



Peace Corps Office of Inspector General



Capstone Report: Overseas Billing and Collection IG-14-01-SR

September 2014

EXECUTIVE SUMMARY

BACKGROUND

The Office of Inspector General (OIG) conducted 51 audits of Peace Corps overseas posts (“the posts”) between October 2007 and February 2014. This capstone report is a summary of the internal control weaknesses over bills of collection (BOCs) we have noted in those reports. We focus on BOCs in our audit program because they are at high risk for misappropriation. It is essential that posts establish checks and balances and comply with Peace Corps policies to provide for sound funds control. See the [Background](#) section and [Appendix A](#) for a description of our objectives, scope, and methodology and Appendix C for all post audit reports we issued between October 2007 and February 2014.

OBJECTIVE

Our objective in reviewing the BOC process in our post reviews is to assess the control processes and determine the risk for misappropriation of funds. If we determine that a pervasive control weakness exists, we then make agency-level control recommendations that we believe will enhance the control environment. The purpose of this report is to provide management with a summary of the BOC control issues our post audits have noted and to facilitate a better understanding of the importance of internal controls, illustrate how effective control activities will decrease the likelihood of BOC misuse, and help ensure the timely detection and follow up of suspicious transactions.

RESULTS IN BRIEF

Over the last seven years, we have noted that posts have not always fully implemented the required controls and post staff sometimes circumvented or ignored the controls; and the monitoring activities at headquarters were not designed to detect the associated lapses in controls. As a result, we identified the following methods cashiers and other post staff used to misappropriate Peace Corps funds for personal gain by:

- collecting cash without recording it in the financial system,
- voiding BOCs without recording cash collected, and
- keeping cash from collections outside of the Peace Corps safe and using it for personal use.

We have also noted instances where staff did not properly report the selling price of post property and vehicles sold and falsified financial records in an attempt to cover-up their misappropriations. Inadequate oversight and monitoring controls allowed the misappropriation of property to remain undetected and resulted in a loss of Peace Corps funds. Stronger monitoring practices and controls will better prevent and detect these instances.

The Office of the Chief Financial Officer (OCFO) has responded to the control deficiencies noted by implementing several of our recommendations to strengthen the control structure and has made a conscious effort to improve control activities at posts by focusing on enhanced monitoring at headquarters. Further, in several instances discussed in this report, OCFO alerted

us about suspicious activities at posts and has cooperated fully by providing information and data to resolve the incidents.

OCFO and OIG continue to work together to help ensure controls are appropriately applied and that staff is trained in their application. During FYs 2012 and 2013, OCFO worked with the three Peace Corps regions (Africa, Inter-America and the Pacific, and Europe, Mediterranean and Asia Operations) to conduct in-person training for cashiers and cashier supervisors (the country director and the director of management and operations (DMO)). A DMO at one of the posts used the knowledge he/she gained from this training to detect suspicious cashier behavior, which lead to an OIG investigation and detection of the fraudulent action. These trainings support efforts to prevent and detect fraud.

RECOMMENDATIONS

This report contains two recommendations directed to the Office of Global Accounts Payable at Peace Corps headquarters, which if implemented, should strengthen internal control and correct the deficiencies agency-wide.

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BACKGROUND

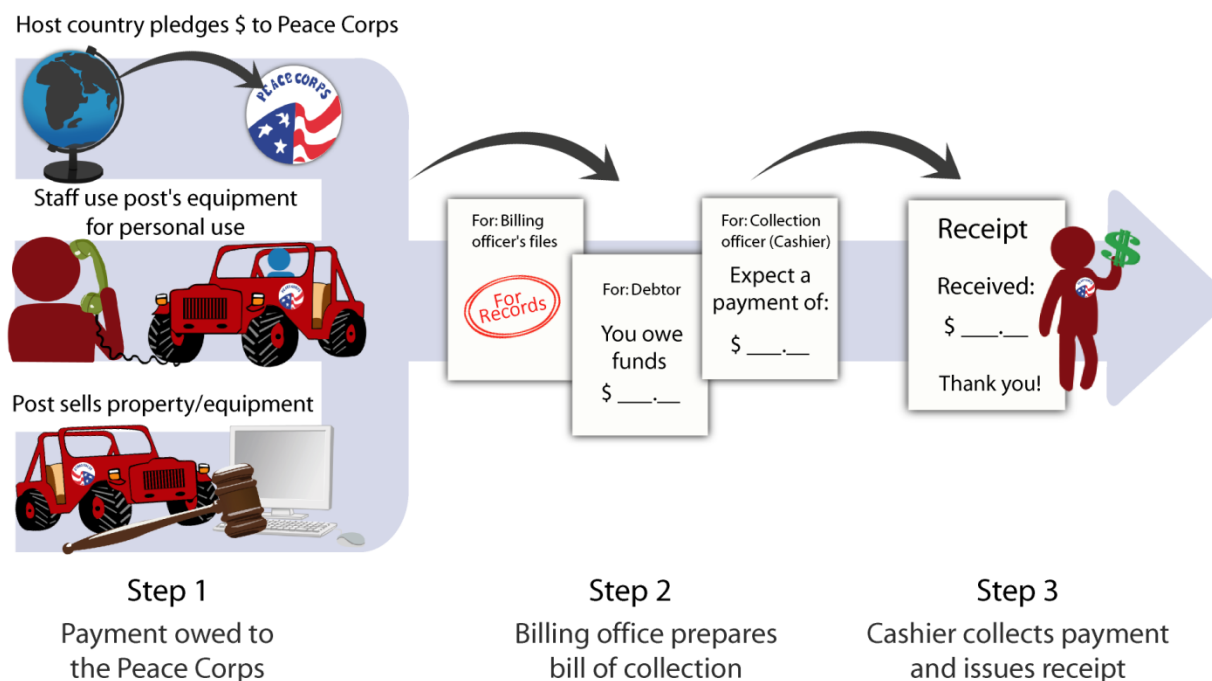
The Peace Corps has established financial management policies and procedures for billing, collections and imprest fund management. These policies and procedures include specific control activities at the post and during monitoring processes at headquarters. All employees have access to these policies and procedures, and management conducts targeted training for relevant staff members.

BILLING AND COLLECTION PROCESS

Overseas posts collect funds from individuals, vendors, or local governments when a reimbursement or other payment is due to the Peace Corps. Key billing and collection processes include accounting for smaller items, such as staff personal use of post phones and vehicles, and larger collections, such as host country contributions (HCC). HCC are the funds provided by host countries to support Peace Corps programs. HCC offsets Peace Corps operational costs and reduce appropriated funding requirements. Posts must maintain separation of responsibilities in the performance of billing and collection; the same individual who performs billing activities may not perform collection activities.

Once a post identifies an amount due, the billing officer prepares a BOC in FORPost, the post's financial system. The debtor must pay the collection officer, who records the receipt of funds in FORPost which closes the BOC. The DMO authorizes any voided BOCs. The DMO is required to review uncollected BOCs monthly and voided BOCs in the last 60 days; spot check the BOC log with the billing files; follow-up on outstanding BOCs; and communicate any discrepancies to post management (see Figure 1 below for an illustration of the billing and collection process).

Figure 1. Illustration of Billing and Collection Process



IMPREST FUNDS

The Peace Corps currently deploys Volunteers in 63 developing countries where the banking facilities are often more recently established institutions and the use of credit cards is sporadic. Although the Peace Corps prefers to use credit cards and electronic fund transfers to disburse payments, cash transactions remain an integral part of overseas post operations. As a result, the posts employ cashiers to execute numerous collection and disbursement transactions from imprest funds. Peace Corps management estimates that the total value of cash held in overseas posts to be approximately \$1.4 million.

Cash carries an inherent risk of loss, theft, and misuse. The posts use imprest funds to pay for miscellaneous supplies, trainee allowances, host family payments, in-country travel advances, and other small purchases. Although the majority of cash transactions are of small amounts, there are instances when the cashiers handle transactions of significant amounts; for example vehicle and personal property¹ sales, and collection of HCC.

Peace Corps cashiers receive “advanced funds” from the U.S. Treasury through the U.S. disbursing officer to operate the imprest fund. The Peace Corps follows the Departments of Treasury and States’ regulations to operate the imprest fund. According to Department of Treasury regulations, only a designated and authorized cashier can operate an imprest fund and is personally accountable for the fund. The CD has overall responsibility for imprest fund management and the DMO serves as the primary control point for financial and administrative

¹ Personal property is the term for property that is not real estate or a vehicle. It includes items such as furniture, laptops, and cell phones that contain personally identifiable information.

activities, including billing, collection and imprest fund management. The DMO performs a monthly cash count and reconciles the balance in the imprest fund with financial records and balance at the bank. The country director is required to communicate unresolved shortages greater than \$10 to the cashier monitors, Office of Global Accounts Payable, the U.S. disbursing officer, the Region, and OIG within 24 hours.

AUDIT OBJECTIVES

Our objective in reviewing the BOC process in our post reviews is to assess the control processes and determine the risk for misappropriation of funds. We then make agency-level control recommendations that we believe will enhance the control environment. The purpose of this report is to provide management with a summary of the BOC control issues our post audits have noted and to facilitate a better understanding of the importance of internal controls, illustrate how effective control activities will decrease the likelihood of BOC misuse, and help ensure the timely detection and follow up of suspicious transactions.

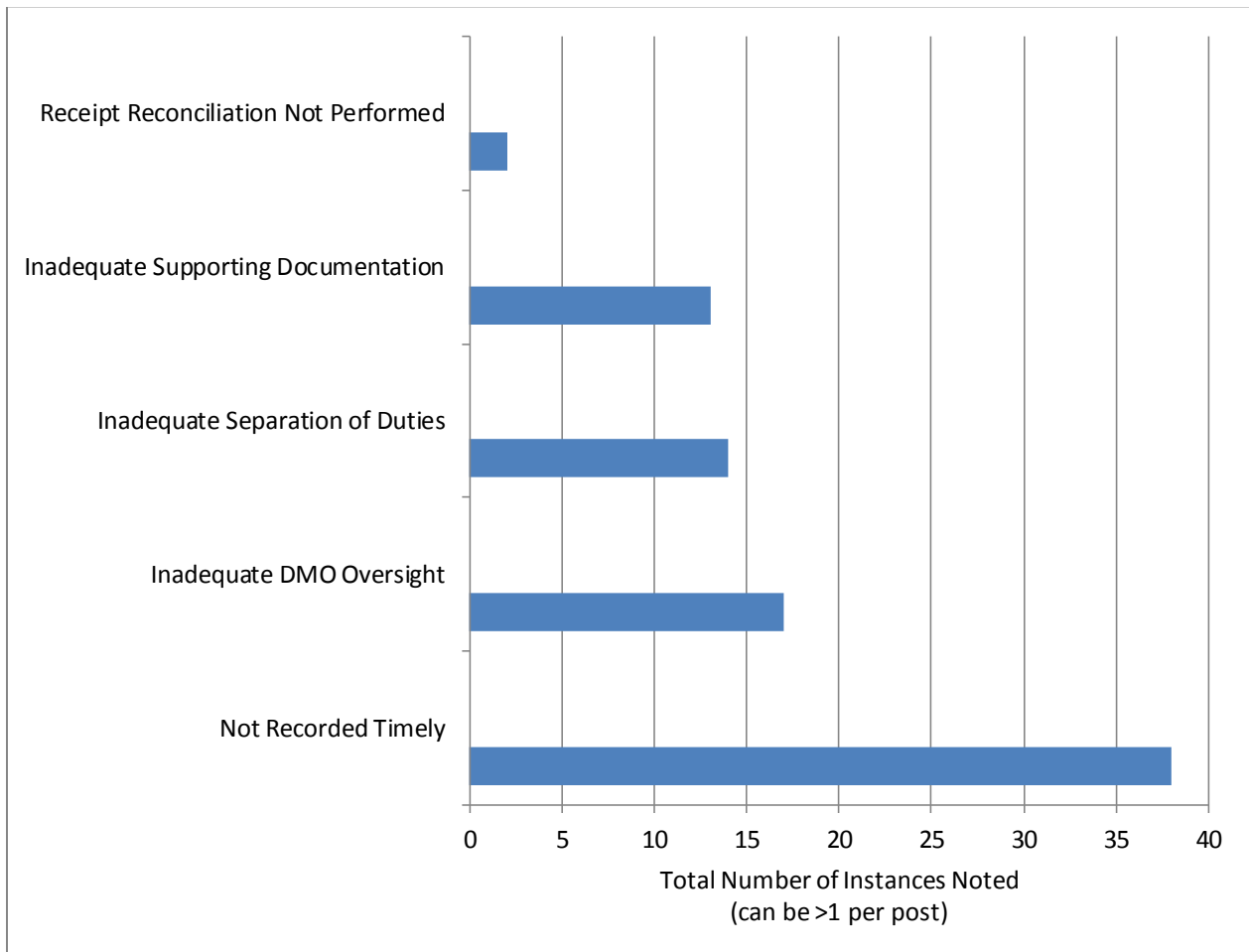
AUDIT RESULTS

During our audits at posts, we identified instances where the post staff perpetrated misappropriations and/or fraudulent activity by exploiting weak internal controls or by not following established policies and procedures for BOCs and imprest fund processes.

CONTROLS IN THE BOC PROCESS

During the aforementioned audits, we frequently noted that the posts did not consistently apply important BOC controls. Maintaining key BOC documentation ensures effective oversight. The timely recording of BOCs, reconciliation of receipts, and application of DMO oversight as well as the appropriate separation of duties helps defend against misappropriation of funds. As a result of important controls not being consistently applied, cashiers and other staff were able to steal collected BOCs or withhold funds for their personal use. Table 1, below, summarizes the control deficiencies noted in each of the 30 posts audited. Details for the 30 post audits conducted can be found in Appendix D.

Table 1. BOC Control Deficiencies Noted in 30 Post Audits



INSTANCES OF MISUSE

These control weaknesses provided greater opportunity for misuse and theft of government funds. Over the past five years we have collaborated with OFCO to identify instances where the posts have experienced cash loss and misuse of funds. OCFO referred some incidents to the Investigation Unit for further action. OCFO has also implemented controls we've recommended in our reports, as well as additional controls they have developed, to better mitigate these risks.

We have highlighted specific instances of misuse, below, to provide examples of how controls are sometimes ignored or subverted and the misappropriation of funds that can result. Table 2 provides a discussion of the corrective actions OCFO and posts have taken to address the control weaknesses noted.

Missing Funds at PC/Guatemala. During the audit, we noted control weaknesses in the billings and collections process. As a result, the financial and administrative operations were not functioning effectively and did not fully comply with agency policy and federal regulations. We determined there was inadequate separation of duties for billings, collections, and other financial and administrative processes. For instance, the administrative assistant (AA) was responsible for determining monthly allowance payments, collecting cash refunds directly from Volunteers, and cashing check refunds from the bank. The AA was also responsible for preparing a checklist for determining allowance due, issuing BOCs, and collecting cash from terminated Volunteers, in violation of Peace Corps policy. In addition, the AA did not prepare BOCs in a timely manner or in some cases, at all. Further, the DMO did not monitor the billing and collection activities for Volunteer refunds and failed to initiate corrective action after noticing deficiencies.

A subsequent OIG investigation determined that the post could not account for approximately \$7,000 U.S. dollar equivalent (USDE). The AA admitted negligence in the handling of refunds for Volunteer living allowances but gave no clear explanation for the unaccountable funds². The administrative officer and cashier were also unable to provide a clear explanation for the unaccountable refunds. The post took corrective actions by assigning the billing responsibilities to the financial assistant instead of the AA and reassigning the collection functions to the cashier, in compliance with Peace Corps policy. As a result of the post's corrective actions, we did not make any recommendations to headquarters during this audit.

Misappropriation of Checks at PC/Malawi. The Investigation Unit received an allegation regarding the propriety of cashiering operations and accounting for HCC. The investigation concluded that the cashier could not account for approximately \$55,100 USDE of HCC paid by the government of Malawi. Specifically, the cashier voided \$17,300 USDE in HCC checks and failed to record HCC checks totaling \$37,800 USDE in the billing and collection system.

This misappropriation of checks occurred because the post did not establish adequate control over the billing and collection of HCC. As a result, there was a lack of segregation of duties, written procedures, and timely and effective oversight over billing and collections. The DMO did not reconcile the log of HCC checks received with the BOC log to detect those not issued in the

² The AA was subsequently terminated.

financial system. In addition, the FORPost system allowed cashiers to void BOCs without getting the DMO's approval, therefore enabling them to remove the collection from the records without depositing the funds.³

Following the audit, OCFO improved the controls in the FORPost system to require DMO approval on all voided BOCs. In addition, the post implemented a process to track anticipated HCC collections and monitor whether the HCC was collected and deposited.

Misappropriation of Funds at PC/Tonga. OCFO reported an allegation to OIG that the cashier had misappropriated imprest funds by withdrawing funds from the post's bank account for personal use. We performed an audit in response to this allegation and determined that the cashier had potentially misappropriated a total of approximately \$21,000 USDE by voiding BOCs for sales of vehicles and Volunteer allowances and misappropriated proceeds from vehicle sales.⁴ The former DMO failed to exercise due diligence when authorizing a voided BOC for the sale of a vehicle and for Volunteer allowances. In addition, the former DMO did not monitor and follow-up on overdue BOCs; obtain adequate support prior to voiding a BOC; or verify that the cashier issued proper system-generated receipts for the BOC related to the sale of a vehicle.

Subsequently, OCFO enhanced procedures to require that the DMO void a BOC only after issuing a new corrected BOC in the FORPost system. This process ensures that cashiers cannot void BOCs because of errors or corrections and fail to re-enter the related corrections into the system. This change applies to all overseas posts and also provides historical information that helps explain the voided and re-entered transactions.

³ The cashier was charged and prosecuted locally by the host country. page 3

⁴ The cashier, a contractor, was debarred from government contracts.

Table 2. Examples of BOC Issues and Corrective Actions

Country	Issue	Corrective Action
PC/Guatemala	Collections from Volunteer living allowance refunds were not recorded as BOCs.	The post reassigned responsibilities and oversight of Volunteer allowances and BOCs. We did not make recommendations to OCFO.
PC/Malawi	HCC were not billed or received and were voided.	OCFO implemented a system requirement that DMOs must approve all voided BOCs.
PC/Tonga	BOCs were voided and collections were misused.	OCFO enhanced the procedures to require a new BOC be created before voiding a previous one.

CONCLUSION

The billings and collections process is a vulnerable area for posts. Although posts have limited assets, it is important to ensure the necessary checks and balances for sound fund control. Doing so effectively can be challenging in post operations. However, not doing so has resulted in incidents or staff to embezzling funds or using them as personal loans. Specifically, cashiers and other post staff collected cash without recording it in the financial system, voided BOCs without recording cash collected, and concealed cash and check collections from management. In addition, inadequate oversight and monitoring has allowed errors and fraudulent actions to remain undetected, resulting in a loss of Peace Corps funds. Fraud and inappropriate practices can weaken the control environment and erode employees' trust and confidence in Peace Corps management, especially when unlawful acts are not detected and offenders are not punished.

Throughout our audits and investigations, OCFO responded in a timely manner to the deficiencies we noted in our reports by implementing our recommendations to improve control activities at posts and through enhanced monitoring. In several of the examples previously discussed, OCFO first identified the issue and worked closely with us on a resolution. Despite enhanced controls, the misappropriations occurred primarily when post staff overlooked or circumvented the internal controls in place. We will continue to work with OCFO, regional, and post staff to help ensure effective oversight controls are in place to protect Peace Corps assets.

During FYs 2012 and 2013, the CFO and Peace Corps regions began conducting in-person trainings for cashiers and cashier supervisors. We noted an example of a DMO who used the training to detect misuse of BOCs. In addition, OCFO implemented the requirement that DMOs approve voided BOCs and increased the monitoring performed of BOCs at headquarters. In our opinion, the Office of Global Accounts Payable should take further steps to strengthen headquarters' oversight role and regional management should enhance its accountability of overseas posts' BOC processes to ensure the controls are in place and operating effectively.

We recommend:

- 1. That the director of the Office of Global Accounts Payable enhance the headquarters process for monitoring bills of collections by developing standard reports for bills of collections and voided transactions, reviewing the reports for unusual trends and transactions, and conducting follow-up with posts as needed.**
- 2. That the director of the Office of Global Accounts Payable develop a risk assessment process for bills of collection and imprest fund operations, use the risk assessment to analyze post's operations, and communicate high risks and vulnerabilities to regional management with recommended remedial action.**

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of the Office of Global Accounts Payable enhance the headquarters process for monitoring bills of collections by developing standard reports for bills of collections and voided transactions, reviewing the reports for unusual trends and transactions, and conducting follow-up with posts as needed.
2. That the director of the Office of Global Accounts Payable develop a risk assessment process for bills of collection and imprest fund operations, use the risk assessment to analyze post's operations, and communicate high risks and vulnerabilities to regional management with recommended remedial action.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective in auditing overseas posts is to determine whether the financial and administrative operations are functioning effectively and complying with Peace Corps policies and federal regulations. This capstone report provides a summary of billing and collection issues we identified while conducting our post audits and investigations from October 2007 to February 2014. The reports listed below noted specific examples of billing and collection issues we have noted in this report. We acknowledge support of the OCFO to alert us when they notice unusual transactions, supply pertinent data, and participating in developing and implementing new and improved control activities.

See the individual reports, listed in Appendix C for the audit standards applied and further details about the objectives, scope, and methodology. Our audit criteria were derived from the following sources: federal regulations, the *Peace Corps Manual*, *Overseas Financial Management Handbook*, 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
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
USDE	U.S. Dollar Equivalent

APPENDIX C: AUDIT REPORTS FROM FYs 2008 TO 2014

FY 2014	FY 2011, Continued	FY 2009, Continued
Armenia Final Audit Report	Mozambique Final Audit Report	Nicaragua Final Audit Report
Macedonia Final Audit Report	Panama Final Audit Report	Samoa Final Audit Report
FY 2013	Rwanda Final Audit Report	Swaziland Final Audit Report
		Senegal Follow Up Audit Report
Jamaica Final Audit Report	Togo Final Audit Report	Uganda Follow Up Audit Report
Malawi Final Audit Report	Ukraine Final Audit Report	FY 2008⁵
South Africa Final Audit Report	FY 2010	Armenia Follow-up Audit
Zambia Final Audit Report	Burkina Faso Final Audit Report	Azerbaijan
FY 2012	Cape Verde Final Audit Report	Botswana
Costa Rica Final Audit Report	Kenya Final Audit Report	China Follow-up Audit
Jordan Final Audit Report	Moldova Final Audit Report	Eastern Caribbean
Lesotho Final Audit Report	Mongolia Final Audit Report	El Salvador
Limited Scope Audit of Peace Corps/China	Paraguay Final Audit Report	Fiji
Mali Final Audit Report	Suriname Final Audit Report	Georgia
Tonga Final Audit Report	Tanzania Final Audit Report	2008 Malawi Unaccounted Funds Investigation-Audit
FY 2011		Kazakhstan
Albania Final Audit Report	FY 2009	Peru
Belize Final Audit Report	Guatemala Final Audit Report	Philippines
Ethiopia Final Audit Report	Guinea Final Audit Report	South Africa
Mexico Final Audit Report	Morocco Final Audit Report	Vanuatu Follow-up

⁵ FY 2008 audit reports are not available online.

APPENDIX D: CONTROL DEFICIENCIES NOTED

Country	Inadequate Supporting Documentation	Untimely Recording of BOC	Inadequate Separation of duties	BOC Not Reconciled with Receipt	Inadequate DMO Oversight
Azerbaijan					
Botswana		✓			
Burkina Faso	✓	✓			
Cape Verde		✓	✓		
Eastern Caribbean	✓		✓		✓
El Salvador	✓		✓		✓
Fiji	✓	✓			✓
Georgia		✓			
Guatemala		✓			✓
Guinea					✓
Jamaica					
Jordan		✓		✓	
Kenya	✓				
Lesotho		✓	✓		✓
Macedonia		✓	✓		
Malawi		✓	✓		✓
Mali		✓		✓	
Mexico	✓	✓			
Paraguay	✓	✓			✓
Peru			✓		
Philippines		✓			
Rwanda		✓			
Samoa		✓	✓		
South Africa		✓			
Suriname	✓	✓			✓
Swaziland					✓
Tanzania		✓			
Tonga	✓	✓			✓
Uganda					✓
Ukraine	✓	✓	✓		✓

APPENDIX E: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This report was completed under the direction of former Assistant Inspector General for Audit Bradley Grubb by Lead Auditor Hal Nanavati and also includes work performed by Lead Auditor Rebecca Underhill and Auditors Steve Kaffen, Waheed Nasser, and Gabrielle Perret.



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

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