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To: Carrie Hessler-Radelet, Director
Brian Riley, Acting Regional Director
Anne Hughes, Acting Chief Compliance Officer

From: Kathy A. Buller, Inspector General 

Date: September 29, 2015

Subject: Final Report on the Audit of Peace Corps/Vanuatu (IG-15-06-A)

Transmitted for your information is our Final Report on the Audit of Peace Corps/Vanuatu.

Management concurred with all eight recommendations. All eight recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

Our comments, which are in the report as Appendix F, address these matters. Please respond with documentation to close the remaining open recommendation within 90 days of receipt of this memorandum.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914 or to Lead Auditor Snehal Nanavati at 202.692.2929. Please accept our thanks for your cooperation and assistance in our review.

cc: Laura Chambers, Chief of Staff
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PEACE CORPS

Office of Inspector General



PC/Vanuatu volunteer and her counterpart present at a workshop for healthcare providers.

Final Audit Report
Peace Corps/Vanuatu
IG-15-06-A
September, 2015



EXECUTIVE SUMMARY

BACKGROUND

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Vanuatu (hereafter referred to as “the post”) from January 26 to February 6, 2015. We previously performed a follow-up audit September 8–18, 2008, and issued our report in September 2008 (IG-08-15-FUA).

Staff:

- U.S. direct hires: 3
- Foreign service nationals: 2
- Full-time personal services contractors (PSCs): 19

Funds (approx.):

- Fiscal Year (FY) 2014 post spending: \$2.3 million
- Average regional overhead: \$383,000



Map of Vanuatu

WHAT WE FOUND

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

- The post did not retain supporting documents for market research and competitive bidding for leases.
- The post signed leases without obtaining competitive bids and did not prepare selection memos for sole source justification.
- The post did not have controls over voiding or timely issuing bills of collection (BOCs).
- The post did not provide adequate security over its Volunteer lounge after terminating its security guard service contract.

RECOMMENDATIONS IN BRIEF

Our report contains eight recommendations directed to the post, including that it strengthen internal controls over BOCs, prepare selection memos for all contracts to comply with overseas contracting guidelines, and request the Office of Acquisition and Contract Management (OACM) ratify contracts/leases issued that are beyond the post’s contracting authority.

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BACKGROUND

We conducted an audit of the post from January 26 to February 6, 2015. We previously performed an audit in 2008, and issued our report in September 2008 (IG-08-15-FUA).

Approximately 665 Peace Corps Volunteers (Volunteers) have served in Vanuatu since the program's inception in 1990. At the time of our audit, 59 Volunteers were working in education and health project sectors. The post had three U.S. direct hires, two foreign service nationals, and 19 full-time PSCs. The post's FY 2014 spending was approximately \$2.3 million. In addition, at headquarters, the Inter-America and the Pacific (IAP) region incurred an average of approximately \$383,000 per overseas post.¹

Cyclone Pam pummeled Vanuatu between March 13 and 14, 2015, causing rough seas, torrential rainfall, flooding, landslides, and high winds. The Vanuatu Meteorological Service estimated winds at the center of the storm reached an estimated 155 miles an hour. It was considered to be the worst storm since Cyclone Uma in 1987. According to the Office of Global Operations management analyst, the post evacuated the Volunteers to Brisbane, Australia prior to the storm making landfall, but the office sustained some damage and flooding. The post resumed operations on March 26, 2015, and 65 Volunteers and trainees returned to Vanuatu.

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

AUDIT RESULTS

PERSONAL SERVICES CONTRACTORS

The post did not maintain adequate support to justify compensation payments made to PSCs based on the number of family members and eligible children.

The post did not maintain adequate documentation to support PSCs' eligibility to receive compensation payments for their family members and children. The local compensation plan provides that PSCs will be compensated for the cost of health care up to approximately \$300 U.S. dollar equivalent (USDE) per family member annually, and receive an additional child allowance of approximately \$21 USDE per pay period for up to four children. According to the local PSC contract terms, the post is required to determine the number of eligible children a PSC

¹ The agency does not determine a total cost per post beyond directly attributable post expenses, as certain costs are centrally budgeted and managed by headquarters offices including the salaries and benefits of U.S. direct hires. The Peace Corps Office of Budget and Analysis provided the total cost of \$8.4 million incurred by the IAP Region in direct support of its 22 overseas posts in FY 2014, which is an average of \$383,000 per post.

has when the annual contract is signed and retain a copy of each eligible dependent's birth certificate.

During the review of the PSC contracts, we noted that the post did not have birth certificates to support the child allowances or possess any other documentation to prove dependency status. Without adequate supporting documents, we could not verify if the post accurately calculated the health care and child allowance. During our fieldwork, the post requested that staff members provide the required documentation.

We recommend:

- 1. That the director of management and operations implement a process that ensures information regarding the number of dependent and child allowances is obtained from staff and maintained in the appropriate files.**

LEASES

The post did not retain supporting documents for either market research or the competitive bidding for leases.

During the review of the lease contracts, we noted that the post did not retain supporting market research documentation for any of its leases. Furthermore, we found that the post did not have selection memoranda for two Volunteer housing leases, one totaling \$10,700 and the other \$23,700 USDE. The post leases space for the main office and residences for the country director (CD), director of management and operations (DMO), and director of programming and training. Since FY 2010, the post paid approximately \$972,000 USDE for leases.

Peace Corps Manual (MS) section 733, "Leases," defines the requirements for the award and administration of leases to meet Peace Corps needs overseas. The Overseas Contracting Handbook (OCH) provides further detail regarding how those requirements should be met. OCH sections 3.2.1 "Competition," and 3.2.5, "Selection Memo," state that the post should consider a minimum of three properties for all standard leases. The process for soliciting and awarding leases requires the post to obtain and analyze bids, and document the reason for selecting a specific property in the selection memo. The selection memo establishes the foundation and documents the decision process. OCH section 3.7, "Contract Documentation," states that the post should maintain all documents mentioned in the Overseas Lease File Checklist. The checklist referenced in the OCH lists "Market Research Supporting Documentation" as a requirement for the selection memo.

The post did not have selection memos because the Office of Safety and Security expressed an urgent need for the post to provide safe housing for Volunteers. Compounding this issue, the staff was not aware of this requirement and needs additional training on administrative processes. The two emergency leases in question were let for nine months.

The OCH has just recently been updated with "Instructions to Overseas Contracting Officers in Emergency Contracting Situations." These instructions define an emergency contracting

situation as existing when there is when there is an imminent threat to life, limb, or property. These instructions still require, as have previous iterations of the OCH, that the contracting officer document justification of other than full and open competition, as well as complete other standard contract documentation, such as selection memos. Further, the emergency contract should only be in place long enough to get a fully competed contract in place.

We recommend:

- 2. That the director of management and operations ensures that all required documentation, including selection memos and justifications for other than full and open competition, are prepared for contracts, consistent with MS 733 and in compliance with the Overseas Contracting Handbook.**

BILLS OF COLLECTION

The post did not have adequate controls over voiding and issuing BOCs.

Voided BOCs. The Overseas Financial Management Handbook 7.2.3, “Cashier Void of BOC,” states that a BOC may be voided if it has an incorrect amount, represents a duplicate entry, or when it contains another type of error. For corrections, the BOC re-entry must be made before voiding, unless insufficient funds are liquidated. The DMO must ensure that the correct BOC was entered, and understand the reason it was voided. The DMO should also make certain that the documentation can be easily understood by someone else.

We noted instances where the post voided incorrect BOCs before issuing corrected BOCs. In November 2014, the cashier voided an incorrect BOC for a staff member’s personal telephone use. However, the post did not issue a corrected BOC until the end of fieldwork. In both February and March of 2013, the cashier voided BOCs for collecting duplicate Volunteer travel expenses payments. The administrative assistant (AA) was supposed to immediately deduct the overpayment from Volunteer allowances but did not do so until February 2015. As a result, the delayed entry of the correction violated policy, resulted in delayed collection of funds due, and could have exposed the post to potential fraud.

Delayed BOCs. We noted that the post issued BOCs for staff’s personal cell phone use after a significant delay. The post allows administrative staff approximately \$15 USDE per month for personal cell phone use. The post’s procedure required the general services coordinator to distribute copies of the monthly cell phone bills to staff to identify personal calls made. The AA accumulated marked phone bills and issued BOCs to staff on a quarterly basis. During our fieldwork in February 2015, we noted that the AA had just distributed the March 2014 phone bill to staff, 11 months after the bill was due.

Per the AA, the personal phone bills amount to approximately \$150 USDE per month. Consequently, we estimate there is approximately \$1,650 USDE in unbilled charges for personal use of phones outstanding. The post has since issued BOCs for personal cell phone use for approximately \$1,300 USDE. According to the CD, reviewing several pages of telephone

charges is cumbersome and it is not possible to identify personal phone calls made after a several month interval. The entire process was very inefficient and time consuming. The CD is evaluating alternatives to streamline this process and ensure effective compliance with Peace Corps policy.

We recommend:

- 3. That the director of management and operations ensure compliance with Peace Corps policy to issue corrected bills of collection before voiding incorrect ones.**
- 4. That the director of management and operations ensure compliance with Peace Corps policy to issue bills of collection as soon as the amount is due to the Peace Corps.**

ACCESS TO FINANCIAL SYSTEMS

The post granted access to the agency's web-based financial system without adequate separation of duties.

The agency has developed OdyWeb, a web-based application to record financial transactions at the overseas posts. OdyWeb includes applications to process Volunteer allowances and local staff salaries, to set up new vendors, and to process other financial transactions. The Office of Chief Financial Officer developed and recommended an access matrix for posts to define levels of access to applications and transactions for staff based on duties performed.

We compared the recommended access matrix to the actual access granted to staff members for various modules of OdyWeb. We noted that certain staff members had a higher level of access rights than recommended in the access matrix, and noted that some of these elevated rights could violate controls over separation of duties. For example, both the DMO and Financial Assistant (FA) were allowed to make edits to Volunteer allowances and banking information and submit the changes to headquarters for processing changes and payments. According to the recommended access matrix, the FA should be granted access to process edits, and the DMO should submit those changes to headquarters. As a result of granting the FA elevated access rights, the FA had rights that should have been reserved for the DMO and could have subverted separation of duties controls. Separation of duties is an important internal control that helps ensure government funds are adequately safeguarded against fraud and/or abuse.

We recommend:

- 5. That the director of management and operations evaluate and update access granted to financial systems to ensure access does not compromise adequate separation of duties.**

The post did not provide adequate security over the post's Volunteer lounge after terminating its security guard service contract.

During the review of the contract for security guards, we noted that the post did not provide adequate security over the Volunteer lounge, located adjacent to the post, during evenings and weekends. The post has occupied its current office space since June 2010, and hired a security company in September 2010. However, the post terminated the contract with the security company in 2013. According to the post's April 2013 termination letter to the security company: (i) the security guards the contractor provided had become very unreliable and were continually absent from duty, and (ii) the post had no security guards since August of 2012. According to the memo, the post waited nine months after the security guards stopped coming to terminate their services. Furthermore, the post did not hire a new security contractor until September 2013.

Volunteers were assaulted near the Volunteer lounge in April, May, and September 2013, during the period when security guard services were not in place. In addition, the post did not have the required security clearance information for the security guards from the government of Vanuatu. The post obtained police clearance for the first set of guards assigned by the security contractor. However, the post did not have police clearances on record for current guards provided by the contractor.

While the State Department regional security officer has overall responsibility for ensuring security at post, the Peace Corps is responsible for ensuring all guards are cleared and approved via background investigations. Maintaining current police clearance records helps assure that contract guards have been appropriately vetted with the local government. This process is particularly important because the post has experienced assaults on the property and must rely on contracted security support to protect staff and Volunteers.

We recommend:

- 6. That the country director arrange for proper security over the Volunteer lounge in coordination with the US Embassy regional security officer and maintain security clearances for all guards.**

The post did not comply with OACM contracting guidelines for its security guard contract.

The post entered into a contract with the prior security company in September 2010 for one year with four additional option years. The total value of the contract was approximately \$19,000 USDE. However, the post could not provide the required selection memo or competitive bids obtained for awarding the contract. The post hired the current security contractor in September 2013. During the review of supporting documents we noted that the total contract value (with four option years) was approximately \$55,000 USDE, which exceeded the contracting officer's authority. However, the contracting officer signed the contract without obtaining additional delegation of procurement authority from OACM.

Since the contracting officer did not have authority to bind the government the contract cannot be considered a valid obligating document and related payments made by Peace Corps are not proper. As the original contract was not legal, the contractor cannot be required to provide services until a legal, ratified contract is in place.

We recommend:

- 7. That the director of management and operations request the Office of Acquisition and Contract Management ratify the contract with the security company, request guidance on contracting for continued guard services, and provide the supporting documentation necessary for Office of Acquisition and Contract Management consideration of the ratification.**

VALUE ADDED TAX

The post did not claim exemption from Value Added Tax (VAT) per the country agreement.

The country agreement with government of Vanuatu exempts the post from all taxes (including VAT), customs duties, other charges (including license fees on communications equipment owned and operated by Peace Corps), as well as all equipment, supplies, and other goods and services introduced into or acquired in Vanuatu. The post claimed exemption from customs duty and VAT for items imported in to Vanuatu. However, the post continued to pay full 12.5 percent VAT on all purchases made in Vanuatu.

According to the CD, the previous DMO unsuccessfully approached the VAT authorities to claim exemption from VAT. However, based on a meeting OIG held with the post and VAT authorities, it appeared that the previous DMO was requesting exemption from VAT for the U.S. direct hires at the post rather than for purchases made by the post. The VAT authorities stated that the post needs to contact the Ministry of Foreign Affairs to obtain a letter stating that the country agreement exempts the post from VAT. After receiving the letter from the ministry, the VAT authority will issue a certificate to the post to claim VAT exemption. Most recently, the DMO informed us that the Ministry of Foreign Affairs has recently revised their position, based on recent legislation, and will no longer allow Foreign Missions to receive any VAT exemptions for purchases inside in the country for mission operations.

However, the Peace Corps' country agreement specifically exempts the Peace Corps posts from all taxes, including the VAT. As we pointed out to the Ministry of Foreign Affairs when we met at the post, any VAT collected from Peace Corps reduces the Peace Corps funds available to spend in Vanuatu.

We recommend:

- 8. That the country director work with the Office of General Counsel and the U.S. Embassy to assess an appropriate time and approach to either engage the Ministry of Foreign Affairs in renegotiating the Peace Corps country agreement or formally request adherence with the current country agreement provision specifically exempting the Peace Corps post from all taxes, including the Value Added Tax.**

POSITIVE OBSERVATION: MEDICAL INVENTORY

Our audit began on a day when 31 new Volunteers had just arrived at post for their pre-service training. We conducted our audit of medical inventory procedures the next day. The Peace Corps medical officers had already completed their exams and intake and had all charts fully updated. We also noted that medical inventories were consistently performed on a timely basis, and that there was good separation of duties in accounting for medical supplies. Each person on the Vanuatu staff and management took their responsibilities very seriously and worked very well together to ensure records were expediently updated and good controls were maintained over medical inventory.

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of management and operations implement a process that ensures information regarding the number of dependent and child allowances is obtained from staff and maintained in the appropriate files.
2. That the director of management and operations ensure that all required documentation, including selection memos and justifications for other than full and open competition, are prepared for contracts, consistent with MS 733 and in compliance with the Overseas Contracting Handbook.
3. That the director of management and operations ensure compliance with Peace Corps policy to issue corrected bills of collection before voiding incorrect ones.
4. That the director of management and operations ensure compliance with Peace Corps policy to issue bills of collection as soon as the amount is due to the Peace Corps.
5. That the director of management and operations evaluate and update access granted to financial systems to ensure access does not compromise adequate separation of duties.
6. That the country director arrange for proper security over the Volunteer lounge in coordination with the US Embassy regional security officer and maintain security clearances for all guards.
7. That the director of management and operations request the Office of Acquisition and Contract Management ratify the contract with the security company, request guidance on contracting for continued guard services, and provide the supporting documentation necessary for Office of Acquisition and Contract Management consideration of the ratification.
8. That the country director work with the Office of General Counsel and the U.S. Embassy to assess an appropriate time and approach to either engage the Ministry of Foreign Affairs in renegotiating the Peace Corps country agreement or formally request adherence with the current country agreement provision specifically exempting the Peace Corps post from all taxes, including the Value Added Tax.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

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

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

The audit of PC/Vanuatu covered all information from FYs 2011 through 2014 and up to January 31, 2015. While at the post, we interviewed key staff including the CD, DMO, staff responsible for administrative support, and Peace Corps medical staff. We communicated issues and areas of improvement to post senior staff and Peace Corps management at headquarters, and included significant issues noted during our audit in this report. We primarily reviewed the following processes and associated controls:

- Bills of Collections
- Contracts and Leases
- Cash and Non-cash Payments
- Imprest Funds
- Credit Card Transactions
- Information Technology General Controls
- Medical Supplies
- Personal Property and Vehicles
- Personal Services Contracts
- Volunteer Payments
- Obligations
- Grants

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

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

APPENDIX B: LIST OF ACRONYMS

AA	Administrative Assistant
BOC	Bill of Collection
CD	Country Director
DMO	Director of Management and Operations
FA	Financial Assistant
FY	Fiscal Year
IAP	Inter-America and the Pacific Operations
OACM	Office of Acquisitions and Contract Management
OCH	Overseas Contracting Handbook
OIG	Office of Inspector General
MS	Peace Corps Manual section
PSC	Personal Services Contractor
USDE	United States Dollar Equivalent
VAT	Value Added Tax

APPENDIX C: CRITERIA USED TO SUPPORT ISSUES IN THE REPORT

Peace Corps Requirements

OVERSEAS FINANCIAL MANAGEMENT HANDBOOK

Section 7.2.1, “Billing Steps” states, “For internal control reasons, BOCs are entered as soon as it is known that Peace Corps will be receiving funds, even if the exact amount is not known (for example, HCC or VAT). It is very important that this Bill be entered in FOR Post at the moment it is identified.”

Section 7.2.3, “Cashier Void of BOC” states

Entry

A BOC may be voided when the amount is incorrect, when it represents a duplicate entry, or when it contains another type of error. For corrections, the BOC re-entry must be made before voiding, unless insufficient funds are liquidated. The cashier should review the reason and entries. Then, the cashier should Void, entering a clear reason, including the BOC number of the duplicate or re-entry, when appropriate.

Approval

The DMO must approve all BOC Voids via the FOR Post Approval tab. Before approving a Void, the DMO must ensure that: 1) the re-entry has already been entered, or 2) that he/she sees the duplicate, or 3) that he/she understands the reason if it is voided for any other reason. If the duplicate or re-entry is for a different amount, an explanation is needed. The DMO should also ensure that the documentation is sufficient for someone else to clearly understand the Void.

OVERSEAS CONTRACTING HANDBOOK

Section 3.2 “How-to Guide to Leases” states

3.2 Competition and Selection

3.2.1 Competition

Competition is required for all Standard Leases. Once you have developed your need and the market resources it is time to locate potential properties. Your method of soliciting or advertising should be consistent with posts practice. If applicable you should post your requirements in the local paper, however this is not common practice in many countries for locating potential properties. Most likely you will need to locate the properties by asking locals familiar with the real estate market or engaging a leasing consultant. Prior to looking at properties you should begin to develop your criteria for the Selection Memo (see ‘Identifying Need’ and ‘Selection Memo’ portion of this guide).

You should consider at a minimum three properties. It is recommended that you consider as many as possible to ensure that you are finding the best possible value for Peace Corps.

3.7 Contract Documentation

Post needs to ensure that all documents pertaining to the subject lease are filed accordingly. Post should follow the Overseas Lease File Checklist to ensure that all documents are included in the file and easily accessible in case of an audit.

Section IX “Overseas Contracting Officer’s (OCO) Warrant Procedure Guide” states

IX. DESIGNATION THRESHOLDS AND AUTHORITIES

Level 1 (up to \$25,000)

The contracting authority level shall be determined for each individual OCO. Thresholds are based on aggregate dollar values including contract options. The base level of contracting authority is set as follows, however the CAO may determine to reduce or increase the level to reflect the OCO’s ability and understanding.

**U.S. DEPARTMENT OF STATE FOREIGN AFFAIRS MANUAL VOLUME 12 HANDBOOK
7-LOCAL GUARD HANDBOOK**

Should Peace Corps seek to opt out of post’s local guard program, the Peace Corps Country Director will:

- Work with the Regional Security Officer (RSO) to ensure Peace Corps local guard services meet Overseas Security Policy Board security standards and the post’s local guard program standard operating procedures;
- Ensure all guards are cleared and approved by the RSO via background investigations and security certifications prior to performing guard services.

APPENDIX D: QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We did not identify funds to be put to better use. We identified the following unsupported costs (a category of questioned costs) during the course of the audit.

Questioned Costs

Recommendation Number	Description	Amount
2	Unsupported cost for two leases	\$34,400
7	Unsupported cost for two security guard contracts	\$74,000

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

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

APPENDIX E: AGENCY'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Anne Hughes, Acting Chief Compliance Officer *AH*

From: *BR*
Brian Riley, Acting IAP Regional Director
Keith Honda, CD Vanuatu

Date: September 28, 2015

CC: Carrie Hessler-Radelet, Director
Laura Chambers, Chief of Staff
Ken Yamashita, Acting Director, Global Operations
Joaquin Ferrao, Deputy Inspector General
Judy Leonhardt, Assistant IG for Audits
Brian Riley, Acting Regional Director for IAP
Gonzalo Molina, Chief Administrative Officer, IAP Region
Chris Leal, Director of Management and Operations, Vanuatu

Subject: Agency Response to the Preliminary Audit Report of Peace Corps, Vanuatu, August 2015

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Vanuatu as outlined in the Preliminary Report of the Audit of the IG Audit sent to the Agency on August 14, 2015.

The Post and Region concur with all 8 recommendations provided by the OIG in its Preliminary Audit Report. Post has addressed and provided supporting documentation for 6 of the 8 recommendations and will work to address the remaining recommendations by the set target dates.

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

Recommendation 1

That the Director of Management and Operations implement a process that ensures information regarding the number of dependent and child allowances is obtained from staff and maintained in the appropriate files.

Concur:

Response: To comply with this recommendation, the Director of Management and Operations (DMO) will modify Part I General Benefits Attachment III to require that Personal Service Contractors (PSCs) present a copy of dependents' birth certificate(s) so they can be eligible to the health benefit and child allowance. The DMO will then obtain approval from the HQ Contracting Officer to implement the modified Part I of Attachment III for new PSCs and for current PSCs at renewal time in December 2015. Once these steps are taken, the DMO will send a memorandum to all post staff informing them of this new requirement to be implemented in December 2015 and request that all PSCs present dependents' birth certificates prior to contract renewal. This also would apply for any new dependents.

The DMO, along with Financial Assistant, will ensure that a copy of each PSCs' dependent's birth certificate is filed prior to the PSC signing his or her contract. By signing their contracts, PSCs acknowledge compliance to this policy; all copies of Benefits Section will be kept in a personnel records folder for each contractor.

The process has been implemented for two recent hire PSCs. It is expected by year end, December 2015, it will be completed for all remaining 15 PSCs and two FSNs.

Documents to be Submitted:

- Part I General Benefits Attachment III sections Health Benefits and Child Allowance
- Email Approval from HQ Contracting Officer
- Email to PSCs on Dependent Certification

Status and Timeline for Completion: December 31, 2015

Recommendation 2

That the Director of Management and Operations ensures that all required documentation, including selection memos and justifications for other than full and open competition, are prepared for contracts, consistent with MS 733 and in compliance with the Overseas Contracting Handbook.

Concur:

Response: Post Administrative staff have met to review MS 733 *Leases* policy and procedures for contracting compliance and training. The DMO, along with Financial Assistant (FA), have reviewed all current Post contracts and confirm that all meet guidelines and policy for documentation, competition and preparation. In the future, the DMO will ensure full and open competition for any new leases by advertising locally to comply with MS 733 and ensure that lease files are documented accordingly. If full and open competition is not an option, a sole source justification will be completed per MS

733 guidance. As a standard procedure, the Overseas Lease File Checklist from the contracting handbook will be completed prior to execution. The FA will review checklist with backup documents for each Contract file kept electronically and in hard copy. All required contract documentation is now overseen by multiple shareholders at Post to assure compliance and adherence to agency policy.

Documents Submitted:

- Contract file for DPT Lease
- Contract file for PSC DPS Position

Status and Timeline for Completion: Complete, August 2015

Recommendation 3

That the Director of Management and Operations ensure compliance with Peace Corps policy to issue corrected bills of collection before voiding incorrect ones.

Concur:

Response: The DMO has reviewed with FA, Administrative Assistant (AA) and Cashier the procedure for voiding and issuing corrected Bills of Collection. In order to meet policy requirements and keep the process accurate, the DMO has reassigned the FA to be the collecting officer. The FA will issue Bills of Collection (BOC) and corrected BOCs. The DMO has provided specific guidance to the Cashier and Alternate Cashier on the proper procedures to follow when voiding a BOC. All issues regarding separation of duties have been addressed and supported through additional training for administrative staff in charge of handling BOCs.

When an error is made on a BOC, the Financial Assistant will advise the DMO and the DMO will authorize and provide justification to the Cashier to void the BOC. However, the Cashier will not void the original BOC until h/she receives the corrected re-entered BOC signed by the DMO. This will create a control mechanism to ensure that an erroneous BOC is only voided once the corrected BOC has been re-entered by the FA into For Post.

Only DMO and Cashier are responsible to provide justification to void a BOC and all voided BOC must be filed accurately by the Cashier. In the event that the FA becomes Acting DMO or is out of the office on training or on leave, the AA will assume the role of the Billing Officer. Training of staff was completed March 2015; compliance monitoring is on-going.

Documents Submitted:

- Memo to FA, AA and Cashier on new process for BOCs
- Examples of properly re-issued/voided BOCs

Status and Timeline for Completion: Complete, March 2015

Recommendation 4

That the Director of Management and Operations ensure compliance with Peace Corps policy to issue bills of collection as soon as the amount is due Peace Corps.

Concur:

Response: Post has taken corrective action, as set out below, to ensure that BOCs are issued as soon as the amount is due Peace Corps.

The Post has implemented a new post policy for HCN personal telephone charges to avoid having delayed BOCs. This new policy will be added to PSCs' Contracts at contract renewal time in December 2015. The DMO and FA will review, on a monthly basis, all invoices and pending bills to ensure that BOCs are prepared as soon as they know there is a debt to Peace Corps.

Going forward, immediately upon issuance, the DMO and FA will submit telephone bills for review by USDH, PCMOs and ITS staff for identification of personal telephone calls. Once personal calls are identified, BOCs will be issued immediately. All staff at Post will be informed of this policy to ensure awareness and compliance. The control mechanism for this process will be completed by September 15, 2015. Delayed BOCs for personal telephone calls will be collected by December 31, 2015.

Documents to be Submitted:

- Memo to FA, AA and Cashier on new process for BOCs
- Post policy for HCN personal telephone charges
- Reviewed phone bill and BOC log
- Email to Post staff on new telephone use policy

Status and Timeline for Completion: December 31, 2015

Recommendation 5

That the Director of Management and Operations evaluate and update access granted to financial systems to ensure access does not compromise adequate separation of duties.

Concur:

Response: The DMO has reviewed and updated access to all Odyweb applications using the matrix recommended by the Office of Chief Financial Officer and the guidance received from audit report to assure access does not compromise adequate separation of duties. Post had encountered challenges with understaffing in the past, which contributed to issues with access compliance. The FA had multiple times been given DOA in the absence of a full-time DMO. This problem has now been corrected with the addition of a new, full-time DMO. Each time FA acts as the DMO, an Odyweb form will be completed and signed by the CD and DMO to change access levels temporarily; once the FA resumes his/her duties the access will be modified back to the FA's normal access level.

Document Submitted:

- Copy of current For Post/Odyweb access matrix

Status and Timeline for Completion: Complete, September 11, 2015

Recommendation 6

That the Country Director arrange for proper security over the Volunteer Lounge in coordination with the US Embassy regional security officer and to maintain clearances for all guards.

Concur:

Response: The contract for guard services has been approved by the US Embassy Regional Security Officer and all current guards have security clearances issued through the Vanuatu Police Force. The Post has taken steps to ensure guards are on duty when the Office and Volunteer Resource Center are open.

Post is currently looking into security guard training provided by an outside security firm in Vanuatu (all guards to be trained no later than December 2015) and plans to initiate biannual training for security guards to meet all safety guidelines of the RSO.

Documents Submitted:

- Security Guard Contract
- Post Security Guard Training Objectives
- Local Police Certificates for Guard Staff

Status and Timeline for Completion: Complete, March 2015

Recommendation 7

That the Director of Management and Operations request the Office of Acquisition and Contract Management ratify the contract with the security company, request guidance on contracting for continued guard services, and provide the supporting documentation necessary for Office of Acquisition and Contract Management consideration of the ratification.

Concur:

Response: A review process of all relative documentation has been approved by the DMO and forwarded to OACM for the ratification process. Post is familiar with proper procedures to assure compliance in the future of all contracting for services and documentation/support needed for compliance with Peace Corps Policy. Post did have regional support for this contract, prior to signing, to support the immediate action needed for Volunteer Safety. The Post does understand that procedures used for contracting, even though time driven for safety of the volunteers, is essential for best practices and policy compliance.

Document Submitted:

- Ratification document prepared and approved by Chief Acquisition Officer, Linda Brainard, May 20, 2015.

Recommendation 8

That the Country Director work with the Office of General Counsel and the U.S. Embassy to assess an appropriate time and approach to either engage the Ministry of Foreign Affairs in renegotiating the Peace Corps country agreement or formally request adherence with the current country agreement provision specifically exempting the Peace Corps post from all taxes, including the Value Added Tax.

Concur:

Response: In discussions with the OIG, it has been agreed to revise the recommendation language to read as follows: *“That the country director work with the Office of the General Counsel and the U.S. Embassy to assess an appropriate time and approach to either engage the Ministry of Foreign Affairs in renegotiating the Peace Corps country agreement or formally request adherence with the current country agreement provision specifically exempting the Peace Corps post from all taxes, including the Value Added Tax.”*

The CD, DMO, and an OIG Lead Auditor met with the Vanuatu Government’s Revenue Division and the Ministry of Foreign Affairs to discuss noncompliance with the Peace Corps country agreement with regard to the continued payment of VAT for program purchases paid for in country. The representative from the Ministry of Foreign Affairs stated that they were bound by a law passed by Parliament applying to all diplomatic missions. The law (see attached VAT Office Policy Statement) states the Government of Vanuatu’s position regarding VAT treatment for Diplomatic Missions, stating that “all goods supplied in Vanuatu by a VAT registered person are liable to VAT at 12.5% unless the supply is specifically exempted or zero-rated under the Value added tax act of 1998 or under International Law such as the Geneva Convention.” Post requested a document from them confirming their position. The Ministry of Foreign Affairs provided a letter confirming that the Vanuatu Government’s position that Post would only receive a limited VAT exemption. The exemption was only extended to goods imported for use by Post; goods and services purchased locally were not exempt.

The post, OGC, and the embassy discussed the exemption matter and agreed to pursue, at the earliest reasonable opportunity, either updating the country agreement or once more requesting adherence to the current country agreement. Post has also met with representatives from the New Zealand High Commission. The New Zealand High Commission confirmed that Post and other diplomatic missions were all paying VAT on goods purchased in-country.

Documents Submitted:

- New Zealand High Commission Finance Officer email concurrence to VAT charges in Vanuatu.
- Notice from Vanuatu Government regarding VAT and Diplomatic Missions
- Email from US Ambassador to PNG stating continued support in seeking compliance with Country Agreement

- VAT Office Policy Statement from Vanuatu Government (VP022)

Status and Timeline for Completion: No further action is possible at this time. After Vanuatu national elections are held in November 2016, and at the earliest reasonable opportunity, the Region will either update the country agreement or request adherence to the current country agreement.

APPENDIX F: OIG COMMENTS

Management concurred with all eight recommendations. In its response, management described actions it is taking, or intends to take, to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact. All eight recommendations remain open. We will review and consider closing these recommendations when the documentation reflected in the agency's response to the preliminary report is received.

APPENDIX G: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This audit was conducted by Assistant Inspector General for Audit Judy Leonhardt and Lead Auditor Hal Nanavati.



OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please contact the current Assistant Inspector General for Audits Judy Leonhardt at jleonhardt@peacecorps.gov or 202.692.2914.

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