inadequate Property Management.** This situation occurred due to inadequate management oversight of the post's property inventory, poor staff training, and ineffective implementation of procedures to ensure the accuracy of the its inventories. The property inventory database was inadequately maintained and controlled and as a result we found the following deficiencies:

- The same person who maintained the database also performed the physical inventory, which is an inappropriate segregation of duties.
- The database was not updated for changes since the last physical inventory performed in November 2008.
- There was no evidence that the property control officer reconciled the database to ensure that changes were recorded before the physical inventory was conducted.
- The administrative officer did not reconcile the inventory against receiving reports and requisition forms at least once a quarter.

- The post maintained inadequate documentation relating to its property disposals by auction to ensure that the property inventory database was accurate and current. Additionally, receipts were not issued to buyers of excess government property sold at auction. We also found that cash and checks collected from past sales of property were kept in a file at the post and not deposited into appropriate Peace Corps accounts. As a result, we question the overall management and integrity of property disposals by the post.

This mismanagement and lack of internal control over property made the post particularly vulnerable to fraud, waste, and abuse. Without appropriate internal control and lack of accurate and reliable inventory data, property losses may go undetected resulting in significant financial loss to the agency. Adequate and properly executed inventory controls and adherence to policy requirements are essential for effective accountability and oversight over the post's property. Further, ensuring that proper internal controls are in place and that applicable policy is followed will minimize the potential for fraud, waste, and abuse of the post's assets.

**We recommend:**

- C.1.1 That the post maintain an accurate property inventory database including updating the database on a regular basis for changes.**
- C.1.2 That the property control officer periodically reconcile the database with changes to ensure they are recorded before the physical inventory is conducted.**
- C.1.3 That the administrative officer reconcile the inventory against receiving reports and the requisition forms at least quarterly.**
- C.1.4 That the duties of maintaining the property inventory database and performing the physical inventory be segregated.**
- C.1.5 That information relating to property disposals be sufficiently detailed to permit accurate and consistent updating of the property inventory database.**
- C.1.6 That the post conduct a complete physical inventory and ensure that the property inventory database reflects the current status, location, and condition of all items including the post's information technology equipment.**

- C.1.7 That the post identify items with duplicate inventory tags, incorrect tags, or no tags and take corrective action as needed.**
- C.1.8 That the post develop internal policies and procedures which will provide for ongoing and accurate recordkeeping, effective controls, and sufficient managerial oversight over property inventory.**
- C.1.9 That the post be prohibited from handling property disposals without a representative from headquarters to monitor the integrity of the process.**

## ***FINDING D. EXCESSIVE SEVERANCE AND SEPARATION PAY EXPENSE***

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The post experienced an 86 percent staff attrition rate between January 1, 2005 and January 31, 2009. A high staff attrition rate is often an indication of more serious management or other systemic problems and can also impact an organization's ability to maintain effective internal control.

“Standards for Internal Control in the Federal Government” issued by the Government Accountability Office (hereafter, GAO Standards) stipulates five standards which “define the minimum level of quality acceptable for internal control in government ... These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance.” A key standard includes the control environment. The control environment refers to management's philosophy and management style that is structured around the premise that when management and employees establish and maintain an effective control environment throughout the organization it sets the tone for a positive and supportive attitude toward maintaining effective internal control and conscientious management.

**Control Environment.** A positive control environment is the foundation for all other internal control standards. It provides discipline and structure as well as the climate which influences the quality of internal control. Several key factors affect the control environment. For example, one of the key indicators of a breakdown in internal controls affecting the control environment is excessive personnel turnover in key functions, such as operations, program management, and/or accounting.

**Key Indicators.** Management's philosophy and management style can have an impact on staff as indicated by excessive turnover of supervisory personnel that often leads to internal control problems. An assessment of the control environment of an organization may identify the following “red flags:”

- Key personnel have quit unexpectedly.
- Personnel turnover is so great as to impair internal control as a result of employing many people new to their jobs and unfamiliar with the control activities and responsibilities.
- There is a pattern to personnel turnover that would indicate a problem with the emphasis or lack of emphasis that management places on internal control.

**High Staff Turnover.** The post is staffed by 30 personnel consisting of three U.S. direct hire employees, three Foreign Service nationals, and 24 personal service contractors. While reviewing personnel files we noted a high turnover in several positions throughout the post. During the period January 1, 2005 through January 31, 2009, 29 employees were terminated both voluntarily and involuntarily resulting in an overall attrition rate of 86 percent. The annual attrition rate for the 2005- 2008 averaged about 36 percent. Although the annual attrition rate was lower it is our opinion that this rate was unusually high for such a small office.

**The Impact of High Staff Turnover.** As a result of the high staff turnover, the post incurred \$1.2 million in severance and separation payments during the three year period under review. Given the high attrition rate and associated cost for the separations, we wanted to determine the

underlining reasons for the separations. As a result, we interviewed several current and former staff to determine the underlying reason(s) for the high number of terminations. Although most of the terminations were voluntary such as retirements or other personal reasons, a common explanation cited for several terminations was due to personality conflicts with the former country director.

For example:

- A PSC staff member with consistently positive performance evaluations was terminated after 14 years of service with the Peace Corps resulting in severance and separation payments totaling \$175,000.
- A foreign service national employee was terminated after only nine months of employment resulting in a severance and separation payment of \$22,000. The employee had several years of continuous employment with other U.S. government agencies.

The PSC staff member discussed above was pressured to resign because the staff member advocated on behalf of Volunteers that were voicing comments, concerns, and/or criticisms related to their Volunteer assignments and included negative comments related to the country director's dictatorial management style. However, by advocating on behalf of Volunteers, the staff member was considered insubordinate and not a "team player" by the country director. Eventually, the staff member was forced to resign shortly after the employee presented comments and complaints on behalf of the Volunteer Advisory Committee to the country director.

The FSN employee discussed above was pressured to resign after the employee questioned the country director's plan to violate government rules and regulations governing the sale of vehicles by overseas posts. As previously discussed in Finding B, the former country director circumvented rules and regulation by selling excess Peace Corps vehicles directly to buyers in lieu of a public auction or other transparent method. As result, the country director reassigned responsibility for handling the inappropriate sale of vehicles to a different employee. It should be noted that the staff member who handled the illegal sale of the vehicles was promoted to replace an FSN employee who had resigned.

**Ecuadoran Labor Laws.** Severance and separation payments are made in accordance with Ecuadorean labor laws. Ecuador's labor laws are very favorable toward employees requiring employers to pay lump sum severance and separation payments for terminated employees. In Ecuador, all employees paid under the terms of the U.S. mission's joint local compensation plan and whose employment with the U.S. government is terminated are eligible for a terminal payment. Terminal payments include separation payments and may include severance as well.

Additionally, under Ecuadorean law if a person under contract has been with an organization for more than two years (period of the relationship does not need to be continuous), the personal services contractor becomes a direct employee of the organization and is no longer considered as a contractor.

The Ecuadorean Labor Code does not require an employer to provide an employee with any advance notice of an involuntary separation, whether or not that separation is for reasons of cause. An employee who is involuntarily separated from the U.S. mission, unless the separation is for reasons of cause, is entitled to a Notification ("Deshaucio") Bonus (Involuntary Separation) of 25 percent of final basic monthly salary for each year of service.<sup>3</sup> In addition to separation payments, an employee may be entitled to a severance payment. Termination of an employee under any circumstances in Ecuador can result in a complex calculation which includes the employee's length of service, multiple bonus payments, and compensation for unused vacation leave. For long-term employees the payments can be substantial.

**Conflict Resolution.** Although the post was following local labor laws, we believe that in the few termination cases we examined, counseling and/or mediation between employees and post management may have minimized the high staff turnover and lessened the budgetary impact for large unplanned expenditures. We did not find any evidence of efforts to resolve conflicts between the post's management and terminated employees. In our opinion, mediation, and or counseling may help to minimize the high staff turnover and minimize the high cost of involuntary termination payments.

**We recommend:**

**D.1.1 That the regional director establish an independent review procedure to thoroughly evaluate all future post proposed terminations to determine whether there is possibility of mediation or other resolution before termination.**

**D.1.2 That the director for global operations require posts to track and report all employee terminations annually to the Office of Global Operations. Further, Global Operations should monitor the reports and follow up at posts that report unusually high employee turnover. High rates of employee turnover should be used as a potential indicator of breakdowns in the post's control environment.**

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<sup>3</sup> Per STATE 086498 dated March 19, 1992.

## ***FINDING E. POOR CONTRACT ADMINISTRATION***

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Responsibility for contract administration for contracts awarded overseas has not been clearly defined by the Peace Corps. To assure performance of a contract in the manner most beneficial to the U.S. government, the U.S. government has the responsibility to actively monitor the contractor's performance and take prompt, decisive action to correct any problems detected. Monitoring contractor performance is one of the most vital elements of the contract administration process, i.e., ensuring that the terms and conditions agreed upon when the contract was awarded are actually carried out. The post's PSC files were missing required documents needed for effective contract administration.

**Contract Administration.** The goal of contract administration is to ensure that the contract is performed, as written, by both the contractor and the U.S. government. Here the emphasis is on "as written." U.S. government personnel dealing with a contractor **must** understand that when the U.S. government acts as a party to a contract, its authority to direct the actions of a contractor rest solely in the written words of the contract.

Contract administration begins when the contract has been signed and ends after the contractor has completed the required work; administrative actions have been completed, and the contractor has received final payment. Contract administration includes monitoring the contractor's technical progress; reviewing contract deliverables; approving invoices for payment in accordance with contractual terms, and coordinating contract modifications and terminations.

**The Contracting Officer.** Ultimately, the administration of a contract is the responsibility of the contracting officer who is the only person who may modify the contract or take action to enter into or change a contractual commitment on behalf of the U.S. Government. In the Peace Corps, country directors are delegated contracting authority not to exceed \$100,000 per procurement action and therefore are designated authority to act as contracting officers. Contracts over \$100,000 are delegated to the Peace Corps Office of Administration and Contract Management.

**Contracting Officer's Technical Representative.** The legal responsibility for administration of the contract rests and remains with the contracting officer. However in most federal contracting situations, contracting officers designate a person to serve as the contracting officer's technical representative. The contracting officer's technical representative (COTR) plays an important role in contract administration as described below. At Peace Corps overseas posts, the country director serves as the contracting officer and is also formally designated to perform duties of the contracting officer's technical representative. In most federal agencies, the contracting officer authorizes the COTR to perform the following functions independently:

- (1) Advise and assist the contracting officer in administering the business aspects of the contract by reviewing vouchers, invoices, reports, and deliverables;

(2) Maintain a file documenting contractor performance, significant actions, and copies of trip reports, correspondence, and reports on deliverables received under the contract;

(3) Prepare the final summary statements for contract closeout.

In the Peace Corps, the country director is formally designated on each contract to serve as the COTR and therefore, responsible for the above functions. However, the functions are usually performed by the post's administrative officer without formal designation.

PCM section 743 contains specific documentation requirements for effective administration of contracts awarded by the post. At a minimum post contract files should contain the following:

- Statement of Work - Adequately defined - No inherently governmental functions involved
- Statement of Minimum Qualifications & Experience
- Confirmation of funds availability before award
- Competition - Preparation of announcement of contract opportunity - Advertising (if necessary) - Consideration of three qualified sources, if available - Basis for selection of the PSC (prior performance a factor)
- Security Clearance and Intelligence Background Certification
- For Medical Contractors, post need the concurrence of Director of Medical Services
- Total Compensation
- Base Compensation plus Benefits

**Inadequate Documentation.** We found the post's PSC files were not maintained in accordance with requirements of PCM section 743. PSC contract files were disorganized and we noted policy noncompliance issues, missing required data, and inconsistencies in the documentation maintain in the files. For example:

- Several contract files did not contain statements of work or the statements of work did not match current duties.
- Some contracts did not contain signatures by the country director or the staff member under contract.
- Nine staff members did not have current security clearance documentation on file. Post failed to request security clearances from the Regional Security Officer.
- Several folders did not include signed Intelligence certifications.
- Performance appraisals were not on file for several PSCs.

These conditions occurred because Peace Corps has not provided formal COTR training and clearly define the roles and responsibilities for contract administration for contracts awarded at post level especially for personal services contracts to country directors. Although county directors are delegated contracting officer authorities and responsibilities, formal designation of contracting administration duties and responsibilities have not been clearly defined in any Peace Corps guidance available to overseas posts. Additionally much of the day-to-day contract administration duties were performed by the administrative officer. However, the administrative officer in place at the time of the review lacked sufficient training and experience to perform the function effectively. As a result, we conclude that the post did not have sufficiently trained staff

and therefore could not perform effective contract administration as required by applicable Federal laws and regulations, and Peace Corps policy.

**We recommend:**

- E.1.1 That statements of work be prepared for all staff and that they be integrated with or attached to the related personal services contracts and included in the personal services contractors' files.**
- E.1.2 That the post verify that all security clearance updates are currently on file and request those needed from the regional security officer.**
- E.1.3 That the post ensure that complete contracts including all contract pages and the statement of work be documented in the personal services contractors' files.**
- E.1.4 That the post maintain copies of Office of Medical Services approvals of the Peace Corps Medical Officer's contract and performance appraisals.**
- E.1.5 That the post ensure review of contracts and updates are performed to verify that all of the necessary information is documented in each contract file, including a completed *Peace Corps Manual* section 743 Attachment F, "Checklist."**

## ***FINDING F. INEFFECTIVE CONTROLS OVER MEDICAL SUPPLIES***

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The post did not maintain current, accurate and complete medical inventory records. PCM section 734, 3.5 requires the country director and PCMO share the responsibility to maintain effective control over medical supplies to ensure that these items are properly tracked, safeguarded, dispensed, and disposed (resulting from expiration or spoilage) in accordance with Peace Corps policies and procedures. Assurance that effective controls are in place is achieved through maintaining appropriate segregation of duties, accurate record keeping, secure storage, and performance of periodic inventories. The country director may designate anyone from his or her staff that is not assigned to the medical unit to fulfill responsibilities for receipting, tracking, and inventorying medical supplies and equipment.

**Inventory Requirements.** Inventories of medical supplies must be completed on a quarterly basis. In order to maintain adequate separation of duties, the country director may appoint a member of staff from outside the medical unit, who is *not* the medical supply inventory control clerk (MSIC) or acceptance point clerk to conduct the inventory. The MSIC clerk records and maintains the inventory records and the acceptance point clerk is responsible for receipt of new medical supplies. As a result, both the MSIC clerk and acceptance point clerk should not be involved in the physical inventorying (verification count) during the inventory process.

During the quarterly inventory check, the PCMO or a member of the medical staff must accompany the person conducting the inventory check. After the physical inventory count, the MSIC clerk should reconcile and update the official inventory records using the results of the physical inventory verification if there are any discrepancies found.

**Ineffective Inventory Management.** We found that the post did not implement this policy, which was issued in November 2008, as follows:

- Post did not maintain current, accurate, and complete inventory records for medical supplies. The only inventory provided for our review had not been updated with any additions or deletions of medical supplies for over eight months.
- Post did not fully implement revised PCM section 734 regarding country director designation of a MSIC clerk to track medical supply inventory and maintain official inventory records
- No one from outside the medical unit had performed a comprehensive physical inventory of medical supplies required to be tracked. Inventory verifications of medical supplies were not completed on a quarterly basis.
- The post was unable to locate documentation indicating that inventory verifications of controlled substances were conducted for the period January 2008 through February 2009. Although post staff alleged that a former country director performed the verifications.
- The medical assistant rather than a country director-designated acceptance point clerk from outside the medical unit (required by Peace Corps policy), opened, in the presence of the PCMO, medical supplies received at the post.

- The PCMO did not use the required dispensed medical supplies form.
- The country director did not annually submit the medical inventory control log. The log enumerates inventories of controlled substances and specially designated medical supplies as of March 31 of the current year.

As a result of the ineffective management of the medical inventory and noncompliance with Peace Corps policy, we were unable to verify the accuracy of medical inventory on hand. Internal control over medical supplies was insufficient to adequately safeguard these items and prevent or detect fraud, waste, and abuse.

**We recommend:**

**F.1.1 That the post fully implement the agency's policy on medical supplies in accordance with *Peace Corps Manual* section 734.**

## FINDING G. OIG ASSESSMENT OF INTERNAL CONTROL

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Overall, we found a serious lack of internal control throughout the post.

“Standards for Internal Control in the Federal Government” issued by the Government Accountability Office stipulates five standards which “define the minimum level of quality acceptable for internal control in government....These standards apply to all aspects of an agency’s operations: programmatic, financial, and compliance.”

PCM section 784.3.0 reinforces the GAO requirement for adequate and effective internal control, as follows:

Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting and program execution. Internal control applies to program, operational and administrative areas as well as accounting and financial management. Monitoring the effectiveness of internal control should occur in the normal course of business.

We found weaknesses in compliance with three of the five control standards:

- Control environment, which requires “a positive and supportive attitude toward internal control and conscientious management.”
- Control activities, which are “the policies, procedures, techniques, and mechanisms that enforce management’s directives....They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records,...physical control over vulnerable assets, and segregation of duties....”
- Monitoring, which states that “ongoing monitoring occurs in the course of normal operations. It includes regular management and supervisory activities....”

The post’s non-compliance with the above internal control standards was an underlying cause for many findings in this report.

Adequate internal control, according to the GAO Standards, “serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.” Having strong internal controls in place, including implementing proactive supervision and oversight, would strengthen post operations.

### **We recommend:**

- G.1.1 That the country director strengthen the post’s internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect fraud, waste, and abuse.**

**G.1.2 That the country director document in writing the specific actions taken to achieve the control standards described, in a report to the regional director and the agency's chief compliance officer.**

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## QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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We identified certain questioned costs and funds to be put to better use during the course of the review. They are discussed in this report and enumerated below along with the recommendation number in the report. (Amounts are in U.S. dollars)

### Questioned Costs

**Table 2.**

Recommendation number	Description	Amount
B.1.1 & B.1.2	Loss from sale of PC vehicles	\$54,000

### Funds to be Put to Better Use

**Table 3.**

Recommendation number	Description	Amount
D.1.1	Minimizing the cost of termination payments	\$1.2 million

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## POST STAFFING

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Over the past three years PC/Ecuador has experienced significant turnover in the country director (CD) and administrative officer (AO) positions. The table below summarizes the assignment history as of August 2010 for CD and AO positions at the post.

### Country Director/Administrative Officer PC/Ecuador Post Assignment History

**Table 4.**

Assigned Position	Presently Assigned (mo/yr)	Most Recent Previously Assigned	Previous	Acting Capacity (1)
Country Director	1/2010	11/2008 – 10/2009	8/2004 – 12/2008	10/2009 – 1/2010
Administrative Officer	8/2010	3/2009 – 7/2010	2/2008 – 11/2008	11/2008 – 2/2009

- (1) Other very brief periods of acting roles have occurred during times when the CD or AO have been away from post or there were gaps between the transition from the previous to new CD/AO.

At the time of our visit, the post had 28 staff positions: three U.S. direct hires, three foreign service nationals, and 22 personal services contractors.

**Table 5. PC/Ecuador Positions**

Position	Status
Country Director	USDH
Program and Training Officer	USDH
Administrative Officer	USDH
Safety and Security Coordinator	PSC
Executive Assistant	PSC
Assistant Peace Corps Director - Agriculture	FSN
Program Manager/Habitat Conservation	PSC
Program Manager/Youth and Families	PSC
Program Manager/Health	PSC
Training Manager	PSC
Financial Assistant	FSN/vacant
Cashier	FSN
Information Technology Specialist	PSC
General Services Assistant	PSC
Motor Pool Specialist	PSC

PC/Ecuador Positions (cont'd)	
Programming and Training Specialist/Agriculture	PSC
Programming and Training Specialist/HIV	PSC
Programming and Training Specialist/Natural Res	PSC
Programming and Training Specialist/Youth	PSC
Language Coordinator	PSC
Family Coordinator	PSC
Peace Corps Medical Contractor	PSC
Medical Assistant	PSC
Secretary/Receptionist	PSC
Administrative /Fiscal Assistant	PSC
Office Clerk	PSC
Messenger	PSC
Warehouse Keeper	PSC

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## LIST OF RECOMMENDATIONS

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### **We recommend:**

A.1.1 That the associate director for management and the Office of General Counsel revise *Peace Corps Manual* section 527 to strengthen internal controls in the local procurement of vehicles.

A.1.2 That the associate director for management implement procedures to ensure that procurement of vehicles overseas are based upon sound cost analysis resulting in the best value for the Peace Corps.

A.1.3 That the associate director for management strengthen internal control, including developing and implementing written procurement approval procedures to detect fraud, waste and abuse in the procurement of vehicles overseas.

B.1.1 That the Peace Corps Director delegate the direct authority and responsibility for any direct sales of Peace Corps property through any auction conducted by Peace Corps, or by any other process conducted overseas by Peace Corps to the associate director for management. This may entail sending Headquarters-level staff on a temporary duty basis to oversee the conduct of property sales and ensure the integrity of the sales, safeguard assets and prevent and detect fraud, waste, and abuse.

B.1.2 That the associate director for management revise and implement written procedures to oversee sale or disposal of all property overseas, which may include sending headquarters-level staff to provide guidance, assist, and observe the disposition of property at overseas posts.

C.1.1 That the post maintain an accurate property inventory database including updating the database on a regular basis for changes.

C.1.2 That the property control officer periodically reconcile the database with changes to ensure they are recorded before the physical inventory is conducted.

C.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least quarterly.

C.1.4 That the duties of maintaining the property inventory database and performing the physical inventory be segregated.

C.1.5 That information relating to property disposals be sufficiently detailed to permit accurate and consistent updating of the property inventory database.

C.1.6 That the post conduct a complete physical inventory and ensure that the property inventory database reflects the current status, location, and condition of all items including the post's information technology equipment.

C.1.7 That the post identify items with duplicate inventory tags, incorrect tags, or no tags and take corrective action as needed.

C.1.8 That the post develop internal policies and procedures which will provide for ongoing and accurate recordkeeping, effective controls, and sufficient managerial oversight over property inventory.

C.1.9 That the post be prohibited from handling property disposals without a representative from headquarters to monitor the integrity of the process.

D.1.1 That the regional director establish an independent review procedure to thoroughly evaluate all future post proposed terminations to determine whether there is possibility of mediation or other resolution before termination.

D.1.2 That the Director for Global Operations require posts to track a report all employee terminations annually to Global Operations. Further, Global Operations should monitor the reports and follow up at posts that report unusually high employee turnover. High rates of employee turnover should be used as a potential indicator of breakdowns in the post's control environment.

E.1.1 That statements of work be prepared for all staff and that they be integrated with or attached to the related personal service contractor contracts, and included in the personal services contractors' files.

E.1.2 That the post verify that all security clearance updates are currently on file and request those needed from the regional security officer.

E.1.3 That the post ensure that complete contracts including all contract pages and the statement of work be documented in the PSC's file.

E.1.4 That the post maintain copies of OMS approval of the PCMO's contracts and the PCMO's performance appraisals.

E.1.5 That the post ensure review of contracts and updates are performed to verify that all of the necessary information is documented in each contract file, including a completed PCM section 743 Attachment F, "Checklist."

F.1.1 That the post fully implement the agency's policy on medical supplies in accordance with PCM section 734.

G.1.1 That the country director strengthen the post's internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect fraud, waste, and abuse.

G.1.2 That the country director document in writing the specific actions taken to achieve the control standards described, in a report to the regional director and the agency's chief compliance officer.

## APPENDIX A

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### OBJECTIVE, SCOPE, AND METHODOLOGY

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Our overall objective in performing this special review was to look into allegations of fraud, waste, abuse, and mismanagement at PC/Ecuador received through the OIG hotline and make a determination as to the validity of such allegations. Based on our review we determined that many of the allegations were substantiated. Our review conclusions are based on information from three sources: (1) document and data analysis, (2) interviews, and (3) direct observation.

As a result of the time period involving most of the allegations we selected FY 2005 through the first quarter FY 2009 for review. In addition, we limited the scope of our review to areas that were both directly and indirectly related to the allegations made. While at the post, we interviewed key staff including the country director, the administrative officer, the program and training officer, the safety and security coordinator, staff responsible for administrative support, and the PCMO. We also interviewed Volunteers to obtain their views on the effectiveness of the post's administrative and financial systems in supporting them. At the end of the review, we briefed the country director and administrative officer. At headquarters, we conducted a general briefing for regional staff.

Our review criteria were derived from the following sources: federal laws and regulations, the *Peace Corps Manual*, *Overseas Financial Management Handbook*, and current Peace Corps policies and initiatives.

## APPENDIX B

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# MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT

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The following transmittal memorandum, signed by the regional director for Inter-America and the Pacific operations on June 24, 2010, contains management's consolidated comments. The respondents included the Peace Corps Director, the associate director for global operations, the associate director for management, and the regional director for Inter-America and the Pacific operations.

### ***Memorandum***

To: Kathy Buller, Inspector General

From: Carlos Torres, Regional Director, Inter-America and Pacific

Date: June 24, 2010

Subject: Preliminary Audit Report on Peace Corps/Ecuador

Enclosed please find the Agency's response to the recommendations made by the Inspector General for Peace Corps Ecuador, as outlined in the Preliminary Audit Report on Peace Corps Ecuador.

The Agency concurs with 20 out of the 24 recommendations.

## APPENDIX B

### ***Finding A. Poor Internal Controls for Vehicles Purchases***

**A.1.1** That the Associate Director for management and the Office of General Counsel revise PCMS 527 to strengthen internal controls in the local procurement of vehicles.

**Do Not Concur:** The Office of Management does not agree that the audit findings are representative of poor policy and internal controls. We believe PCMS 527, as currently written, provides adequate internal controls for the local procurement of vehicles. The Government Accountability Office recognizes that internal controls can only provide reasonable assurance, not absolute assurance. As stated in the GAO Standards for Internal Control measures, “No matter how well designed and operated, internal control cannot provide absolute assurance that agency objectives will be met. Factors outside the control or influence of management can affect the entity’s ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting agency objectives.” In this audit finding, the Country Director, who management recognizes as the senior leadership representative in country for the agency, circumvented Peace Corps policy, federal procurement law, and U.S. Government Code of Ethics for personal gain. No amount of headquarters guidance or policy revisions can strengthen internal controls to protect the agency from blatant abuses of Country Director authority.

As stated in the audit finding, the current policy and procedures give significant discretion to the overseas post for procuring vehicles. Each Peace Corps country has different geographical features, transportation infrastructure, and varying availability of vehicle repair parts or repair facilities. Management asserts that our senior leaders in country, not the staff in Washington DC, can best determine vehicle support requirements for each country. Therefore, we purposely give significant discretion to our Country Directors for local procurement and find this policy is beneficial to the Agency. Although not evident in this particular audit report, we have many examples where locally procuring vehicles has resulted in significant savings to the agency. For example, Peace Corps - Ukraine is locally procuring three Toyota Land Cruiser this Fiscal Year that are together \$50K less than what the headquarters can procure comparable vehicles.

All local procurement requests are sent by the Office of Management to the Office of Acquisition and Contract Management (OACM) for review. This internal control measure has been done informally and is not currently written as policy. The Office of Management will coordinate with the OACM to formalize this process as a measure to strengthen internal controls for locally procured vehicles and update the fleet vehicle guide accordingly.

**A.1.2** That the Associate Director for Management implement procedures to ensure that procurement of vehicles overseas are based upon sound cost analysis resulting in the best value for the Peace Corps

**Concur:** The Office of Management concurs that overseas vehicle procurements should result in the best value for the Peace Corps and will update cost analysis procedures.

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**A.1.3** That the Associate Director for Management strengthen internal control, including developing and implementing written procurement approval procedures to detect fraud, waste and abuse in the procurement of vehicles overseas.

**Do Not Concur:** The Office of Management believes the conditions described in the audit finding exist only as a result of collusion and the intentional desire to circumvent policy by a senior management official. The procurement procedures outlined in PCMS 527 and the fleet management guide meet the Standards for Internal Control in the Federal Government.

### ***Finding B. Poor Internal Controls for Vehicle Disposals***

**B.1.1** That the Peace Corps Director delegate the direct authority and responsibility for any direct sales of Peace Corps property, through any auction conducted by Peace Corps, or by any other process conducted overseas by Peace Corps to the Associate Director for Management. This may entail sending Headquarters-level staff on a temporary duty basis to oversee the conduct of property sales and ensure the integrity of the sales, safeguard assets and prevent and detect fraud, waste, and abuse.

**Do Not Concur:** The Director of the Peace Corps does not agree with the finding to delegate to the Associate Director for Management direct authority and responsibility for any direct sales of PC property, nor does he agree that it would be cost effective to send Headquarters staff to post to conduct auctions. The Office of Management has addressed this finding by changing the vehicle disposal procedures to augment the integrity of disposals; safeguard assets; and curtail fraud, waste, and abuse. Vehicle disposal procedures were amended on January 19, 2010, to bar PC employees, trainees, Volunteers, and contractors or their employees from purchasing, bidding, on, receiving as a donation, or otherwise acquiring PC fleet vehicles with the following inclusion into section 3.2.2 into the PC Vehicle Fleet Management Guide on January 19, 2010:

Peace Corps employees, trainees, Volunteers, and contractors or their employees are prohibited from purchasing, bidding on, receiving as a donation, or otherwise acquiring Peace Corps fleet vehicles through direct sale by Peace Corps, through an auction conducted by Peace Corps, or by any other process conducted by Peace Corps. The only appropriate method for Peace Corps employees, trainees, Volunteers, or contractors or their employees to acquire Peace Corps fleet vehicles is through an auction, sale, or other process conducted by an independent government agency other than Peace Corps (i.e., an auction conducted by the U.S. Embassy).

Based on Recommendation B.1.1 above, the Office of Management has further changed the PC Vehicle Fleet Management Guide on June 23, 2010, to remove sales and auctions by PC posts as a normal disposal option and instead mandates that disposal of overseas vehicles be conducted through either at U.S. Embassy auctions or

## APPENDIX B

a reputable independent third party auctions unless prior exception is granted by the Office of Management. The Office of Management will review and oversee any PC facilitated auctions but the review should rarely require travel to post. The revised PC Vehicle Fleet Management Guide dated June 23, 2010 reads:

### *2.5.2 Methods of Disposal*

The disposal of excess vehicles is authorized subject to compliance with MS 511 ("Property Management at Overseas Posts"), 14 FAM 417 and the procedures detailed herein. Vehicles cannot be donated. It is Peace Corps policy that vehicles must be sold for a fair and reasonable in-country price. All proceeds are directed back into the vehicle budget.

Please note: There are revised procedures for disposing of agency owned vehicles. PC facilitated sales/auctions are no longer an acceptable method of disposal for agency owned vehicles.

Arrange for the vehicles to be disposed of (sold) through an independent auction (competitive sale) through either the U.S. Embassy or a reputable third party auction. These are the only two acceptable means of disposals of PC vehicles.

If for any reason neither of these options are available/viable, it will be necessary to request an exception from M/AS/PLS. If you feel an exception is necessary, please email M/AS/PLS with your request and justification for the exception along with your proposed method of disposal and timeline for review and consideration.

Although discouraged, the only appropriate method for Peace Corps Employees, Trainees, Volunteers, or contractors or their employees to acquire Peace Corps fleet vehicles is through an U.S. Embassy auction or reputable third party auction. In the event Peace Corps Employees, Trainees, Volunteers, and contractors or their employees do take part in an Embassy or third party auction of PC vehicles, the Country Director, Administrative Officer, and PC staff should take extra precaution to ensure no improprieties (or the appearance there of) result.

If disposal guidelines make the 60 day disposal time-frame impossible to meet, please notify (via email) M/AS/PLS and provide a brief explanation for the delay, expected disposal date, and a request for an extension.

**B.1.2** That the Associate Director for Management revise and implement written procedures to oversee sale or disposal of all property overseas which may include sending Headquarters-level staff to provide guidance, assist, and observe the disposition of property at overseas posts.

Response to Preliminary Report Recommendation B.1.2

**Concur:** The Office of Management concurs that amended vehicle disposal procedures were needed and have implemented them (see response to B.1.1 for

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revision details). In the event that the Office of Management grants an exception to policy under the new procedures and allows a PC sponsored auction, the Office of Management is developing procedures to oversee a sale or disposal of property using this method.

### ***Finding C. Poor Internal Control Over Property Management***

**C.1.1** That the post maintain an accurate property inventory database including updating the database on a regular basis for changes.

**Concur:** The property inventory database is being updated and all inventories are being physically checked for database accuracy, updates, and revisions. This process was commenced on April 5, 2010 and the anticipated completion date is July 30, 2010. Peace Corps Ecuador now uses a bar code scanner for inventory verification.

**Date Implemented:** Commenced on April 5, 2010 complete by July 30, 2010

**C.1.2** That the property control officer periodically reconciles the database with changes to ensure they are recorded before the physical inventory is conducted.

**Concur:** The property control officer is currently reconciling the database with changes that are being recorded in the physical inventory. A subsequent physical inventory will be conducted after the database has been updated. Post will ensure that all changes will be entered in the database prior to future inventories. Items are not being disbursed to individuals prior to the completion of a receiving report which has asset tag details and serves as the verification that the items have been entered into the property inventory database. Also, a memo was issued by the Country Director on May 20, 2010 indicating that any moves of office equipment will require the submission of a newly developed form to the GSO unit for office move or equipment move requests. This form will serve as the indicator to the GSO unit that a move is taking place, and that the inventory needs to be updated. This request will also need to be signed by the USDH supervisor.

**Date Implemented:** Commenced on April 5, 2010 and complete by November 1, 2010

**C.1.3** That the administrative officer reconcile the inventory against receiving reports and requisition forms at least quarterly.

**Concur:** Peace Corps/Ecuador has conducted a property reconciliation by the Administrative Officer in June 2010. All items requested and received during Q3 of FY10 were verified in the database and physical locations were also confirmed. All discrepancies were noted on the reconciliation report, verified by the property control officer who subsequently updated the database. This process will continue quarterly at post going forward. A verification of inventory reconciliation will be signed by the AO and GSO and kept on file for audit purposes.

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**Date Implemented:** June 15, 2010 and will continue each quarter

**C.1.4** That the duties of maintaining the property inventory database and performing the physical inventory be segregated.

**Concur:** This process is in place as of February 2010. The new GSO and GSA have separated their responsibilities as they relate to physical inventory management. The GSA is the person conducting the physical inventory while the GSO is the person maintaining the property inventory database.

**Date Implemented:** February 2010

**C.1.5** That information relating to property disposals be sufficiently detailed to permit accurate and consistent updating of the property inventory database.

**Concur:** In the case of auctions for disposal of properties, Peace Corps Ecuador conducted two auctions in FY09 (July and August).

### *July 20-28 2009*

- 107 Lots were offered and 63 were bid on.
- Peace Corps/Ecuador used the following series of receipts: 10% Guarantee Deposits (# 001 to 064), Payment receipts (# 001 to 065), and Reimbursement receipt (# 001 to 049).
- Official documents created are BOC 518-09-C0370 of 7/31/2009, General Receipt 51800000001017 of 7/31/2009, Deposit into USDO Account Subvoucher # C518000015661 of 8/3/2009, all documents for the amount of \$12,274.99.

### *August 03-13 2009*

- 74 Lots were offered and 59 were bid on.
- Peace Corps Ecuador used the following series of receipts: 10% Guarantee Deposits (# 065 to 124), Payment receipts (# 066 to 130), and Reimbursement receipt (# 050 to 106).
- Official documents created are BOC 518-09-C0392 of 8/14/2009, General Receipt 51800000001041 of 8/14/2009, Deposit into USDO Account Subvoucher # C518000015768 of 8/14/2009, all documents for the amount of \$6,947.70.

The following documents and processes are now in place to accurately record the disposal of property during an auction:

- Written authorization of Country Director to dispose of PC property, according to a list of items
- Public Announcement in local newspaper

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- All auction items were arranged into lots
- List of lots, approved and signed
- Provide visitors with the documents they have to fill out and sign in case of bidding (Bid offer, list of lots)
- Establish a committee to open bids (USDH Staff, witness and cashier)
- Committee determines winners, list of winners of auction signed for the committee
- Inform winners through Notification of adjudication
- Collect money through Bill of Collection
- Store in warehouse items that were not sold.
- Update database.
- File auction related files including a copy of the bill of collection and a copy of the collection receipt with the GSO Unit

In the case where items are not disposed of through auction for reasons such as lost or stolen items, the following procedures are currently in place:

- MS 511 Property Management – Attachment F – Personal Property Loss Report is completed
- The incident is discussed between the property account holder, the GSO, and the Administrative officer and a determination is made as to whether a bill of collection is issued
- The property loss report is then filed with the GSO unit.

**Date Implemented:** July 2009

**C.1.6** That the post conduct a complete physical inventory and ensure that the property inventory database reflects the current status, location, and condition of all items including the post's IT equipment.

**Concur:** The property inventory database is being updated and all inventories are being physically checked for database accuracy, updates, and revisions and include current status, location, and condition. This process was commenced on April 5, 2010 and the anticipated completion date is July 30, 2010. Peace Corps Ecuador is also using a bar code scanner for inventory verification.

**Date Implemented:** April 5, 2010 and complete by July 30, 2010

**C.1.7** That the post identify items with duplicate inventory tags, incorrect tags, or no tags and take corrective action as needed.

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**Concur:** The property inventory database is being updated and all inventories are being physically checked for database accuracy, updates, and revisions. Post has identified items with duplicate inventory tags, incorrect tags or no tags and is taking corrective action as needed. The property inventory database contains a column entitled “verified” in which the number “1” denotes that the tag is correct or has been corrected. The number “2” signifies that the item has been auctioned and supporting documentation has been verified in the files. Items marked “5” means that the item is being held by a Volunteer. Number “9” portends that the item has been lost and justified with a personal property loss report. Post continues to verify all items and assign a verification code to each item. This process was commenced on April 5, 2010 and the anticipated completion date is July 30, 2010. Peace Corps Ecuador is also using a bar code scanner for inventory verification.

**Date Implemented:** Commenced April 5, 2010 and complete by July 30, 2010

**C.1.8** That the post develop internal policies and procedures which will provide for ongoing and accurate recordkeeping, effective controls, and sufficient managerial oversight over property inventory.

**Concur:** Post has developed internal and policies and procedures which will provide for ongoing and accurate recordkeeping, effective controls, and sufficient managerial oversight over property inventory. A memo was issued on May 20, 2010 to staff about the removal or moving of office equipment that will ensure that all moves or removals are conducted by the GSO Unit with concurrence of the USDH supervisor and that they are recorded in the inventory database. The property control officer is currently reconciling the database with changes that are being recorded in the physical inventory. Items are disbursed to individuals prior to the completion of a receiving report which has asset tag details and serves as the verification that the items have been entered into the property inventory database. This process has been in place as of April, 2010. The administrative officer will also conduct a quarterly inventory verification of all receiving reports for each quarter, this process will commenced in June of FY10.

**Date Implemented:** April 5, 2010 and ongoing

**C.1.9** That the post be prohibited from handling property disposals without a representative from Headquarters to monitor the integrity of the process.

**Do Not Concur:** The IAP Region agrees that the integrity of post property disposals must be monitored. Since the time of the audit, the Region has assigned a new Country Director to the post, replaced the local Administrative Officer with a US Direct Hire Administrative Officer, and replaced the local General Services Manager responsible for property management. The Post has instituted controls to provide assurance that the property management systems (included disposal of property) are compliant. However, the OIG proposal to send a representative from Headquarters to monitor property disposal is a disproportionate response to the problem. The actual cost of deploying a representative (travel and per diem) from Headquarters would offset a significant portion of the actual proceeds of sale and might even exceed the total revenue derived from the sale of property. The Region believes that the post has

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instituted adequate internal controls over property disposal, as demonstrated in the response to recommendation number 2.1.5.

**Date Implemented:** July 2009 and ongoing

### ***Finding D. Excessive Severance and Separation Pay Expense***

**D.1.1** That the regional director establishes an independent review procedure to thoroughly evaluate all future post proposed terminations to determine whether there is possibility of mediation or other resolution before termination.

**Concur:** The Regional Director will review and discuss proposed terminations with the Country Director. The review will consider whether there is a possibility of mediation or other resolution. The Region agrees that high staff turnover should be recognized as being a possible indicator of management problems and will exercise oversight of these matters.

**Date Implemented:** 2010 and ongoing

**D.1.2** That the director for global operations require posts to track an report all employee terminations annually to Global Operations. Further, Global Operations should monitor the reports and follow up at posts that report unusually high employee turnover. High rates of employee turnover should be used as a potential indicator of breakdowns in the post's control environment.

**Concur:** Building on the response to recommendation D.1.1, the Associate Director of Global Operations will ensure that the Regions continue to review individual posts' employee terminations and resignations to assure that problems are identified proactively. Additionally, Global Operations will work with the CFO and the Regions to use the well-established annual Integrated Planning and Budget System (IPBS) to report and monitor staff turnover.

**Date Implemented:** June 2010 and ongoing

### ***Finding E. Poor Contract Administration***

It should be noted that a new Country Director arrived in Ecuador in January of 2009 and a new Administrative Officer arrived in March of 2009 when the auditors were finalizing their visit. This is not clearly reflected in the post staffing section of the audit report. Prior to the arrival of the new Administrative Officer in March of 2009, post had an acting Administrative Officer between November 2008 and March of 2009. This person was the FSN Program Manager for Agriculture. Also the report indicates that there was a Financial Assistant in Peace Corps/Ecuador during the time of the audit visit; however, that position was not filled and was CAJED with the Embassy in May of 2009.

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Other corrections that should be noted under the post staffing section are as follows:

- Program Manager/Business should read Program Manager/Youth and Families
- Program Manager/Health is not listed and should be included
- Financial Assistant should read Vacant (at the time of the audit visit this position was not CAJED with the Embassy)
- Programming and Training Assistant did not exist at the time of the audit
- The Cleaner/Backup Receptionist position did not exist Peace Corps Ecuador had third party cleaning services contracted
- The Technical Trainer Position as a PSC did not exist at the time of the audit

**E.1.1** That statements of work be prepared for all staff and that they be integrated with, or attached to the related PSC contracts and included in the PSCs' files.

**Concur:** All staff currently have a statement of work which is now in their respective human resource files. These will need to be updated after a comprehensive roles and responsibilities exercise is conducted. We anticipate that all new statements of works will be finalized by August 30, 2010 with the USDH supervisor and PSC signatures. These will then be updated in their respective files.

**Date Implemented:** Commenced July 31 2009 and will be completed by August 31, 2010

**E.1.2** That the post verify that all security clearance updates currently on file and request those needed from the regional security officer.

**Concur:** Peace Corps/Ecuador will conduct a careful review of all clearances on file and ensure that the appropriate documentation is on file. Peace Corps/Ecuador recently communicated with the Regional Security Office at the Embassy and requested the list of staff that need to have their clearances updated. Only one person on staff will have their clearance expire in the near future and that person has been advised that they need to contact the regional security officer for an updated background check. Peace Corps Ecuador anticipates completing has completed this activity as of June 15, 2010. In response to the memo issued by Director Williams - Guidance on Overseas Background Checks, Peace Corps/Ecuador has discussed the matter with the Embassy RSO and will continue to conduct the appropriate checks and ensure all completed checks are filed.

**Date Implemented:** Commenced in March 2010 and completed by June 15, 2010

**E.1.3** That the post ensure that complete contracts including all contract pages and the statement of work be documented in the PSC's file.

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**Concur:** Peace Corps Ecuador now has complete contracts that include all contract pages and the statement of work in the PSC's file. This process was completed in January 2010. Peace Corps Ecuador also plans on developing a new binder based filing system for all PSC Contracts. As stated in E.1.1, some statement of works are currently in the process of being revised; therefore all new statements of works should be updated in the PSC files by August 30, 2010.

**Date Implemented:** Commenced July 2009, to be completed by August 31, 2010

**E.1.4** That the post maintain copies of OMS approval of the PCMO's contract and the PCMO's performance appraisals.

**Concur:** Peace Corps Ecuador has two new PCMOs' under contract; one who commenced his position on April 12, 2009, and the other who commenced her position on August 19, 2009. We have on file copies of OMS approval for their contracts; however, we still need to coordinate a performance appraisal for one PCMO. Currently, we have the country director portion of the evaluation for one PCMO on file, but do not have the portion from OMS. OMS has informed post that they will be conducting performance evaluations for the PCMO at the CME Conference in June, 2010 and will provide post with the evaluations once completed

**Date Implemented:** Commenced in May 2009 to July 30, 2010

**E.1.5** That the post ensure review of contracts and updates are performed to verify that all of the necessary information is documented in each contract file, including a completed PCM 743 Attachment F, "Checklist."

**Concur:** Peace Corps Ecuador will revise the process used to manage the PSC contract files. All active contract files will be migrated to a binder/tab based filing system along with a completed PCM 743 Attachment F, "Checklist."

**Date Implemented:** Current files will be updated by August 30, 2010

### ***Finding F. Ineffective Controls over Medical Supplies***

**F.1.1** That the post fully implement the agency's policy on medical supplies in accordance with PCM section 734.

**Concur:** Since June of 2009, Peace Corps/Ecuador has implemented practices to be compliant with MS 734. A careful review was conducted on May 19, 2010 where post identified the following items that need to be resolved in order to be fully compliant. Post anticipates being in full compliance with MS 734 by July 30 2010. The following items need to be completed.

The Acting CD will complete the physical inventory of medical supplies by July 5, 2010. Once the inventory is complete, the in-house medical inventory database will be

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updated to reflect current counts and the administrative assistant will continue to update the inventory on a daily basis to keep it current. He/She will do this by utilizing MS 734-D which will be completed by the PCMOs for ALL medical supplies dispensed. The Country Director or Acting Country Director will complete Medical Inventory Control Log when this inventory is complete and submit to OMS per the annual submission requirements. Once this inventory is complete the CD or Acting CD will also complete the disposal process for all expired medications on hand per guidelines provided under MS 734.

Post currently uses its own version of the MS 734-B form; however, as of May 20, 2010 Peace Corps Ecuador will supplement their internal form with the one provided under MS 734 Attachment B. The in house process was to have the receiving officer sign the original request along with the PCMO rather than use the MS 734-B, the receiving officer also signed a different receiving report which did not include the PCMO signature since it was their signature was completed on the original request. Post is now utilizing the MS 734-B form to be fully compliant.

The Medical Inventory Control Log will no longer be kept in the Medical Office but will be managed by the MSIC Clerk who will provide this to the Country Director when a controlled substance inventory is conducted on a quarterly basis. The Medical Office will provide the MS 734-D form (without the bottom section) to the MSIC clerk each time a “control substance” or “specially designated” medication is dispensed so the records can be updated on the MS 734-C form. The medical office will also keep a copy for their records. The Country Director has appointed the GSO, Xavier Coral, as the MSIC clerk.

Post has ensured that the APC opens the shipment in the presence of the PCMO and checks the contents against any invoices included in the shipment. The Country Director appointed the GSA/Warehouse Keeper, Miguel Castro, the APC.

**Date Implemented:** Prior to the audit and additional items will be addressed prior to July 30, 2010

### ***Finding G. IG Assessment of Internal Control***

**G.1.1** That the country director strengthen the post’s internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect fraud, waste, and abuse.

**Concur:** Peace Corps/Ecuador has taken several steps to strengthen internal controls, activities, and monitoring prior to the issuance of this administrative audit. Peace Corps/Ecuador will continue to engage in enhancing its capacity to manage internal controls. The Country Director continues to take actions to safeguard assets and prevent and detect waste, fraud and abuse. The CD also has taken many steps to develop and maintain “a positive and supportive attitude toward internal control and conscientious management.” The former GSO is no longer employed by Peace Corps Ecuador and the new GSO along with the Administrative Officer have instituted

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practices that are in line with Peace Corps policies and procedures and ensure adequate checks and balances that will ensure the safeguarding of assets, and prevent fraud, waste and abuse. The CD has monitored the work of staff members very closely, has reviewed policies and procedures and has made changes when appropriate. The CD continues to review standard operating procedures and inquire with staff when actions do not appear to comply. He is in the process of changing or updating statements of work and noted areas for improvement of staff through the performance appraisal process.

**Date Implemented:** Commenced January 2009 and ongoing

**G.1.2** That the country director document in writing the specific actions taken to achieve the control standards described in a report to the regional director and the agency's chief compliance officer.

**Concur:** The country director will document, monitor, and manage the process necessary to ensure all issues addressed in the audit are addressed, rectified and ensure sustainable practices are in place to prevent the recurrence of these issues. The Country Director will provide a written report to the Regional Director and the Chief Compliance Officer providing a detailed breakdown of all actions taken to address the issues in this audit report.

**Date Implemented:** Completed by November 30, 2010

## APPENDIX C

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### OIG COMMENTS

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Of the 24 recommendations made in our report, management fully concurred with 20 and non-concurred with four.

In our opinion management comments were generally responsive. However, we do not believe management provided adequate explanations regarding those recommendations they did not concur with. Further, in some cases documentation provided as evidence that appropriate actions had been taken to remediate recommendations was insufficient. As a result, 20 recommendations remain open pending receipt of further information from the chief compliance officer that appropriate and effective action has been taken to fully remediate the deficient condition found. We closed four recommendations based on corrective actions taken and supporting evidence provided. Details of our review and analysis of management's responses follow:

■ A.1.1: Management did not concur with our recommendation on revising PCM section 527 to strengthen internal controls related to local procurement of vehicles. However, management did indicate that it was coordinating with the Office of Acquisitions and Contract Management (OACM) to formalize a process now used that calls for OACM review of all local procurement of vehicles. We believe there are other steps that can be taken to improve the internal control structure. For example, the Peace Corps Vehicle Fleet Management Guide (VFMG) indicates in section 2.3.1 that posts “*cite rationale for local procurements . . .*” and “*justify . . . immediate need.*” However, the policy does not specify what is determined to be an acceptable rationale or provide examples of what would justify an immediate need. We also believe the policy is lacking in assigning and documenting authority for approving local procurement requests at the post and headquarters levels, i.e., who at the post authorizes and approves a request and who at headquarters reviews and approves such requests. Accountability over the decision process is weak because current procedures are too informal and approvals are typically made at inappropriately low levels within the Office of Management. While we agree that no internal control structure is completely immune to fraud, waste, or abuse there are reasonable measures that can be taken to minimize related risks.

■ A.1.2: Although management concurred with our recommendation to implement procedures for ensuring local procurement decisions are based on sound cost analysis, we do not agree the current written procedures are effective. Evidence provided that appropriate action has been taken includes documentation of an informal process that occurs at relatively low levels. As a result we do not believe the present process provides sufficient accountability or reduces risks.

■ A.1.3: We do not agree with management's position that there are no measures that can be taken to prevent a senior official at post from circumventing policy. As discussed above in A.1.1, we believe there are a number of steps that can be taken to improve internal control and minimize risks.

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■ B.1.1: We agree that the June 23, 2010 revision to the Peace Corps VFMG greatly strengthens internal control over the vehicle disposal process. The revised policy prohibits Peace Corps employees from participating as prospective bidders in auctions conducted by Peace Corps and directs that the accepted methods for disposal be through the U.S. Embassy or third party auction. However, in our opinion approval of exceptions to the accepted methods of disposal should be made a higher level than M/AS/PLS, as currently specified in the revised VFMG. We encourage management to include effective internal control regarding exceptions to policy in the new procedures being currently developed as discussed in the response to recommendation B.1.2.

■ B.1.2: We agree with Associate Director for Management proposed remediation action. The recommendation will remain open pending implementation of the proposed new guidance into published policy and our concurrence that the new guidance includes effective internal control.

■ C.1.1: This recommendation will remain open pending receipt of written confirmation from PC/Ecuador that the post has completed their comprehensive physical verification and reconciliation of property and updated the property inventory database as discussed in management's response to the preliminary report.

■ C.1.2: This recommendation will remain open pending receipt of confirmation of completed corrective actions as mentioned above in C.1.1 and evidence that a formal procedure for performing periodic property updates has been implemented at post as required by Peace Corps policy.

■ C.1.3: Closed.

■ C.1.4: We agree with management's approach of separating the duties for maintaining the property inventory database and performing physical inventory verification. However, in our opinion the duties and responsibilities for the GSO and GSA are closely related functional areas, and as such, would result in less than ideal separation of duties. Further, PC/Ecuador's Standard Operating Procedure (SOP) on property accountability provided at tab C.1.9 is not consistent with the response given for this recommendation. The SOP indicates that the AO will perform the quarterly physical inventory verifications. Management's response to C.1.4 indicates the GSA would perform this same function. Clarification regarding the corrective action taken is requested.

■ C.1.5: Closed.

■ C.1.6: This recommendation will remain open pending receipt of post's confirmation of completed corrective actions as mentioned above in C.1.1.

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■ C.1.7: This recommendation will remain open pending receipt of confirmation of completed corrective actions described in management's response to the preliminary report.

■ C.1.8: Closed.

■ C.1.9: We agree that as a result of recent revisions to policy on Peace Corps vehicle disposals it would not necessarily require that a representative from headquarters be sent to post to monitor the integrity of the disposal process. However, management has indicated in their response to B.1.2 that they are in the process of developing new procedures for how vehicle disposals will be managed when exceptions are granted to current related policy. As a result, this recommendation will remain open pending implementation and receipt of the new procedures.

■ D.1.1: This recommendation will remain open pending receipt of evidence that (1) the regional director has communicated that any proposed employee/PSC employee terminations be reported to regional management, and (2) an independent review procedure has been developed for use.

■ D.1.2: This recommendation will remain open pending receipt of evidence that management has communicated with posts to ensure there is an awareness that Global Operations will be monitoring employee termination rates.

■ E.1.1: This recommendation will remain open pending receipt of post's confirmation of completed corrective actions as mentioned in the response.

■ E.1.2: Closed.

■ E.1.3: This recommendation will remain open pending receipt of post's confirmation of completed corrective actions as mentioned in the response.

■ E.1.4: This recommendation will remain open pending receipt of post's confirmation of completed corrective actions as mentioned in the response.

■ E.1.5: This recommendation will remain open pending receipt of post's confirmation of completed corrective actions as mentioned in the response.

■ F.1.1: PC/Ecuador indicates in the response to this recommendation that the acting country director will perform a physical inventory by July 5, 2010. However, it does not include in its description of actions taken to comply with *Peace Corps Manual* section 734, how the continuing quarterly physical inventories will be accomplished.

■ G.1.1: This recommendation, and recommendation G.1.2, impact the overall internal control structure of PC/Ecuador. As a result, it will remain open pending receipt of (1) confirmation from management that all corrective actions described in the response to the preliminary report have been completed, (2) any additional evidence requested that

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corrective actions have been completed as discussed in Appendix C, and (3) OIG acceptance of further management correction actions necessary to fully remediate report recommendations.

- G.1.2: This recommendation will remain open pending receipt of information requested above in G.1.1.

## APPENDIX D

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### REVIEW COMPLETION AND OIG CONTACT

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#### REVIEW COMPLETION

Gerald P. Montoya, former AIG/A, performed the review of PC/Ecuador.

#### OIG CONTACT

If you wish to comment on the quality or usefulness of this review to help us strengthen our product, please email Steve Kaffen, Acting Assistant Inspector General for Audit, at [skaffen@peacecorps.gov](mailto:skaffen@peacecorps.gov), or call him at 202.692.2905.

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