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From: Kathy A. Buller, Inspector General Kathy A. Buller

Date: September 29, 2017

Subject: Final Report on the Follow-up Audit of Peace Corps/Zambia (IG-17-05-A)

Transmitted for your information is our final report on the Follow-up Audit of Peace Corps/Zambia.

Management concurred with all 21 recommendations. In its response, management described actions it is taking, or intends to take, to address the issues that prompted each of our recommendations. There are 21 recommendations that remain open. We will review and consider closing the recommendations when documentation reflected in the agency's response to the preliminary report is received.

Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

Our comments, which are in the report as Appendix E, address these matters. Please respond with documentation to close the remaining open recommendations 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 Lead Auditor Hal Nanavati, at 202.692.2929.

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

cc: Jessica Wilt, Director of Regional Operations and Program Performance, Peace Corps/Zambia
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PEACE CORPS

Office *of* Inspector General

Final Audit Report

Peace Corps/Zambia

IG-17-05-A

September 2017

EXECUTIVE SUMMARY

BACKGROUND

The Peace Corps Office of Inspector General (OIG) performed an audit of Peace Corps/Zambia in 2012 and issued our audit report in 2013 (IG-13-06-A). In April 2016, the country director (CD) and director of management and operations (DMO) brought significant concerns regarding their system of internal controls to the attention of OIG. A multi-disciplinary OIG team visited Zambia in May 2016, and OIG concluded that Peace Corps/Zambia (hereafter referred to as "the post") would benefit from a follow-up post audit. Thus, OIG conducted a follow-up audit from September 26 to October 7, 2016.

Staff:
U.S. direct hires (USDH): 4
Foreign Service nationals: 2
Full-time personal services contractors (PSCs): 65

Spending (approx.):
Fiscal Year (FY) 2015 post spending: $8.2 million
Average regional overhead: $536,000

Map of Zambia

WHAT WE FOUND

OIG issued 12 audit recommendations in the 2013 audit report, all of which the post and the Office of the Chief Financial Officer implemented and OIG closed. However, during the follow-up audit we noted that the internal controls over the post's financial and administrative operations required significant improvement to comply with agency policies and applicable Federal laws and regulations. Specifically, we noted:

- Lack of guidance from Peace Corps management regarding processes and controls over fuel management.
- Lack of controls over assigning and distributing fuel cards, recording fuel purchases, processing vendor invoices for fuel purchases, tracking use of generator fuel, and purchasing vehicle lubricants.
- Insufficient cashier reporting of discrepancies to management.
- Failure to perform random timely cash verifications.
- The post did not comply with sub-cashier policies.
- Unauthorized electronic fund transfers.
- Interim advances not being timely cleared.
- Cashier allowed deposits in bank account against United States disbursement officer (USDO) policies.
- Improper obligations and recording of expenses under ambiguous vendor names.
- The post did not comply with contracting policy.
- Noncompliance with the health insurance clause in staff contracts.

- Untimely updates to security clearances of personal service contracts and janitors.
- Absence of a contract with property auctioneer performing services for the post.
- Underpayment of living allowances to Response Volunteers.

The prevalence of these significant conditions put Peace Corps/Zambia at increased risk of fraud, waste, and abuse.

RECOMMENDATIONS IN BRIEF

Our report contains 21 recommendations directed to both the post and headquarters. At the post, our recommendations include implementing controls over fuel purchase and use, imprest funds, staff health insurance, disbursements, and security clearance for staff. We also recommend putting in place a contract with the auctioneer and enhancing controls over Volunteer allowances. We recommend that headquarters issue guidance on implementing internal controls over fuel purchase and use.

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BACKGROUND

OIG had performed an audit of Peace Corps/Zambia in 2012 and issued an audit report in 2013 (IG-13-06-A). In April 2016, the CD and DMO alerted OIG to significant internal control weaknesses occurring at the post. As a result, OIG conducted a follow-up audit from September 26 to October 7, 2016.

At the time of the follow-up, there were 250 Volunteers in Zambia working with their communities on projects in agriculture, education, the environment, and health. More than 1,790 Peace Corps Volunteers have served in Zambia since the program's establishment in 1994. The post had 4 U.S. direct hires, 2 Foreign Service nationals, and 65 full-time personal services contractors. In FY 2016, the post's budget was approximately $8.2 million.[1]

Our overall objective in auditing overseas posts is to determine whether the financial and administrative operations were functioning effectively and in compliance with Peace Corps policies and federal regulations during the period under audit; and to assess the current status of the actions post implemented to close the recommendations made in our audit report IG-13-06-A, based on the information provided by PC/Zambia. Appendix A provides a full description of our audit objective, scope, and methodology.

AUDIT RESULTS

FUEL AND VEHICLE MAINTENANCE EXPENSES

Background

In April 2016, the DMO informed OIG of suspicious fuel and lubricant transactions. The DMO identified that a driver had misused a fuel card to buy gasoline for personal cars amounting to approximately $7,000[2] and noted that the lubricant purchases appeared to be higher than normal. The DMO was concerned about the entries in the vehicle management information system (VMIS) and internal controls over fuel purchases. During a May 2016 visit, OIG worked with the DMO to confirm a lack of adequate processes and controls, and a need to improve the reliability of transactional data and documents supporting fuel and auto maintenance transactions.

OIG scheduled an audit in September 2016 and requested the DMO accumulate supporting documents from the fuel vendors and identify fuel transactions missing in the vehicle logbooks and VMIS.

[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 $13.9 million incurred by the Africa region in direct support of its 26 overseas posts in FY 2016, which is an average of $536,000 per post.
[2] The post recovered misused funds from the terminated employee.

OIG noted that the post disbursed the following amounts for fuel:[3]

Vendor	Items	FY 2013-14	FY 2014-15	FY 2015-16	Total
Total (Gas Station)	Vehicles Fuel and Lubricants	$ 70,800	$ 80,200	$ 58,400	$ 209,400
U.S. Embassy	Vehicle Fuel and Generators	$ 60,500	$53,900	$ 46,700	$ 161.100
Puma (Gas Station)	Provincial Office Vehicle Fuel and Generators	$ 26,100	$ 23,000	$ 10,800	$ 59,900
Cash	Varies	$ 2,200	$400	$ 2,000	$ 4,600
Peace Corps/Zambia Fuel Expenses		**$ 160,000**	**$ 157,500**	**$ 117,900**	**$ 435,000**
Peace Corps Global Fuel Expenses		**$1,974,500**	**$1,730,300**	**$1,493,900**	**$5,198,700**

Table 1. Peace Corps/Zambia fuel expenditures compared to Peace Corps posts globally. Peace Corps currently operates 61 posts in 65 countries. Source: disbursement reports from the Peace Corps' Odyssey financial reporting system.

The primary fuel vendors—the U.S. Embassy and the fuel company Total Fuel Company—provided fuel cards and monthly invoices to the post. The post also purchased fuel from Puma Fuel Company fuel stations through a pre-paid arrangement as a back-up vendor, when the drivers could not find a Total gas station or when Total stations did not have fuel. The drivers used cash only in emergencies, when other options were unavailable. The drivers purchased fuel in jerry cans for generators at the post, U.S. direct hire (USDH) residences, and provincial offices.

The analysis of fuel transactions estimated that the post could not justify vehicle fuel purchases of approximately 1,900 liters in FY 2015 and 2,200 liters in FY 2016. However, the audit could gather only circumstantial evidence for the estimated loss of fuel, and post management could not pinpoint suspicion to any particular staff member.

Overview of the Fuel Purchase Process in PC/Zambia

Per the DMO, the post used the following processes to manage vehicle fuel purchases:

U.S. Embassy. The Embassy was the preferred vendor for refueling vehicles in Lusaka. The Embassy provided a token for each vehicle, and required the drivers to enter their unique PIN while fueling vehicles or purchasing fuel for generators with jerry cans. The post kept the Embassy tokens attached to the car keys and drivers were to keep their pins secret. The Embassy staff did not monitor when the drivers refueled the vehicles or filled the jerry cans, nor provide a receipt for fuel purchased. The Embassy provided monthly bill to the post.

Total Fuel Cards. For each vehicle, Total provided one fuel card with a PIN. In Lusaka, the motor pool coordinator (MPC) kept these cards in a locked drawer and issued respective fuel cards to drivers traveling out of Lusaka. The post also issued a fuel card to each provincial office

[3] OIG used the disbursement report from the Peace Corps' Odyssey financial reporting system to calculate the amount of fuel expenses in Zambia and for all Peace Corps operations worldwide.

vehicle. The provincial staff shared the fuel card to purchase fuel. Total provided monthly statements to the post.

Puma Pre-paid Fuel Accounts: Until May 2016, provincial staff purchased fuel from Puma stations if fuel was not available at a Total station. Every quarter the post estimated the fuel requirements for each provincial office and deposited the total amount with Puma's Lusaka office. The post then provided instruction to Puma's Lusaka office to allocate specific amounts to various Puma stations. Puma did not provide monthly statements regularly to the post. The post has discontinued the Puma accounts.

Cash: The drivers used cash only if they could not purchase fuel from Total or Puma stations.

Internal Control Issues OIG Identified

Peace Corps management has not issued guidance for best practices and adequate controls over management of fuel.

The Standards for Internal Control in the Federal Government ("The Green Book") recommends standard components for establishing an effective internal control system within Federal organizations. These components--control environment, risk assessment, control activities, information and communication, and monitoring--should be effectively designed, implemented, and operated in an integrated manner.[4] Management should design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risks in the internal control system.[5]

The Peace Corps disbursed approximately $1.4 million for fuel worldwide in FY 2016. Zambia fuel expenses represented approximately 8 percent of total Peace Corps spending on fuel from FY 2014 to FY 2016. As fuel represents a significant expense for posts, management should take steps to reduce possibilities of fraud. Per the Green Book, the management should consider the potential for fraud when identifying, analyzing, and responding to risks, including misappropriation and theft of assets. Such theft could include theft of property, embezzlement of receipts, or fraudulent payments.[6]

The lack of adequate controls over management of fuel resulted in several issues in Peace Corps/Zambia. For example, the post lacked controls over fuel cards and the purchase and use of generator fuel. It also erroneously recorded fuel purchases in vehicle logs and VMIS, and did not verify the accuracy of fuel vendor invoices with support. We discuss these issues in further detail below. During our review, we noted that the Peace Corps did not provide any guidance or best practices to posts for managing fuel cards, purchasing fuel, reconciling vendor invoices with VMIS, and tracking fuel purchased for generators. As fuel purchase methodologies differ from post to post, a uniform set of processes and controls will not apply to all situations. However, the Peace Corps could provide best practice examples and guidance, allowing each post to select the most suitable option for its country. For example, the Overseas Financial Management

[4] Standards for Internal Control in the Federal Government GAO-14-704G, "OV 2.04"
[5] Standards for Internal Control in the Federal Government, "Principle 10.3 Design Control Activities"
[6] Standards for Internal Control in the Federal Government, "Principle 8, Assess Fraud Risk"

Handbook (OFMH) section 7.6.4 provides various steps for collecting value added tax (VAT) reimbursements in different countries and situations.

The DMO identified the misuse of approximately $7,000 as noted above and requested OIG evaluate the post's processes and controls. During our audit, we found that Peace Corps management's lack of guidance for procedures and relevant internal controls for managing fuel purchases, record keeping, and tracking resulted in inadequate records and theft of fuel. We identified several shortcomings in post procedures and a breakdown of internal controls as noted below.

We recommend:

1. **That the director of Office of Global Operations, in coordination with the acting chief financial officer and acting associate director for management, issue guidance to posts for implementing best practices and internal controls over management of fuel cards and purchase and use of fuel for vehicles and generators.**

Post management did not implement adequate controls over fuel cards.

The post lacked adequate controls to prevent misuse of fuel cards. Per the Green Book, management must establish physical controls to safeguard valuable assets; these controls can include measures like limiting access to cash. Management should periodically count and compare assets to the control record.[7]

Total issued one fuel card tied to each vehicle, and provided a monthly invoice for fuel and other automotive products such as lubricants. However, the post did not track fuel cards issued to the drivers for purchasing fuel to ensure that the drivers timely returned the card. Furthermore, the MPC did not maintain a log of fuel cards on hand, reconcile fuel cards with active vehicles, nor timely cancel the fuel card for sold vehicles. In April 2016, post management identified that a driver used a fuel card for a vehicle sold in January 2015 to purchase approximately $7,000 U.S. dollar equivalent (USDE) of fuel for personal use. In May 2016, the MPC noted that the post had not canceled two fuel cards approximately 2 months after selling the vehicles.

The Embassy provided tokens for each vehicle and the post attached these tokens to the respective car keys. Each driver had a unique passcode to purchase fuel. Attaching the tokens to the vehicle keys allowed the drivers to purchase fuel for any vehicle or in jerry cans without informing the MPC. The drivers were required to inform the MPC of the fuel purchases, but because the Embassy did not provide receipts, the controls over fuel purchases were weak and verification not possible when the post received monthly bills from the Embassy.

Per the DMO, the Total representative stated that there are additional management options available to reduce fraud and abuse of fuel cards. The post has implemented controls including

[7] Standards for Internal Control in the Federal Government, "Principle 10.3 Design of Appropriate Types Control Activities – physical control over Vulnerable assets"

scanning the Total card sticker on the car to identify ownership of the vehicle and requiring the drivers to enter their individualized password and the current odometer reading before fueling the car. With this control, the gas station can fuel only the vehicles belonging to the Peace Corps.

We recommend:

2. **That the director of management and operations:**
    - **implement procedures to track fuel cards to ensure that the general services manager reconciles active fuel cards with the number of vehicles on hand and timely cancels fuel cards belonging to sold vehicles.**
    - **implement procedures to ensure that fuel cards are secured and issued to staff members after preauthorization.**
    - **contact the Embassy and fuel vendors to identify and implement additional security features available to enhance accountability of fuel cards.**

Post management did not provide oversight to ensure the motor pool coordinator reconciled fuel purchases entered into vehicle logs and VMIS with receipts.

Per the Green Book, the management should implement transaction control activities directly into operational processes to support the entity in achieving its objectives and addressing related risks. These can include verifying and reconciling purchases, setting up authorizations or approvals, or implementing physical controls and supervision. .[8]

Per the post's procedures, the drivers were required to send text messages to the MPC detailing any fuel purchases and to enter the purchase information into the vehicle log sheets. The drivers were also required to give the MPC receipts from Total or other cash purchases. Upon receiving the text message, the MPC was required to enter the fuel purchase details in VMIS. When the MPC subsequently received the receipts, he was required to file them and verify the accuracy of these entries.

However, the drivers and the MPC did not always follow the procedure. The drivers did not record the fuel purchases in the vehicle logs, and failed to provide the information or receipts to the MPC. The VMIS entries were incomplete, as the MPC did not include all the fuel purchases. Post management did not provide any oversight to ensure that the drivers and the MPC were following the fuel purchasing procedures. The general services manager (GSM) did not verify that the MPC recorded all fuel purchases accurately in the VMIS. The DMO has recently implemented this control.

[8] Standards for Internal Control in the Federal Government, "Principle 10.10 - Design of Control Activities at Various Levels"

Failure to reconcile vehicle logs, VMIS, and receipts resulted in inaccurate and incomplete fuel purchase records. These unreliable records prevented post management from identifying staff members who misused fuel cards and perpetrated fraud.

We recommend:

3. **That the director of management and operations implement adequate oversight over vehicle logs and entries in the vehicle management information system to ensure that drivers provide accurate information to the motor pool coordinator for all fuel purchases and that the motor pool coordinator record all fuel purchases in the vehicle management information system purchase log.**

Post management did not have procedures to reconcile vendor invoices with purchases entered in vehicle logs, receipts, and VMIS.

Per the Green Book, only the persons acting within the scope of their authority can execute and authorize valid transactions to exchange, transfer, use, or commit resources.[9] Management should design controls to ensure that transactions are valid, accurate, and promptly recorded.[10] Management should design transaction control activities for operational processes, including verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.[11]

We noted that the post did not have procedures to verify accuracy of invoices against supporting documents and did not reconcile receipts, vehicle logs, and VMIS entries with monthly vendor statements and follow-up on unsupported transactions.

The Embassy and Total. The post received monthly invoices with transaction details from Total and the Embassy. However, the financial assistant (FA) neither verified the invoice details nor requested the MPC validate them against vehicle logs, VMIS, or receipts. As a result, the FA paid these invoices without verifying if all purchases had adequate support.

Puma. The post did not get regular, detailed statements from Puma gas stations. Per the DMO, when a Puma gas station's pre-paid balance was low, the provincial managers or Puma requested the post send additional funds to Puma headquarters.

Lack of adequate procedures and controls resulted in the post processing vendor invoices without matching them with receipts and supporting reports. This prevents post management from timely identifying misuse of fuel cards by staff members.

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[9] Standards for Internal Control in the Federal Government, "Design of Appropriate Types of Control Activities – Principle 10.3 Proper execution of transactions"
[10] Standards for Internal Control in the Federal Government, "Design of Appropriate Types of Control Activities – Principle 10.3 Accurate and timely recording of transactions"
[11] Standards for Internal Control in the Federal Government, "Principle 10.10 Design of Control Activities at Various Levels"

We recommend:

4. **That the director of management and operations implement procedures to reconcile fuel vendor statements with receipts and vehicle management information system entries before processing payments.**

Post management did not have procedures to manage purchase and use of generator fuel.

Per the Green Book, the management should establish physical controls to safeguard valuable assets, for example, security over and limited access to cash. Management should periodically count assets and compare to the control record[12]. Management should design transaction control activities for operational processes, including verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities[13].

The post did not implement any processes to record and track the purchase and use of fuel for generators. We noted that Peace Corps management did not issue any guidance for managing generator fuel, as detailed above.

Lusaka Office. For the Lusaka office and USDH residences, the post purchased generator fuel primarily from the U.S. Embassy in jerry cans.

However, the GSM did not maintain accurate inventory records of fuel. Generator fuel logs were in place, but the post did not use these logs and post management did not monitor them regularly. No one witnessed when the drivers refueled the generators. The post did not track liters used for refueling each generator, the generator's balance at the time of refueling, nor the fuel capacity of each generator. There was no process to reconcile generator fuel purchases with Embassy invoices.

Provincial Offices. The provincial staff purchased fuel using Puma accounts, or cash as needed, in jerry cans for refueling. The staff did not maintain any logs of fuel purchased and used (as noted above).

As such, the post did not have reliable records and adequate controls over purchase, inventory, and use of fuel for generators. Lack of adequate records and controls can lead to misuse of fuel by staff members. Furthermore, without adequate records, it was not possible to pinpoint the extent of fuel misuse and identify perpetrators in order to take appropriate action against them.

After we identified these control weaknesses, the post purchased a fuel tank with 1,000-liter capacity for use in Lusaka and developed a tracking system for recording fuel purchase and use. The post also increased controls on generator fuel at the provincial level by providing separate Total cards for each provincial office generator and ensuring that provincial generator logs are submitted monthly and reconciled with the Total fuel bill.

[12] Standards for Internal Control in the Federal Government, "Design of Appropriate Types of Control Activities – Physical control over Vulnerable assets"

[13] Standards for Internal Control in the Federal Government, "Principle 10.10 Design of Control Activities at Various Levels"

We recommend:

5. That the director of management and operations finalize and implement controls over tracking the use of fuel for generators.

Post management did not have procedures to manage purchase of lubricants.

Per the Green Book, the management should implement transaction control activities directly into operational processes to support the entity in achieving its objectives and addressing related risks, including verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities[14].

In calendar years 2014 and 2015, the post purchased approximately $5,000 and $8,000 USDE of lubricants from Total, respectively. Per the DMO, the post did not have adequate and reliable vehicle maintenance schedule or records. As a result, post management did not identify the misuse until, in response to DMO inquiry, a representative from Total commented that the drivers were purchasing excessive lubricants from Total gas stations using Total fuel cards.

As noted above, the post did not maintain controls over fuel cards, nor require the MPC or the GSM to validate charges on fuel cards. Per the DMO, it is difficult to identify who purchased the lubricants because of incomplete purchase records for the fuel cards. Without adequate and reliable records, OIG could not identify or quantify the suspected misuse of lubricants purchased using Total fuel cards.

Per the DMO, under the new controls implemented, the drivers cannot purchase lubricants using Total fuel cards.

We recommend:

6. That the director of management and operations finalize and implement controls over purchasing lubricants.

IMPREST FUND

<u>Overview of the Control Environment</u>

During our review of the imprest fund, we noted multiple instances of non-compliance with the OFMH, Peace Corps Manual requirements, and Green Book standards, which weakened the post's internal controls.

[14] Standards for Internal Control in the Federal Government, "Principle 10.10 Design of Control Activities at Various Levels"

Per the Green Book, management should monitor the internal control system and evaluate the results.[15] This ongoing monitoring of the design and operating effectiveness of the internal control system should be part of the normal course of operations, including regular management and supervisory activities, comparisons, and reconciliations[16].

Per the DMO, the principal cashier did not inform the DMO, CD, or the cashier monitor of the discrepancies noted during daily cash counts, incorrectly labeling them as “normal differences.” We noted that the cashier issued an electronic funds transfer (EFT) payments from the local bank account without authorization, recorded a payment to a vendor as an interim advance, and regularly allowed several interim advances to become overdue. In addition, the cashier did not follow the prescribed procedures for deposits made in the USDO accounts, allowed sub-cashiers advances over the authorized limits, and did not ensure sub-cashier cash counts in six provincial offices. The DMO failed to perform cash verification randomly and consistently conducted them at the end of each month.

The post management did not monitor the effectiveness of the Peace Corps internal control system, ensuring that all staff understand the importance of their assigned duties and the detailed performance requirements for those responsibilities. Lack of adequate controls made the post vulnerable to misuse and fraud.

When viewed with the issues noted in this report, we concluded that the control environment over imprest funds put post assets at risk and needed significant improvement.

Per the DMO, the post management implemented several controls we discussed after we identified the issues during fieldwork.

During our review, we noted the following issues:

The cashier did not report the count discrepancies noted during imprest fund verifications.

The cashier and/or the DMO must report all cash losses to the CD.[17] For losses less than $10, the cashier must reimburse the fund and must send a copy of the memo to the cashier monitor to determine if any cash-on-hand adjustment is required. For losses greater than $10, the CD must investigate the discrepancy and if the loss cannot be resolved within 24 hours, must report to the cashier monitor, director of Global Accounts Payable, the USDO, the Region, and OIG.

However, in several instances, the cashier did not report cash losses. We noted instances where the daily count resulted in unexplained shortages ranging from approximately $2 USDE to $24 USDE. The cashier described each amount as a “normal difference.”

In addition, we noted instances where provincial sub-cashier cash counts identified discrepancies. For example, two cash counts for the Northwestern province identified a discrepancy without any explanation. There was one instance in the Northern Province where the sub-cashier comingled personal funds with a cash advance.

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[15] Standards for Internal Control in the Federal Government “Principle 16, Perform Monitoring Activities”
[16] Standards for Internal Control in the Federal Government, “Principle 16.05 Perform Monitoring Activities”
[17] OFMH 13.21 “Fund Shortage”

Per the DMO, the cashier did not communicate the discrepancies and could not explain all the differences nor reason for failing to inform the DMO, CD, or cashier monitor. The cashier did not provide documentation to demonstrate how these discrepancies were resolved.

The cashier did not comply with the Peace Corps policy as he did not inform the CD or DMO of these discrepancies, nor provide a valid explanation for the difference.

If the post management is unaware of differences in cash counts, cashiers can hide misuse of funds, which can lead to misappropriation or fraud.

We recommend:

7. **That the country director and the director of management and operations ensure that all the cashiers report all discrepancies to the required offices and monitor the cashier daily count results and ensure all discrepancies are resolved per Peace Corps policy.**

The post did not comply with agency policy for conducting random cash counts.

Posts must perform monthly cash verifications at irregular intervals to avoid long undisclosed shortages.[18] However, we noted that the post regularly performed their monthly cash counts around the end of the month. Between March and September 2016, post management conducted five of seven monthly cash counts during the last week of a month. Per the DMO, the post management understands the requirement and will perform random cash counts to follow the policy.

The post's noncompliance with procedures for performing unannounced monthly cash counts increased the risk of misappropriated funds. For example, cashiers and sub-cashiers who can predict the timing of an unannounced cash count can potentially cover up irregularities, thus making it difficult for the country director and DMO to detect the irregularities.

We recommend:

8. **That the country director and the director of management and operations perform random cash counts.**

The post did not comply with agency policy for sub-cashiers

Cash Counts: The post has six sub-cashiers at provincial offices significantly far from Lusaka. The post did not enforce its process to perform the requirements for conducting cash counts. OFMH 13, Exhibit C.10, "Verification of Funds by the Principal Cashier" states:

[18] OFMH 13.2.1, "Country Director"

> "The Cashier Supervisor must ensure that unannounced verifications of the sub-cashier fund are conducted. Sub-cashier advances under $1,000 USDE must be verified at least quarterly. Sub-cashier advances of $1,000 USDE or more must be verified monthly."

As the advance limit for these sub-cashiers exceeded $1,000 in FYs 2015 and 2016, the post is required to perform monthly cash counts. For FYs 2015 and 2016, the post conducted sub-cashier cash counts at irregular intervals. For example, during this period we noted two provinces where the post conducted only one cash verification for the sub-cashier. Overall, the post conducted cash verifications approximately half as often as required.

We noted that the cashier did not comply with following Peace Corps policies:

Bank Reconciliations. Peace Corps policy requires the cashier to reconcile sub-cashier bank accounts to the activity ledger monthly.[19] The supervisor of the Verifying Officer (normally the CD) must review the account twice per year. However, as the sub-cashier cash counts were at irregular intervals, and the cashier did not provide the bank reconciliations to us, we concluded that the cashier did not reconcile the sub-cashiers' bank account statements.

Balances in Pass-through Accounts. Sub-cashiers can maintain a pass-through account in which the acting cashier may deposit funds for the sub-cashier to withdraw immediately, as long as the sub-cashier maintains a zero balance in this account.[20] However, during our review, we noted that sub-cashiers did not withdraw the full advance amount from the bank account. The sub-cashiers routinely maintained balances in their bank accounts and made several small withdrawals. Neither the cashier nor the post management could explain the non-compliance.

Lack of adequate oversight over sub-cashier activities can result in overlooking misuse of funds by a sub-cashier. For example, prior to OIG fieldwork, post management had discovered that one of the sub-cashiers had misappropriated approximately $2,700 USDE from the cash advance for personal use. The management terminated the sub-cashier's service.[21]

Per the DMO, the post management has implemented procedures to ensure compliance with the policies.

We recommend:

9. **That the country director and director of management and operations comply with the policy and conduct sub-cashier cash counts and reconcile bank accounts at irregular intervals and ensure that sub-cashiers comply with pass-through banking requirements of Peace Corps policy.**

[19] OFMH 5.4.5, "Account reconciliation"
[20] OFMH 5.4, "Sub-cashier bank accounts"
[21] The post recovered misused funds from the terminated employee.

The cashier issued an electronic funds transfer without adequate authorization.

In July 2016, the cashier initiated an EFT that included vouchers to pay Volunteers for travel expenses and associated bank fees. The acting DMO had not approved the voucher for bank fees of approximately $200 USDE when the CD approved this EFT for payment. Per Peace Corps Manual Section (MS) 760.12, "Disbursements":

> "The cashier is authorized to make disbursements and advances from the imprest fund within specified dollar limitations upon receipt of authorized and approved requests for payment. . . ."

Per the cashier, the transfer was critical to provide funds to the trainees for site visits scheduled for the next day. The travel team processed the voucher for volunteer payment, but the voucher examiner did not process the payment for bank fees in the system in a timely manner. The acting DMO approved the voucher to pay the volunteers but did not approve the voucher for the bank fees. The DMO acknowledged that he should not have released the EFT for the bank fees without the signed voucher; however, the FA processed the vouchers in the system at the last minute. Per the cashier, it is possible to avoid these issues with adequate planning.

Adequate control over approval of EFT is critical to prevent unauthorized payments. Unsupported payments could result in misuse of agency funds or may result in fraudulent transactions.

We recommend:

10. **That the country director and the director of management and operations ensure that adequate support exists before approving electronic fund transfers.**

The cashier did not comply with interim advance requirements.

The purpose of interim advances is to make authorized purchases. OFMH section 13.18.2, "Interim Advances" states that:

> "Peace Corps Trainees, Volunteers, or staff may receive an interim advance to make a cash purchase when it is more economical or expeditious than making the payment by U. S. Government check or EFT. . . This interim cash advance must be supported by a copy of the authorized purchase document, and liquidated (accounted for) within three (3) working days. The recipient of the funds is personally accountable for the funds until they are accounted for (with receipts or funds are returned)."

We noted that inadequate oversight led to several issues with interim advances at the post:

Overdue Advances: On September 27, 2016, four interim advances totaling approximately $2,400 USDE were open between 4 to 28 days. The cashier is to notify the DMO of interim advances outstanding after 3 days.[22] We reviewed prior months' cash counts and noted several instances of overdue interim advances. Per the DMO, post management must follow up with the advance holders to ensure the cashier clears advances in compliance with policy as noted above.

[22] OFMH 13.18.2, "Interim Advances"

Multiple Advances to Staff: We also noted instances where the cashier issued multiple interim advances to the same employee. For example, we noted that in September 2016, the cashier provided a new interim advance to a staff member who had another advance that was several days past due. Per the cashier monitor, the post should not issue a new interim advance without clearing the prior interim advance. Per the DMO, the cashier issued multiple advances due to delays in processing paperwork and a lack of oversight.

Interim Advance to Vendor: The cashier recorded payments made to a vendor of approximately $800 USDE as an interim advance. Per the DMO, the cashier erroneously recorded the vendor name as the payee instead of a staff member.

In another instance, the cashier recorded approximately $9,000 USDE as interim advances with "various vendors" as the payee (that is, without recording the name of vendor who received the funds). This payment represented EFTs to several Volunteers' counterparts for homestay allowances. The cashier did not record the disbursement, as the bank had not yet confirmed the EFT. The DMO stated that it is incorrect to record pending EFT transfers as interim advances.

Mislabeling of Interim Advances: The cashier recorded incorrect descriptions for several interim advances. For example, the cashier described advances to staff for payments to counterparts (as noted above) as "Volunteer training supplies." Per the Green Book, the management should design control activities to ensure all transactions are completely and accurately recorded[23].

During certain busy months, the cashier in Zambia had authorized advance of approximately $55,000 USDE. Such large cash availability allows the cashier to issue large advances to staff and Volunteers. The FORPost system does not record interim advances and they are not visible to post or headquarters management. Hence, it is critical to comply with Peace Corps policies for issuing interim advances and provide adequate oversight in order to minimize misuse of funds.

We recommend:

11. That the country director and the director of management and operations:

- **monitor interim advances and follow up with staff to clear interim advances within 3 days.**
- **ensure that the cashier issue a new advance to an employee only after clearing their previous interim advance.**
- **ensure that interim advances are limited to authorized staff members and Volunteers.**
- **ensure that the cashier records proper descriptions on the interim advance worksheet supporting the daily cash count.**

[23] [23] Standards for Internal Control in the Federal Government, "Design of Appropriate Types of Control Activities – Principle 10.3 Accurate and timely recording of transactions"

The cashier made advances to sub-cashiers over the authorized limits.

The Sub-cashier's designation from the Director of Global Accounts Payable (GAP) provides the maximum authorized advance[24]. During our review, we noted that the cashier regularly allowed sub-cashiers' cash balances to exceed the authorized limits. For example, during our analysis of the monthly cash counts, we noted that the advance to one sub-cashier exceeded the authorized limit of the cashier, $2,000, by approximately $750, $300, and $300 USDE on cash count days in three consecutive months: December 2015, January 2016, and February 2016, respectively.

Per the DMO, the current worksheet tracking sub-cashier advances only records local currency and does not include USDE information. Without clear information, the DMO did not realize when the advances exceeded the authorized limit in USDE. The DMO is implementing a modified worksheet that will include the USDE value of the sub-cashier advances to highlight advances that exceed the authorized limit.

We recommend:

12. **That the country director and the director of management and operations ensure that the cashier limits the sub cashier advances to the authorized amount.**

The cashier allowed Volunteers to deposit funds in the post's checking account, against USDO policy.

We noted two instances where the post allowed Volunteers to deposit funds via EFT into the posts principal checking account. The total value of the transfers was approximately $10,000 USDE.

The United States Disbursing Officer authorized the cashier to operate a checking account in Zambia. The Department of State Cashier User Guide, Chapter 10: "Cashier Bank Accounts," states that:

> "Cashier checking accounts have limitations regarding the funds that can be placed into or removed from the account. Only the cashier's initial operating cash advance and subsequent replenishments may be deposited in the account. Only funds advanced to the cashier from the USDO are included. Cashiers are not authorized to process collections or accommodation exchange transactions through the cashier checking account."

The USDO cable re-authorizing a checking account for Zambia allows the post to make deposits into the USDO owned bank account, which is separate from the post bank account. When collecting funds, the principal cashier should process the collection in the FORPost system and deposit it into the USDO bank account. This allows the Foreign Service cashier to reconcile the deposit into the USDO account based on the voucher processed by Global Accounts Payable. Noncompliance with the USDO policy can allow the cashier to misuse funds, as the USDO deposits will reduce the accountability of the cashier.

[24] OFMH 13 Exhibit C.3, "Maximum Authorized Advance"

Per the DMO, the cashier misunderstood the requirements and will follow the required procedure in the future and collect money only in the USDO account.

We recommend:

13. **That the country director and the director of management and operations ensure that Volunteers and staff make deposits only in the USDO account following the required procedure.**

DISBURSEMENTS

The post did not comply with agency policy for using separate obligations for each vendor and recording payee names in the FORPost financial system.

An obligation is a firm reservation of funds that creates a legal liability on the U.S. Government for the payment of goods and services ordered.[25] The post should record obligations at the time of placing the order.[26].

Each payment voucher must have only one vendor associated with it.[27] However, posts can use multiple payment listing (MPL) receipts when paying a number of Volunteers, trainees, or trainers at one time; the receipt must include a list of individuals paid, and each payee must acknowledge payment with signature.[28]

While reviewing disbursements, we noted that between October 2013 and August 2016, the post created approximately 1,100 obligation numbers under the ambiguous vendor name "PC/Zambia." The post disbursed approximately $1,494,000 USDE to numerous vendors using these obligation numbers. The post did not record vendor names in the payee field while recording disbursements in 425 obligation numbers for approximately $889,000 USDE. The post disbursed approximately $664,000 of this amount to trainees, host families, counterparts, and approximately $142,000 USDE through provincial office sub-cashiers. These expenses qualify for MPL or the multiple small purchases as described in OFMH sections 13.14.3 and 32, respectively. Approximately $240,000 USDE pertained to other expenses, including supplies ($139,000 USDE), facilities operation and maintenance ($23,000 USDE), other services ($22,000 USDE) and staff in country travel ($9,000 USDE).

In addition, we noted that the post recorded disbursements using "PC/Zambia" as the obligation vendor for repeat vendors. For example, the post recorded PC/Zambia as the vendor for bank charges paid to Citibank of approximately $10,000 USDE. The post also recorded rent payments to five Volunteers (approximately $10,000 USDE) and one property owner (approximately $1,000 USDE) under the "PC/Zambia" obligation vendor.

[25] OFMH 32.2, "Definitions"
[26] OFMH 32.4.2, "Financial Recordation in FOR Post"
[27] OFMH 66.4, "Required Information for Vouchers"
[28] OFMH 13.14.3, "Multiple Payments"

Recording obligations and vendor disbursements as clearly as possible allows for a more precise view of post obligations and disbursements, lowering the risk of potential duplicate payments or fraud.

Per the DMO, the post financial team did not fully comprehend the frequency and the value of disbursements recorded without payee names. Since the audit, the post has reduced using the "PC/Zambia" vendor name to record transactions. The DMO will continue to reinforce efforts to comply with policy. We noted that in the first 6 months of FY 2017, disbursements under this vendor name decreased to approximately $38,000 USDE, excluding those payments supported by MPLs as authorized by OFMH.

We recommend:

14. **That the director of management and operations implement a procedure to issue obligations under individual vendor names as required by policy and ensure that the staff record names of vendors and Volunteers receiving payments as the payee in compliance with Peace Corps guidance.**

The post did not comply with the agency contracting policy requirements.

During our analysis, we noted that the motor pool coordinator purchased approximately $4,800 USDE of furniture using interim advances from the imprest fund without obtaining competitive quotes. This purchase exceeded the limit of $3,000 set by OFMH 13.14, "Documentation of Payments":

> "Disbursements over 3,000 USDE may only be made on a case-by-case basis with prior GAP FMO approval. Post must then submit these sub-vouchers with an "emergency cash payment" certification, the Country Director's signed approval, and Global Accounts Payable's email approval."

The Overseas Contracting Handbook's competition matrix requires that posts obtain competitive quotes for purchases over $3,000 and that the post document this information in the selection memo.

Per the DMO, in October 2015, the post recorded three separate purchases for furniture from a single vendor of approximately $4,800 USDE. The post should not have separated these purchases; instead, it should have issued a purchase contract. Further, the post could not provide the selection memo for this procurement. This was an oversight and the post should have issued a purchase order and recorded the purchases as a single purchase.

Purchasing without proper competitive quotations violates the agency's procurement policy and may render the purchase unauthorized. Splitting large purchase into several small purchases can circumvent controls and could lead to misuse of funds.

We recommend:

15. **That the director of management and operations implement a procedure to comply with requirements for appropriate approvals of all disbursements over $3,000.**

16. **That the director of management and operations consult the Office of the Chief Financial Officer/Acquisition and Contract Management for appropriate action for the furniture purchased that was inadequately competed.**

PERSONAL SERVICE CONTRACTORS

The post did not comply with the health insurance clause in the PSC contract.

The personal services contracts with the local staff includes the following clause for the health insurance coverage:

> "A. Health/Medical Insurance: This plan offers an annual cap of [Zambian Kwacha] ZMW 7,000.00 Thousand per PSC and spouse, and ZMW 3.500.00 per child for in-patient care, and ZMW 5,000.00 for surgical operations following accidental injuries. Out-patient care, excess charges for inpatient care and charges for exclusion illnesses are covered by the Managed Fund. The PSC pays 20 percent of the premium for inpatient care and 20 percent of the Managed Fund charges through periodic bills of collection (BOCs); Peace Corps pays the remaining 80 percent."

Per the DMO, the post follows the U.S. Embassy's local compensation plan. When the Embassy communicated a modified health coverage clause in March 2011, the post modified local staff's health insurance coverage without amending the clause in the PSC contracts.

The modified plan covers 80 percent of all medical bills incurred, without imposing any limits. While the previous plan placed no restriction on how many dependent children were covered, the modified plan only covers the staff member, one spouse, and four children less than 18 years of age. Children between the ages of 18 and 23 can be included if they meet certain conditions.

Per the DMO, post management did not communicate the changes in health benefits in writing, but rather in a meeting. However, the DMO could not provide any memo, email, or meeting minutes authorizing the modification to the PSC contract and the effective date of change in health benefits for the local staff. Post management did not ensure that the PSC contract clause included the modified health benefit.

Furthermore, based on our analysis, the post did not fully comply with either of these two health coverage policies. The post did not monitor the medical claims to limit the benefit to the annual spending cap per the PSC contract. However, the post did collect 20 percent of the Managed Fund charges from staff.

As the post did not obtain and retain details about medical treatments, it is not possible to determine the amounts due to the Peace Corps from staff based on the benefit clause in the PSC contracts. The error remained undetected because the post did not monitor compliance with the modified benefit. As a result, the post likely paid benefits in excess of contractual requirements.

Per the DMO, the post has revised the PSC contracts to align the health benefits with the benefits included in the U.S. Embassy local compensation plan.

We recommend:

17. **That the director of management and operations update the benefit clause in the PSC contracts according to the Embassy-issued local compensation plan and issue revised contracts for the local staff members.**

The post did not timely renew security certifications for five PSCs.

During the review of security clearances for personal services contractors, we noted that the post did not timely initiate renewal for five PSCs after their security certifications had expired. The Peace Corps Office of Safety and Security requires that all PSCs have a security investigation.[29]

Per the DMO, three part-time PSCs continued working between 6 to 9 days after their security certification expired. For the other two, the post obtained security certifications after a significant delay. For one of the PSCs, there was a delay of approximately 21 months and in another case, there was a delay of approximately 5 months. Both PSCs continued working during that time. Because the PSCs interact with Volunteers, certification is critical to ensure Volunteer security. Per the DMO, the post did not obtain certifications due to an oversight.

We recommend:

18. **That the director of management and operations ensure all personal services contractors have appropriate security clearances in compliance with Peace Corps policy.**

PROPERTY AUCTION

The post did not have a contract with an auctioneer it engaged to sell property and vehicles.

We noted the post did not have a contract with the auctioneer engaged to sell the property and vehicles identified to be disposed-of via auction. Per the DMO, the post did not see the need for a contract as the post used the auctioneer engaged by the U.S. Embassy. However, before the auctions, the post delivered the property and vehicles to the auctioneer, not the Embassy.

The post's process for selling property and vehicles had several steps. First, the FA created a BOC for the estimated price whenever the post delivered property or vehicles to the auctioneer. A representative of the post witnessed the auction. The post provided the vehicle registration

[29] MS 743 Procedures

book after the buyers provided proof of payment for residual taxes and fees. The auctioneer provided an invoice with the sale price, commission, and net amount due to the post. The post then created a BOC for the net amount due in the name of the auctioneer.

A contract with the auctioneer is important for ensuring the auctioneer conducts the auction via agreed-upon means and is acting in a fiduciary capacity. The contract would ensure that the auctioneer holds the property and vehicle as an agent of the post (not the buyer) and would confirm that the title to the property belongs to the post until the sale concludes.

Per discussion with the chief financial officer, Peace Corps management will issue a policy requiring posts to enter into a contract with the auctioneer whenever the post delivers property in advance of the auction and the auctioneer holds the property or vehicles on its premises until conclusion of the sale.

Per the DMO, the post has signed a memorandum of understanding about the terms and conditions of the auction.

We recommend:

19. **That the Office of the Chief Financial Officer/Acquisition and Contract Management issue a policy requiring post management to enter in to a contract with the auctioneer as warranted by the nature of the auction arrangement.**

20. **That the director of management and operations sign a contract with the auction house.**

VOLUNTEER ALLOWANCES

The post did not have adequate controls to verify the accuracy of Volunteer allowances.

We noted that the post made calculation errors while paying allowances to new Response Volunteers on arrival. It appears that controls to ensure accuracy of allowance calculations were inadequate. Based on a detailed analysis the FA performed at our request, 5 of 7 components of allowances paid to new Response Volunteers contained errors. We identified that the post underpaid approximately 19 Response Volunteers by approximately $1,000 USDE total between August 2015 and September 2016.

The DMO said that these errors occurred because the post processed payments to new Response Volunteers through several different transactions. It appeared that the calculation worksheet did not capture all elements of data required to pay the Response Volunteers correct allowances. It also appeared that post management did not implement a process to ensure the FA verified that the finance staff received all relevant information for allowances to be given to the incoming Response Volunteers.

Although the value of individual errors was small, their frequency points to a systemic issue. Inadequate controls resulted in underpayment of allowances to Response Volunteers. The Volunteers receive only a few hundred dollars each month to cover living expenses, so any underpayment could make it difficult for them to meet their needs.

We recommend:

21. That the director of management and operations enhance the controls over verification of allowances prior to disbursement to ensure consistency and accuracy of living and leave allowances for new Response Volunteers.

OTHER AREAS OF CONCERN

The contract for leasing a pre-service training site included payment for electricity consumed by the property owner and third parties.

The post's contract for leasing a portion of its pre-service training premises from a local vendor included a clause that the post would pay for the electricity consumed on the premises from the date of occupation until the termination of the lease and any extensions. As a result, the post was responsible for paying all the electricity consumed for the entire premises during the entire year, even though the post occupied only a portion of the space and the property owner and other lessees used the remaining portion of the premises. Per the DMO, the post used the space for pre-service training approximately 7 months of each year.

It is difficult to estimate the exact electricity use for the space specifically occupied by the post, as there was only one electricity meter for the property. The DMO said that it is also challenging to allocate usage between the post and third parties as the post used some electricity throughout the year for guards and security lights. We noted that between January 2014 and December 2016, the electricity payment for the pre-service training site amounted to approximately $34,000 USDE.

As the post has renegotiated the contract with the property owner, we are not making any recommendation. Per the DMO, the post is also in the process of installing meters to track the electricity it uses for the leased premises.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We identified questioned costs during the course of the audit.

Questioned Costs

Recommendation number	Description	Amount
10	Unapproved electronic funds transfer.	$200
15	Non-compliance with competition requirements.	$4,800
21	Volunteer allowances calculation errors.	$1,000

The Inspector General Act of 1978, as amended, defines funds to be put to better use and questioned costs as follows[30]:

- Funds to be put to better use: funds that could be used more efficiently if management took actions to implement and complete the recommendation.

- Questioned costs: costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

[30] Inspector General Act of 1978, § 5(f) (1)-(4),5,U.S.C App.3

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of Office of Global Operations, in coordination with the acting chief financial officer and acting associate director for management, issue guidance to posts for implementing best practices and internal controls over management of fuel cards and purchase and use of fuel for vehicles and generators.

2. That the director of management and operations:
   - implement procedures to track fuel cards to ensure that the general services manager reconciles active fuel cards with the number of vehicles on hand and timely cancels fuel cards belonging to sold vehicles.

   - implement procedures to ensure that fuel cards are secured and issued to staff members after preauthorization.

   - contact the Embassy and fuel vendors to identify and implement additional security features available to enhance accountability of fuel cards.

3. That the director of management and operations implement adequate oversight over vehicle logs and entries in the vehicle management information system to ensure that drivers provide accurate information to the motor pool coordinator for all fuel purchases and that the motor pool coordinator record all fuel purchases in the vehicle management information system purchase log.

4. That the director of management and operations implement procedures to reconcile fuel vendor statements with receipts and vehicle management information system entries before processing payments.

5. That the director of management and operations finalize and implement controls over tracking the use of fuel for generators.

6. That the director of management and operations finalize and implement controls over purchasing lubricants.

7. That the country director and the director of management and operations ensure that all the cashiers report all discrepancies to the required offices and monitor the cashier daily count results and ensure all discrepancies are resolved per Peace Corps policy.

8. That the country director and the director of management and operations perform random cash counts.

9. That the country director and director of management and operations comply with the policy and conduct sub-cashier cash counts and reconcile bank accounts at irregular intervals and ensure that sub-cashiers comply with pass-through banking requirements of Peace Corps policy.

10. That the country director and the director of management and operations ensure that adequate support exists before approving electronic fund transfers.

11. That the country director and the director of management and operations:
    - monitor interim advances and follow up with staff to clear interim advances within 3 days.
    - ensure that the cashier issue a new advance to an employee only after clearing their previous interim advance.
    - ensure that interim advances are limited to authorized staff members and Volunteers.
    - ensure that the cashier records proper descriptions on the interim advance worksheet supporting the daily cash count.

12. That the country director and the director of management and operations ensure that the cashier limits the sub cashier advances to the authorized amount.

13. That the country director and the director of management and operations ensure that Volunteers and staff make deposits only in the USDO account following the required procedure.

14. That the director of management and operations implement a procedure to issue obligations under individual vendor names as required by policy and ensure that the staff record names of vendors and Volunteers receiving payments as the payee in compliance with Peace Corps guidance.

15. That the director of management and operations implement a procedure to comply with requirements for appropriate approvals of all disbursements over $3,000.

16. That the director of management and operations consult the Office of the Chief Financial Officer/Acquisition and Contract Management for appropriate action for the furniture purchased that was inadequately competed.

17. That the director of management and operations update the benefit clause in the PSC contracts according to the Embassy-issued local compensation plan and issue revised contracts for the local staff members.

18. That the director of management and operations ensure all personal services contractors have appropriate security clearances in compliance with Peace Corps policy.

19. That the Office of the Chief Financial Officer/Acquisition and Contract Management issue a policy requiring post management to enter in to a contract with the auctioneer as warranted by the nature of the auction arrangement.

20. That the director of management and operations sign a contract with the auction house.

21. That the director of management and operations enhance the controls over verification of allowances prior to disbursement to ensure consistency and accuracy of living and leave allowances for new Response Volunteers.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

Objective
We conducted this audit to determine whether the financial and administrative operations at Peace Corps/Zambia are functioning effectively and comply with Peace Corps policies and federal regulations.

Scope
This audit was conducted between September 2016 and October 2016 at the Peace Corps headquarters in Washington, DC and at the overseas post location in Lusaka, Zambia. The scope period under review was FYs 2014, 2015, and 2016.

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.

Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse significant to the audit objectives and conducted procedures designed to obtain reasonable assurance of detecting any such fraud as deemed appropriate.

Modified Scope
Because post management made us aware of significant fuel management concerns, we modified our scope, as part of our risk assessment, to focus on fuel. We performed testing in other areas as described below.

Methodology
To obtain background information, we reviewed Federal laws and regulations as well as policies relating to Peace Corps financial and administrative operations, such as the Federal Acquisition Regulations, the Peace Corps Manual and Overseas Financial Handbook, and the Department of State's Cashier User Guide. Further, we provided questionnaires to Peace Corps post managers to learn about post-specific processes and risk areas.

Follow-up on Prior Audit Report.
We reviewed the DMO's comments on the current status of recommendations included in the 2013 Final Report on the Audit of Peace Corps/Zambia (IG-13-06-A). We evaluated the responses to confirm that the controls and procedures implemented addressed the recommendations included in the 2013 audit report.

We obtained Peace Corps/Zambia's financial information from the disbursement and BOC reports for October 2013 through August 2016. We sorted the disbursement reports universe of approximately 69,492 transactions and judgmentally selected samples by the following payments types:

- **Imprest Fund**. We reviewed 35 daily and 7 monthly of cash counts from January 2016 to August 2016. We also performed unannounced physical cash counts with the cashiers (primary, alternate and sub cashiers), interviewed the cashiers and reviewed supporting documentation related to the cash count.

- **Fuel**. Per the modified scope, we analyzed the internal controls over purchase and use of fuel for vehicles and generators; controls over management of fuel cards from Total Zambia (fuel vendor), and the process for purchasing fuel from the U.S. Embassy and Puma. We analytically reviewed controls over recording of fuel purchases in vehicle logs and Vehicle Management Information System. We reviewed the post procedures for paying fuel invoices from Total, Puma, and the U.S. Embassy. We selected 8 fuel transactions for testing.

- **International Cooperative Administrative Support Services (ICASS)**. Per the modified scope, we limited our testing to analytically compare the ICASS invoice to the ICASS agreement to ensure that the agreement was in compliance with the Peace Corps policy for allowable cost centers.

- **Personal Services Contractor and Lease Payments**. Per the modified scope, we limited our testing to review 5 lease and 13 PSC disbursement transactions to determine if payments made on the disbursement reports matched the contract amounts and if there was valid support for adjustment transactions. We reviewed PSC security certifications for 18 PSCs. The lease and PSC sample was judgmentally selected based on the transaction value.

- **Medical**. Per the modified scope, we performed a medical inventory of the controlled substances and specially designated items. We reviewed supporting documents for 5 medical transactions from the disbursement report, receiving report, and the medical inventory records.

- **Volunteer Payments**. Per the modified scope, we selected a small judgmental sample size of 20 out of approximately 68,000 transactions to determine if the allowances paid to the Volunteers were consistent with the authorized amount. We analyzed the summary of settling-in allowances paid to Response Volunteers in FYs 2016 to identify underpayments made due to calculation errors.

- **Grants**. Per the modified scope, we selected 18 disbursements for Volunteer grants out of approximately 200 grant reports (from October 2013 to September 2016) and selected 12 Peace Corps grants to verify the project completion reports and the project receipts. We reviewed bills of collection (BOCs) when the amount spent on the grant project was less than the disbursed grant amount. We noted that five of the selected grant projects were still ongoing.

- **Personal Property and Vehicles**. Per the modified scope, we limited out testing to disposal of vehicles. We selected supporting documents for 27 vehicle sales. We selected all sales transactions based on value.

- **Credit Card and Other Transactions**. Per the modified scope, we sampled 13 purchase card and 198 non-purchase card transactions. The 211 payments included transactions from imprest payments, personal property, medical, travel, trainings, conferences, maintenance, and general expenses. The transactions were selected because they were unusual, exceeded $3,000 USDE, and the vendors were extensively used.

In addition, we reviewed the BOC report that had a universe of approximately 1,715 collections (1,763 transactions). Per the modified scope, we performed a limited review of BOCs and our review consisted of the following:

- **Long Outstanding**. Per the modified scope, based on the BOC report, we calculated 29 outstanding collections over 30 days old. While at post we reviewed the collection steps noted in the questionnaire.

- **Value Added Taxes (VATs) and Host Country Contribution**. Per the modified scope, we reviewed the questionnaire responses from the post to determine if the post received any host country contributions, and the process for submitting VAT refund claims.

- **Voids**. Per the modified scope, we did not review voided BOCs. However, we analyzed the procedure for voided BOCs to verify controls were adequate.

- **Open**. Per the modified scope, we reviewed 48 open BOCs, and noted that open BOCs over 30 days old were primarily for staff contribution for health insurance.

- **Auction Sales.** Per the modified scope, we reviewed support for 27 vehicle auctions sales with relevant support.

- **General Testing**. Per the modified scope, we did not select other BOCs for testing.

Use of Computer-Processed Data

The Government Accountability Office's "Assessing the Reliability of Computer-Processed Data" defines reliability to mean that the data is reasonably complete, accurate, meets its intended purpose, and is not subject to inappropriate alteration.

During our audit, we relied on data extracted from the Peace Corps' financial system. We conducted limited accuracy testing of this data. During our sample testing outlined in the methodology section above, we compared the financial system data to underlying source documentation to ensure consistency. We did not identify any discrepancies between the financial system data and the source documents reviewed. We did not test to ensure that the universe of data provided to us was complete.

However, our office uses independent auditors to annually audit the agency's financial statements. These auditors have determined that the financial statements were free from material misstatements and our auditors did not identify any material weaknesses in internal controls surrounding the financial statements.

Therefore, in our professional judgement, we determined that the data was sufficiently reliable for the purposes of this report.

Review of Internal Controls

Internal controls relate to the plans, methods, and procedures management used to meet their mission, goals, and objectives. We took steps to assess internal controls related to the Peace Corps' overseas financial and administrative operations. For example, we reviewed Peace Corps' Overseas Financial Management Handbook and interviewed key individuals on roles and processes related to disbursements and collections. Further, we meet with Peace Corps management overseas who were responsible for oversight of post operations. We noted any issues identified during our fieldwork in the "Audit Results" section of this report. Our recommendations, if implemented, should improve agency overseas financial and administrative operations.

APPENDIX B: LIST OF ACRONYMS

DMO	Director of Management and Operations
FY	Fiscal Year
MS	Peace Corps Manual Section
OFMH	Overseas Financial Management Handbook
OIG	Office of Inspector General
PSC	Personal Service Contractors
USDE	United States Dollar Equivalent
USDO	United States Disbursement Officer
GAO	Government Accountability Office
CD	Country Director
VMIS	Vehicle Management Information System
USDH	U.S. Direct Hire
MPC	Motor Pool Coordinator
FA	Financial Assistant
GSM	General Services Manager
EFT	Electronic Funds Transfer
GAP	Global Accounts Payable
MPL	Multiple Payment Listing
ZMW	Zambian Kwacha
BOC	Bill of Collection
ICASS	International Cooperative Administrative Support Services
VAT	Value Added Tax
CFO	Office of the Chief Financial Officer
ACM	Acquisitions and Contracts Management

APPENDIX C: CRITERIA USED TO SUPPORT ISSUES IN THE REPORT

FEDERAL REQUIREMENTS

STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT

GAO-14-704G, The Government Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government* states:

> The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.

> Procedures will be established to assure the safeguarding and prompt depositing by the collection officer of cash, checks or money orders received for billings issued, the voluntary remittance of advances, donations, etc. Whenever possible collection shall be deposited daily in a regional or overseas Treasury depository. To facilitate and assure prompt deposit and credit, it is imperative that the accounting data necessary to identify the transaction in the Agency financial records be shown on billing and deposit documents. Where a collection cannot be readily identified, the collection officer will immediately request the billing office or the fiscal service activity to furnish the accounting data. When reference to a check is necessary a copy will be furnished and the original safeguarded or deposited for credit to a suspense account. Receipts will be issued in all cases when cash is received. Collection action will be noted on the collection/ settlement section on the Form PC-1565 or ADP listing, as applicable.

Definition of an Internal Control System

OV1.06

> People are what make internal control work. Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity's objectives, implements controls, and evaluates the internal control system. However, personnel throughout an entity play important roles in implementing and operating an effective internal control system.

Components, Principles, and Attributes

> OV2.03 An entity determines its mission, sets a strategic plan, establishes entity objectives, and formulates plans to achieve its objectives. Management, with oversight from the entity's oversight body, may set objectives for an entity as a whole or target activities within the entity. Management uses internal control to help the organization achieve these objectives. While there are different ways to present internal control, the Green Book approaches internal control through a hierarchical structure of five components and 17 principles. The hierarchy includes requirements for establishing an effective internal control system, including specific documentation requirements.

> OV2.04. The five components represent the highest level of the hierarchy of standards for internal control in the federal government. The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. The five components of internal control are as follows:

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

OV2.05 The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

Principle 8 – Assess Fraud Risk

8.01 Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

Attributes
The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Types of Fraud
- Fraud Risk Factors
- Response to Fraud Risks

8.02 Management considers the types of fraud that can occur within the entity to provide a basis for identifying fraud risks.

• Fraudulent financial reporting - Intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. This could include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

• Misappropriation of assets - Theft of an entity's assets. This could include theft of property, embezzlement of receipts, or fraudulent payments.

• Corruption - Bribery and other illegal acts.

Principle 10 – Design Control Activities

10.01 Management should design control activities to achieve objectives and respond to risks.

Attributes
The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks

- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties

10.02 Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

10.03 Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

Source: GAO. | GAO-14-704G

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Controls over information processing
A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs.

Physical control over vulnerable assets

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

Establishment and review of performance measures and indicators

Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators.

Proper execution of transactions

Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Access restrictions to and accountability for resources and records

Management limits access to resources and records to authorized individuals, and assigns and maintains accountability for their custody and use. Management may periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

10.10 Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. “Transactions” tends to be associated with financial processes (e.g., payables transactions), while “activities” is more generally applied to operational or compliance processes. For the purposes of this standard, “transactions” covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.

Proper execution of transactions

Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Monitoring

Overview

Finally, since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews.

Corrective actions are a necessary complement to control activities in order to achieve objectives.

Principles

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

Principle 16 – Perform Monitoring Activities

16.01 Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Attributes
The following attributes contribute to the design, implementation, and operating effectiveness of this principle:
• Establishment of a Baseline
• Internal Control System Monitoring
• Evaluation of Results

16.02 Management establishes a baseline to monitor the internal control system. The baseline is the current state of the internal control system compared against management's design of the internal control system.

The baseline represents the difference between the criteria of the design of the internal control system and condition of the internal control system at a specific point in time. In other words, the baseline consists of issues and deficiencies identified in an entity's internal control system.

16.03 Once established, management can use the baseline as criteria in evaluating the internal control system and make changes to reduce the difference between the criteria and condition. Management reduces this difference in one of two ways. Management either changes the design of the internal control system to better address the objectives and risks of the entity or improves the operating effectiveness of the internal control system. As part of monitoring, management determines when to revise the baseline to reflect changes in the internal control system.

16.05 Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

PEACE CORPS REQUIREMENTS

OVERSEAS FINANCIAL MANAGEMENT HANDBOOK

OFMH 5.4, "Sub cashier Bank Accounts"

5.4.1 Purpose
The purpose of establishing a Sub-cashier Bank Account is for the sub-cashier in a regional location to receive funds sent from the Primary Class B Cashier. This might be necessary for safety and security of the staff, to safeguard the funds, and/or to have a faster means of providing the funds to the sub cashier. Only pass-through accounts, not checking accounts, may be authorized for sub cashiers.

OFMH 5.4.3, "Sub cashier Bank Account" states:

Sub cashier Bank Accounts must be approved by the USDO, similarly to the Post Primary Class B Cashier Bank Account. Sub cashier Bank Accounts must be requested through GAP Supervisory FMO/Imprest Management with a written justification of why Post would like to establish a Sub cashier Bank Account. The Sub cashier Bank Account is a zero balance pass-through account for the sole purpose of the sub cashier receiving funds from the Primary Class B Cashier. Sub cashier bank accounts may not be checking accounts holding a balance and must be zero at the end of each business day.

OFMH 5.4.5, “Account Reconciliation” states:

Subcashier must submit a copy of the bank statement monthly for the Subcashier bank account to the Primary Class B Cashier for review.
The reconciling officer (as specified in the cable from the USDO approving the account) must review the bank statement on a monthly basis, to monitor the account activity and the timeliness of transfers into and from the account.
If Post has on-line internet access, the reconciling officer must have the ability to pull bank statements at any given time to monitor the account’s activity.

OFMH 7.6.4, “VAT Collections” states:

Posts should pursue eliminating VAT (Value Added Tax) at Point of Sale, so the refunds do not need to be requested. For Posts that process VAT after purchase, the refunds may be received either via cashiering (A, below) or via credit from the Embassy (B, below).

Posts should submit refund requests at least quarterly.

A. VAT refunds via cashiering
It is recognized that VAT BOCs often age and are not usually collectable per the review schedule in 7.2.2, step 1. Posts should instead review these BOCs at least quarterly. For any VAT BOCs over 2 years old, Post should complete the Accounts Receivable Referral Coversheet and follow the process in 7.2.2, step 1 “After 90 days”.

Steps:
1. Complete the VAT refund request documents and submit per Post processes.
2. On the same day, the Billing Officer creates a Prepare BOC (Bill of Collection) based on the requested amount, selecting the pre-loaded obligation for VAT.
a. Use obligation: CURLOCVATFYYY, where CUR = 3-digit currency code,
LOC = the Post’s 3-digit location code, and YY = the fiscal year (e.g., 422621VATFY12). For further information, see FOR Post Help.
b. The “FY” represents the fiscal year that the invoices were processed vs a strict tying to a fund’s fiscal year.
c. PEPFAR (or other funds) are not separated out.
3. When the funds are received at Post, the Cashier records the collection, as he/she receives the funds. If the funds are deposited directly to the USDO, the Cashier will not take possession of the funds. In this case, in addition to the Collection, the Cashier must also enter a “Deposit into USDO” into FOR Post. See also, 7.4.2.
Note 1: If the actual refund differs from the billed amount, the Cashier will ask the Billing Officer to enter a corrected BOC. The Cashier will then void the original. See 7.2.3 for information on Cashier Void. The DMO must ensure that the new Prepare BOC is entered for the actual amount before approving the Cashier void.

Note 2: In locations where Post may re-submit VAT for refund, before approving the void, the DMO should check for 2 BOCs re-entered, 1 for the amount of the refund received and 1 for the amount of the re-submission.

4. If a check, the Cashier processes the check following the normal deposit procedures (including entering a “Deposit into USDO” into FOR Post)

B. VAT refunds via the Embassy

Where the Embassy receives VAT refunds and sends the credit to PC/W, Posts should not enter a BOC in FOR Post.

1. Complete the VAT refund request documents and submit per Post processes.
2. Provide the following fiscal coding to the Embassy:
Agency Code - 11
Bureau Code - 44
Appropriation – current year's appropriated fund, minus the first, third, and final digits. E.g., 230100
Purpose Code – 0011
Object Class – 2522
Obligation – 00LOCVAT, e.g., 00621VAT

OFMH 13.2.1, "Country Director" states:

The Country Director, as the Post Manager, has responsibility for imprest management because of the use of cash and the consequent potential for internal control problems. Although the Country Director may delegate daily supervisory responsibilities to a US citizen Director of Management and Operations or daily monitoring to a non-US citizen Director of Management and Operations (DMO)/Cashier Verification Officer, the Country Director should remain directly involved with critical imprest management responsibilities.

Specific responsibilities include:

Ensuring that an unannounced, monthly verification of the imprest fund is conducted and that monthly PC-365s and P-99s are completed and submitted to Peace Corps Cashier Monitor. It should be conducted quarterly by the Country Director, and in the remaining months it may be delegated to the Director of Management and Operations.

Verification includes a cash count; verification of all accountable documents, including receipts, vouchers in transit, etc.; review of interim advances; and completion of the PC-365, the PC-99, and the Verifying Officers checklist. Verifications should be made at irregular intervals to avoid long undisclosed shortages, and at any time a fund is transferred to a new cashier or to an alternate.

Investigating all suspected or alleged shortages or overages of cash or misuse of funds and reporting cases that cannot be satisfactorily resolved within 24 hours to the Regional Security Officer, Peace Corps Cashier Monitor, Global Accounts Payable, the USDO, the Region, and the Office of the Inspector General.

OFMH 13.14, "Documentation of Payments" states:

Following are the documentation requirements for sub-voucher disbursements:

- "Disbursement Cover Sheet" with Approval signature of the Country Director or an employee (normally the DMO) with a Delegation of Authority (DOA) for approval of routine imprest payments. See OFMH Delegation of Authority. Also see paragraph 13.14.1 for Payee details.
    - Disbursements over 500 USDE require additional "Emergency Cash Payment" certification. This Emergency Cash Payment certification acts as an additional authorization for larger dollar disbursements. As such, the staff member that signs the Emergency Cash Payment authorization (as authorized in his/her DOA) should never be the same as the staff member who signs for the basic approval.
    - Disbursements over 3,000 USDE may only be made on a case-by-case basis with prior GAP FMO approval. Post must then submit these sub-vouchers with an "emergency cash payment" certification, the Country Director's signed approval, and Global Accounts Payable's email approval.

- See paragraph 13.14.3 for information on Multiple Payment Listing (MPL) related to the disbursement limits above.

- Original, signed receipt (or copy stamped "Duplicate Copy, Internal controls are in place to avoid duplicate payment"). If receipt is not available, vendor name and original vendor signature indicating that funds were received.
- Detailed translation of receipt into English "PAID" stamp on each receipt, to avoid duplicate payment
- Invoice received date Date of Payment
- Fiscal Coding (as appears on the Disbursement Cover Sheet)
- Sub-Voucher number

OFMH 13.14.1, “Payee on Disbursements” states:

> All payments from the imprest fund require a valid receipt, signed by the person actually receiving the funds (not by the staff person who received the interim advance) or a formal receipt issued by a vendor (e.g., register receipt from a grocery store). The “Payee” to be entered into FOR Post therefore must also be the vendor, not the staff member taking the interim advance. (The exception is for “claims”, such as medical or taxi. For claims, the Payee is the staff member or Volunteer.)
>
> In the circumstance where there is no single payee (a group paid together), the “Payee” entered into FOR Post must be a specific description of the Payees or Payments. Good Payee names: “Host Family Allowances” and “PST Supplies”. Bad Payee names: “Peace Corps/Country” and “Misc Payees”. For information on MPL (multiple payment listing), see paragraph 13.14.3.

OFMH 13.14.3, “Multiple Payments” states:

> Posts are permitted to use multiple payment listing (MPL) receipts when a number of Volunteers, Trainees, or trainers are being paid at one time for the same purpose. A multiple payment receipt must fully describe the purpose of the payments, must list the individuals who are being paid, and must provide a space opposite each payee's name for the signature of the payee, the amount, and the date the cash was received. Although typically entered into FOR Post as one Disbursement, each payee represents a separate payment for purposes of USDE approval limits (as described in paragraph 13.14). For example, an MPL paying USDE 300 each to 4 Volunteers does not need an Emergency Cash Payment stamp because each payment is under $500. The Disbursement entry in FOR Post, however, will be for USDE 1,200.
>
> An MPL should be used only when the cashier knows that signatures of all payees will be obtained at one time because the MPL represents one transaction in FOR Post.

OFMH 13.18.2, “Interim Advances” states:

> Peace Corps Trainees, Volunteers, or staff may receive an interim advance to make a cash purchase when it is more economical or expeditious than making the payment by U. S. Government check or EFT. PSCs who receive Interim Advances are acting as Occasional Money Holders, see OFMH 13.18.3.
>
> This interim cash advance must be supported by a copy of the authorized purchase document, and liquidated (accounted for) within three (3) working days. The recipient of the funds is personally accountable for the funds until they are accounted for (with receipts or funds are returned).
>
> The cashier should liquidate the advances within three (3) working days after issuance by obtaining copies of original receipts or other confirmation of use from the individual(s) to whom the funds were advanced. Unused cash must be returned to the cashier, with the receipts documenting the purchase. The cashier will then mark the interim receipt "Void" and return it to the person who received the advance. The receipts and the authorized purchase document are processed as a regular cashier disbursement.

Liquidation of Interim Advances

Cash advances, except travel advances, are "liquidated" when the individual who received the advance from the cashier returns one of the following to the cashier:

The entire amount (originally advanced) in cash;
The entire amount in valid receipts; or
The entire amount as a combination of cash and receipts.

Interim advances, which are temporary advances, are advanced on Post's interim advance form. Advance forms are accountable documents and are part of the Cashier's accountability. The Cashier must safeguard interim advances as they document the status of the imprest fund.
It is the responsibility of the cashier to monitor the clearance of interim advances and to notify the Director of Management and Operations if advances are not cleared within 3 days for direct follow-up action.

OFMH 13.0, "Cashiering and Imprest Management," "C.5 Subcashier Responsibilities" states:

5. Ensuring that the imprest fund is not intermingled with personal or other funds

OFMH 13.18.1, "Advances to the Subcashier and Alternate Cashier" states:

Alternate cashiers must be designated by the USDO, via GAP. See OMFH 13.3 for details on Designation. Alternate Cashiers may hold a small, permanent advance for emergencies. The advance form should be labeled "Alternate Cashier Advance" (it may be a Post-created form or it may be the subcashier advance form with the words "Alternate Cashier Advance" written clearly). Any Alternate Cashier Advance is shown on the 365/99 on L17, not on L19 with subcashier advances. An alternate cashier holding a small advance may not be given the Cashier (or Cashier Plus) group in FOR Post and may not make any cashiering entries into FOR Post. If the alternate cashier makes payments, he/she will exchange paid receipts for additional cash at the next possible opportunity (i.e., when the Principal Cashier is next in the office).

When an alternate cashier takes over the Cashier's full accountability, an imprest verification must be conducted and paperwork signed by both cashiers. The Alternate Cashier is then given the Cashier (or Cashier Plus) group in FOR Post to make cashiering entries.

OFMH 13.21, "Fund Shortage" states:

Cashiers are personally responsible for all funds advanced by the U.S. Disbursing Officer and are therefore liable for replacement of funds in the event of physical loss, illegal or improper payment, or deficiencies. When a loss is identified, the cashier or DMO should immediately notify the Country Director, in writing, and advice of the amount (in U.S. dollars and local currency) and the circumstances of the loss.

Losses less Than $10
If the loss is less than $10, the cashier must reimburse the fund (amounts of $10 or less should not be referred to PC/W and will not be considered for waiver of accountability). This outcome should be noted on the memo, which should be retained in the cashier files. In addition, a copy of the memo should be faxed or emailed to the Peace Corps Cashier Monitor, in PC/W, to determine if a FORPost cash on hand adjustment is necessary.

Losses Greater Than $10
If the loss is greater than $10, the Country Director must investigate all suspected or alleged shortages or overages of cash or misuse of funds and report cases that cannot be satisfactorily resolved within 24 hours

to the Peace Corps Cashier Monitors in GAP, Director of GAP, the USDO, the Region, and the Office of the Inspector General.

The following information is required:
Name of responsible cashier
Amount of loss (in dollars and local currency)
Date loss was identified
Circumstances of the loss, e.g., how was loss discovered, how does the cashier believe it occurred (see below for further guidance on theft) Recommendation to grant relief or require the cashier to repay the funds.

OFMH 13.21, Exhibit C.10 “Verification of Funds by the Principal Cashier” states:

The Principal Cashier will conduct unannounced verifications of the fund on a quarterly basis. When the advance is more than $1,000, it is recommended that the Principal Cashier conduct the verification monthly. If the Principal Cashier is not available, the verification may be conducted by another person designated by the Country Director, DMO, or the Principal Cashier.

The designated staff person will review the Sub cashier Ledger and all paperwork.
Verification should be performed using the template provided in the Cashier Users Guide, issued by the Department of State (Exhibit 12C), "Unannounced Sub cashier Verification Checklist and Supervisor Certification".

C.11 Reporting Losses, Shortages, or Thefts
In the event of a loss, shortage, or theft of imprest funds, sub cashiers must immediately report all facts to the Country Director, DMO, and the Principal Cashier. The CD and DMO will take the necessary steps to notify the appropriate HQ staff (as directed in paragraph 13.21).

OFMH 32.2, “Definitions” states:

Obligation - A firm reservation of funds that represents a binding agreement made by an authorized individual that will result in payments to vendors, volunteers, staff, or other federal agencies immediately or in the future.

32.4 Obligations

32.4.1 Obligation Documents
Obligation documents serve as the supporting documentation for valid obligations. Posts may not enter obligation amounts into FOR Post without a valid obligation document. While certain obligations require specific detailed supporting documentation, all obligations must have the following elements:

- **Vendor** (who is going to receive payments from the agency)
- **Amount** (how much the vendor will get paid by the agency)
- **Fiscal Coding** (out of which funding authority will the vendor be paid - location code, fund, sponsor, purpose code, object class code)

Note: The obligation number is not a part of fiscal coding. The obligation number is an important piece of information and needs to be displayed on the obligating document; however, it can be added to the obligation document at the conclusion of the entry into FOR Post. It can be printed, typed or handwritten.

Specific additional information may include a description of the obligation, period of performance, approvers, project number, etc.

As a general rule, Posts should use standard Peace Corps templates and forms for supporting documentation.

Posts may use Post-specific forms or templates when no agency-wide form is available or exists. If a Post has a form or template that deviates from an existing agency-wide form, Post must ask for approval from the HQ office responsible for the oversight of the specific function (e.g. Transportation for travel obligations, CFO/ACM for procurement obligations, etc.)

Posts are required to retain obligation documents per agency guidance. See OFMH 22.0

32.4.2 Financial Recordation in FOR Post

Posts must record obligations in FOR Post only when supported by documentation. It is important to note that obligations (except in very limited circumstances noted below) are not to be recorded in FOR Post until such time as a liability (obligation) has been incurred or accepted by an authorized individual. The entry in FOR Post must match the amount, name and fiscal coding that is displayed on the obligation document. Refer to specific guidance from CFO/BA for limited exceptions during a Continuing Resolution (CR).

OFMH 66.4, "Required Information for Vouchers (PC-2059)" states:

Each payment voucher must have only one vendor associated with it. Vouchers may be coded to many different obligations as long as the vendor name, currency, and voucher exchange rate are the same. Posts should ensure that the following required information needed for certification and payment will print on or be attached to the PC-2059:

1. The description of goods and services in English. Include unit price, quantity and any discounts received.
2. The name of the vendor (to receive the payment) must be the same as the name on the invoice. If the two differ, please provide a brief memo from the vendor explaining why the two differ.
3. A spreadsheet or calculator tape verifying calculations for all (non cashier) vouchers with multiple invoices.
4. The vendor's invoice (see below for details).
5. Obligation documents. All obligating documents must be filed at Post. In some cases, a copy of the obligating document must also be sent to GAP invoice certification. See GAP Payment Requirements for details of which obligating documents must be sent.

OFMH 66.4.1, "Invoice Requirements" states:

- The following documentation is required for all payments:
- Original Invoice
- Vendor Name and Address (same as on voucher)
- Description of Goods/Services Provided - Translated into English
- Supporting documentation, as required, translated into English, e.g., pro forma
- Invoices, agendas, etc.
- Unit Price, Quantity and Total Amount
- Date of Invoice

NOTE 1: If the original invoice is not available or must be retained for VAT refunds, copies or facsimiles may be accepted IF copies/faxes are stamped "Duplicate Copy. Internal controls are in place to avoid duplicate payment".

NOTE 2: All vouchers submitted to Global Accounts Payable must be originals, and Post should retain copies for its files and tracking purposes. If a voucher is lost in the mail to Global Accounts Payable, please provide a copy marked "Duplicate Copy. Internal controls are in place to avoid duplicate payment" and brief explanation, i.e., "lost in transit".

NOTE 3: Original vouchers are required for processing. Faxed and/or scanned copies will be considered only in the most exceptional of circumstances, due to internal control issues. If there is a true emergency, contact your FMO if you believe an exception is warranted.

OFMH 66.4.2, "Checklist for Non-Cashier Payments" states:

> Post:
> Check the following points before submitting vouchers for certification and processing:
> Have obligating documents, specifying the requirements and indicating the terms of payment been provided, either with the payment or separately?
> Is backup documentation sufficient to justify the payment?
> Has the voucher been signed?
> Is the "receipt date" included?
> Are computations correct?
> Are the purchases/services itemized?
> Is the invoice and all supporting documentation translated into English?
> Is the amount to be paid circled or highlighted on the invoice and does it match the amount on the voucher?
> Have all liquidations been entered and approved in FOR Post and synced with HQ?
> NOTE: staff may not "approve" payments for which they will receive funds. For example, staff may not sign their personal travel vouchers, claims for reimbursements, etc.

PEACE CORPS MANUAL

MS 743 Procedures, "Personal Services Contracts with Host Country Residents" states:

> 8.0 Security Certifications and Employment Suitability
>
> All resident personal services contractors shall have a suitability and security investigation as required by the Office of Safety and Security. Attachment H outlines the requirements for host country resident personal services contracts.
>
> 8.1 Access to Classified Information
>
> Foreign nationals are not permitted access to classified information or material.
>
> 8.2 Security Certification for PSCs
>
> For all host country resident PSCs contracted for 260 work days or more, the Contracting Officer must ask the Regional Security Officer (RSO) or his or her designee to conduct a background investigation (as per 12 FAM 422.4, 19, 20) of the proposed PSC prior to executing the contract. If completion of the appropriate investigation will be delayed, the Contracting Officer must obtain a temporary security certification from the RSO before execution of the Personal Services Contract. The CD must request recertification of a continuously employed PSC every five years in accordance with 12 FAM 420. Documentation of the security certification will be filed in the individual PSCs contract file at post.
>
> At those posts where there is no U.S. Mission and no resident RSO (or RSO Foreign Service National Investigator), a post must follow the procedures outlined in section 8.3.

and the prospect of collecting

APPENDIX D: AGENCY RESPONSE TO THE PRELIMINARY REPORT

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Angela Kissel, Acting Chief Compliance Officer

From: Tim Hartman, Acting Regional Director, Africa Region
Jessica Wilt, Acting Country Director, Peace Corps/Zambia

Efn Acting RD Africa 9-29-17

Date: September 29, 2017

CC: Shelia Crowley, Acting Director
Carl Sosebee, Acting Chief of Staff
Kathy Stroker, Acting Deputy Director
Kristin Besch, Acting Associate Director of Global Operations
Joaquin Ferrao, Deputy Inspector General
Judith Leonhardt, AIG/Audits
Julie Burns, Chief of Operations, Africa Operations
Alyssa Karp, Expert, Africa Operations
Katrina Kruhm, Director of Management and Operations, PC/Zambia

Subject: Agency Response to the Preliminary Report on the Audit of Peace Corps/Zambia (Project No. 17-AUD-05)

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/ Zambia as outlined in the Preliminary Report on the Audit of Peace Corps/Zambia (Project No. 17-AUD-05) given to the agency on August 16, 2017.

Recommendation 1

That the directors of the Office of Global Operations, in coordination with the Acting Chief Financial Officer and Acting Associate Director for Management issue guidance to posts for implementing best practices and internal controls over management of fuel cards and purchase and use of fuel for vehicles and generators.

Concur

Response: The Office of Global Operations will work with the Office of the Chief Financial Officer and the Office of Management to add guidance to the Overseas Financial Management Handbook (OFMH) relating to best practices and internal controls over management of fuel cards and purchase and use of fuel for vehicles and generators. Input will also be solicited from posts to ensure appropriateness. Once issued, this guidance will be disseminated to posts from the Office of the Chief Financial Officer.

Documents to be Submitted:

- New OFMH language regarding fuel cards and purchase of fuel
- Email to posts about the new guidance

Status and Timeline for Completion: March, 2018

Recommendation 2

That the Director of Management and Operations:

- **Implement procedures to track fuel cards to ensure that the general services manager reconciles active fuel cards with the number of vehicles on hand and timely cancels fuel cards belonging to sold vehicles**
- **Implement procedures to ensure that fuel cards are secured and issued to staff members after preauthorization.**
- **Contact the Embassy and fuel vendors to identify and implement additional security features available to enhance accountability of fuel cards.**

Concur

Response: Detailed fuel card procedures were published and disseminated by Post initially in October 2016 and further refined in May 2017 to address concerns related to fuel management. The fuel card procedures address each specific audit recommendation and detail responsibilities of staff members involved in the management and issuance of fuel cards, inclusive of Total Tom cards and Embassy issued Prokee tokens.

A master list of all fuel cards is now maintained by the MotorPool Coordinator and reconciled on a quarterly basis by the General Services Manager (GSM) with oversight by the Director of

Management and Operations (DMO) to ensure that the number of active fuel cards and tokens reconcile with the number of vehicles on hand. Additionally, the cancellation of fuel cards has been incorporated as a key task in the Vehicle Sales Checklist used by Post staff when selling PC Zambia vehicles to ensure that cards and tokens are not left active after a vehicle is sold.

The detailed fuel card procedures also address the issues of fuel card security and the process for issuing and receiving fuel cards as required. In Lusaka the cards are maintained in a safe by the DMO designated staff member, currently the Principal Cashier, and a log sheet is used to document date, time, and recipient name when cards are issued and returned. This log sheet is reviewed monthly by the GSM and quarterly by the DMO for any irregularities. The Principal Cashier is also instructed to inform the MotorPool Coordinator, the GSM, and the DMO if there are any delays in the return of fuel cards.

Per the detailed procedures, fuel cards in Lusaka are only issued to staff members after pre-authorization by the Motor Pool Coordinator after review of the Vehicle Log Book and VMIS data. As part of the log book and VMIS review process, the MotorPool Coordinator checks the date and quantity of the last fuel filling and the number of kilometers covered since that time to determine the need for refilling. If the request for fuel is determined legitimate then the MotorPool Coordinator provides authorization for the release of the fuel card. Irregularities identified are immediately reported to the GSM and DMO.

Additional security measures have also been implemented as a result of meetings between the DMO and fuel providers such as the Embassy and Total. These additional security measures have been implemented to ensure full compliance with Post's documented fuel procedures and to provide increased visibility into fuel purchasing if any irregularities occur.

In collaboration with the Embassy, a Prokee token is issued for each individual car and an individualized password is provided for each Driver authorized to access Embassy fuel. This allows for detailed recording of which driver accessed what quantity of fuel at a specific date and time on the monthly bill. In agreement with the Embassy, Peace Corps has also restricted all use of Jerri cans for purchase of Embassy fuel eliminating any fuel leakage that may have occurred through the use of secondary fuel containers.

Post has worked in conjunction with Total to issue an individual Tom Card for each vehicle and individualized passwords for each driver. A maximum monthly limit has been placed on each vehicle Tom card and restrictions implemented only allowing the purchase of fuel to ensure the card is not used for any unauthorized purchases. At the Total station, drivers are required to enter their individualized password and the current odometer reading into the Tom Card reader before fueling the car. The Total attendant is also required to scan a newly implemented security sticker on the car as only cars with official Tom Card stickers linked to Peace Corps may receive fuel under the Peace Corps – Total fuel arrangement. The DMO, GSM, and MotorPool Coordinator have access to the Peace Corps Total account online in order to track fuel fillings on a daily basis and receive email alerts in regards to any purchase irregularities.

Post no longer uses Puma as a pre-paid fuel vendor due to their inability to implement additional security procedures.

Documents Submitted:
- Peace Corps Zambia Vehicle Fuel Procedures
- Peace Corps Zambia Vehicle Sale Checklist
- Peace Corps Zambia Fuel Card Log

Status and Timeline for Completion: Completed, September 2017

Recommendation 3
That the Director of Management and Operations implement adequate oversight over vehicle logs and entries in the vehicle management information system to ensure that drivers provide accurate information to the motor pool coordinator for all fuel purchases and the motor pool coordinator records all fuel purchases in the vehicle management information system purchase log.

Concur
Response: Per Post's implemented Fuel Procedures, the accurate recording and reporting of fuel purchases has significantly improved. Under the oversight of Post's fuel management team inclusive of the MotorPool Coordinator, the GSM, and the DMO, all fuel purchases are systematically entered in the individual vehicle logs and in the vehicle management information system (VMIS) purchase log.

Upon completion of the fuel filling process, the driver is required to indicate in the Vehicle Log the source of fuel (i.e. Total Mkushi), date of refueling, the odometer reading, the number of litres drawn, and the cost. This same data is immediately provided to the MotorPool Coordinator by text or by scanned photocopy or picture of the receipt. The original receipt is provided to the MotorPool Coordinator once a trip is completed or at least weekly from the provinces.

Upon receipt of the fuel purchase data, the MotorPool Coordinator is required to enter all fuel withdraws reported on a daily basis into VMIS inclusive of the fuel source (i.e., Total, Embassy, or cash). A weekly review of the Total online system is completed to ensure that all Total fuel purchases are entered into VMIS in a timely manner. On a monthly basis all fuel data is validated by the MotorPool Coordinator through a comprehensive review of the vendor fuel bills and any cash payments made during the month.

If a fuel purchase is not properly reported to the MotorPool Coordinator on the date of purchase or is reported with inaccurate data a warning email will be sent by the MotorPool Coordinator to the driver with a copy to the employee supervisor, the GSM, and DMO. Repeat instances of non-compliance to this fuel purchasing reporting requirement will be followed up by the DMO.

Vehicle logs are reviewed on a monthly basis by the MotorPool Coordinator, the GSM, and the DMO. This review process includes a review of all vehicle movements, fuel fillings, and vehicle maintenance. During the review process, the DMO, as the final approving officer, prints out the monthly VMIS fuel purchases report and compares it with the vehicle log to ensure that all fuel purchases have been properly recorded in both the vehicle log and in VMIS. Any irregularities are investigated and any repeat instances of non-compliance with the vehicle log recording requirement would result in disciplinary action.

Documents Submitted:
- Peace Corps Zambia Vehicle Fuel Procedures
- VMIS Report for month of September 2017 with fuel source included
- Quarter 4 VMIS Dashboard Report

Status and Timeline for Completion: Completed, September 2017

Recommendation 4
That the Director of Management and Operations implement procedures to reconcile fuel vendor statements with receipts and vehicle management information system entries before processing payments.

Concur
Response: Per Post's implemented Fuel Procedures, fuel payments are only processed after a verification and reconciliation exercise between the fuel invoice and VMIS is completed by the MotorPool Coordinator and reviewed and approved by both the GSM and DMO.

As detailed in the Fuel Procedures, upon receipt of the monthly bills from Total and the Embassy, the MotorPool Coordinator must review each bill and ensure that all charges are accurate by comparing the fuel bill to the receipts received, the vehicle log, and VMIS. Any missing or inaccurate entries need to be cross-checked with the Driver and the Vehicle Log to ensure that the amount is legitimate and then included correctly in VMIS once validated. Any missing original receipts should also be collected.

In order to complete the reconciliation process, the MotorPool Coordinator runs a query from VMIS for all fuel entries for the month and the data is exported into a spreadsheet. Once the data is exported, a filter is set up to sort data by fuel purchase source (i.e.., Embassy, Total, or cash) documented in the Comments section of the VMIS data entry screen. The data for each fuel source is then compared to the actual fuel bill and the total number of litres purchased on the bill reconciled with the VMIS entries.

The fully validated fuel bill by vendor and the VMIS query report sorted by fuel source are provided to the GSM for final review and approval. Once signed by the GSM, the documentation is forwarded to the DMO for final payment approval. For the rare instances where cash must be used for fuel purchases, disbursement vouchers are only processed once a copy of the VMIS report documenting entry is provided. This ensures that all fuel payments inclusive of cash payment are correctly recorded in VMIS.

Documents Submitted:
- Peace Corps Zambia Vehicle Fuel Procedures
- Sample fuel payment voucher with VMIS supporting documentation

Status and Timeline for Completion: Completed, September 2017

Recommendation 5
That the Director of Management and Operations finalize and implement controls over tracking the use of fuel for generators.

Concur
Response: The DMO has implemented a variety of measures to increase controls and tracking of fuel used for generators at Post. In Lusaka, a 1,000 litre fuel bowser was purchased in August 2016 to eliminate the need for the purchase of small purchases of fuel from the Embassy using jerri-cans. The bowser also offers increased internal controls including a meter tracking litres of fuel disbursed. For provincial offices, separate generator fuel cards were provided by Total so that purchases of vehicle fuel and generator fuel are clearly separated and that generator fuel purchases can be easily tracked through monthly Total invoices.

Detailed generator fuel procedures were also published and disseminated by Post in May 2017. The procedures address issues related the purchase of fuel for the generators, disbursement of fuel, proper recording of generator fuel use, and the reconciliation of generator fuel purchases. The spreadsheets used for tracking generator usage in both Lusaka and at the provincial level were also upgraded to comprehensively document all information related to generator and fuel usage. These spreadsheets are maintained by the Skilled Maintenance Worker, reconciled with monthly fuel bills, and reviewed and approved by the GSM and DMO before generator fuel payment processing.

Documents to be Submitted:
- Generator Fuel Tracking Spreadsheets for Lusaka office and provinces for FY18, Q1
- Peace Corps Zambia Generator Fuel Procedures

Status and Timeline for Completion: January, 2018

Recommendation 6
That the Director of Management and Operations finalize and implement controls over purchasing lubricants.

Concur
Response: As of July 2016, Post drivers could no longer purchase lubricants or service parts through the Total Tom cards. This was implemented through a Director of Management and Operations (DMO) directive and with vendor enforced restrictions placed on the Tom cards that allowed only the purchase of fuel with the Tom cards.

Since this date, all lubricants and service parts can only be purchased through the work order system in which monthly requirements for service parts and lubricants are assessed by the MotorPool Coordinator using data from VMIS on kilometers incurred. When a vehicle is within one month of reaching the service requirement, the service parts and lubricants required are included in a work order/supply procurement request. The procurement request with the accompanying Vehicle Fleet Monthly Service Requirement analysis spreadsheet is reviewed and endorsed by the GSM before final review and approval by the DMO.

Service part and lubricant purchases are made per Peace Corps procurement policies. The required parts are forwarded to the provincial offices and only fluids are purchased by the Sub-cashiers after DMO approval through imprest. The servicing of all vehicles and the parts and lubricants utilized are recorded in the individual vehicle logs and also in VMIS. The MotorPool Coordinator, GSM, and DMO ensure that these entries are properly recorded through their monthly review and reconciliation of the vehicle logs and the VMIS vehicle maintenance entries.

All liquidations and disbursements for service parts and lubricants must also be supported by a corresponding VMIS entry record prior to payment approval as an internal control implemented by the DMO to ensure that all related purchases are properly recorded.

Documents Submitted:
- Vehicle Fleet Monthly Service Requirements Analysis Spreadsheet
- VMIS Report on Vehicle Maintenance for September 2017

Status and Timeline for Completion: Completed, September 2017

<u>Recommendation 7</u>

That the Country Director and the Director of Management and Operations ensure that all the cashiers report all discrepancies to the required offices and monitor the cashier daily count results and ensure all discrepancies are resolved per Peace Corps policy.

<u>Concur</u>

Response: A management memo was issued to all Cashiers and Sub-Cashiers on the required procedures related to cash count discrepancies. All Peace Corps Zambia Cashiers, Sub-Cashiers, and Peace Corps Volunteer Leaders (PCVL) have also been re-trained on the requirement to report all cash count discrepancies to the required offices immediately.

The Principal and Alternate Cashiers are required to inform the CD and DMO in writing of any discrepancies immediately and follow-up reporting is also made to the HQ Cashier Monitors as required. Records of all such notifications are maintained in the daily cash reports sub-folders for future reference as needed. The DMO monitors compliance of this requirement by randomly reviewing the daily cash reports completed by the Cashier.

Sub-Cashiers and the PCVLs (who conduct surprise cash counts at the provincial level as assigned by the DMO) have also been re-trained on their need to report any cash discrepancies immediately. These discrepancies are immediately reviewed by the Principal Cashier and DMO in order to assist with resolution. If the discrepancy is not resolved on the same day as the cash count, the Principal Cashier notifies the CD and DMO immediately in writing of the discrepancy. HQ reporting is also completed as required per PC policy. Records of these notifications are maintained in the electronic subfolder for each Sub-Cashier for future reference.

All cash discrepancies are also resolved per Peace Corps policy with HQ involvement as required. Copies of final resolution determination are also filed in the relevant sub-folders for easy reference.

<u>Documents Submitted</u>:

- Memo to Cashiers and Sub-Cashiers on Cash Count Discrepancies

<u>Status and Timeline for Completion:</u> Completed, September 2017

<u>Recommendation 8</u>
That the Country Director and the Director of Management and Operations perform random cash counts.

<u>Concur</u>
Response: In FY17 the Country Director (CD) and Director of Management and Operations (DMO) have worked together to ensure a more random schedule of cash counts as detailed below.

WK 1	WK 2	WK 3	WK 4
2	0	5	5

In FY18 Post expects to have a new Country Director and a full complement of administrative staff which will reduce the pressure on the DMO and allow for more time flexibility to ensure more equitable distribution of cash counts across the four weeks of the month. As such, the DMO has included proposed dates for cash counts throughout FY18 in her electronic calendar. Per this schedule, the counts will be equally distributed between weeks 1-4.

<u>Documents Submitted</u>:
- Copies of signed FY17 cash counts (one from week 1, week 3, and week 4)

<u>Status and Timeline for Completion:</u> Completed, September 2017

<u>Recommendation 9</u>
That the Country Director and Director of Management and Operations comply with the policy and conduct sub-cashier cash counts and reconcile bank accounts at irregular intervals and ensure that sub-cashiers comply with pass-through banking requirements of Peace Corps policy.

<u>Concur</u>
Response: The Country Director (CD) and Director of Management and Operations (DMO) are working together to ensure full compliance with all Sub-Cashiering policies with a specific focus on the use of pass-through banking accounts, monthly random cash counts, and the reconciliation of bank accounts at irregular intervals.

All Sub-Cashier accounts are now operating as pass-through bank accounts. As such, all Sub-Cashiers are aware that all transferred monies are to be immediately withdrawn from the account and that each account should have a zero balance. In order to ensure full compliance, Sub-cashiers are no longer using ATM machines to withdraw funds as the ATM machines could not always release the exact amount of the transfer. Instead the Sub-Cashiers are entering into the banks, withdrawing all funds and requesting bank statements to ensure zero balance. The Principal and Alternate Cashiers have also been provided online access to each Sub-Cashier account and so the maintenance of a zero balance for each account is monitored regularly and any deviations are immediately followed-up on with a copy to the DMO.

Sub-cashier cash counts are also being conducted in compliance with policy. The DMO has delegated the responsibility of sub-cashier cash counts to the Peace Corps Volunteer Leaders (PCVL) in the provinces due to proximity. All PCVLs have received a two-hour training on this procedures. These cash counts are now done at irregular intervals and the sub-cashiers are unaware of the dates scheduled for the cash counts. Post records show that monthly cash counts were completed for all Sub-cashiers for the period of April –August 2017.

As of September 1, 2017, a new Post procedure requiring the reconciliation of sub-cashier bank accounts was implemented. This new procedure requires the Principal Cashier to print and review a copy of each sub-cashier monthly bank account statement using the on-line bank account access randomly each month. Each statement copy should be signed and filed in the respective Sub-cashier folder. Any irregularities to the account including, but not limited to, timeliness of transfers, location of withdrawals, and non-conformance to the requirement of zero-sum accounts, must be immediately reported to the DMO in writing with a copy of the bank statement provided. The DMO shall also sign any irregular bank statements and a memo should be included in the file documenting actions taken to address the irregularity.

Documents to be Submitted:

- Bank statements for sub-cashier accounts showing zero balance for the months of October – December 2017
- Sub-cashier cash counts for the months of October – December 2017
- Memo detailing post procedure on the reconciliation of sub-cashier bank accounts

Status and Timeline for Completion: January 2018

Recommendation 10

That the country director and the director of management and operations ensure that adequate support exists before approving electronic fund transfers.

Concur

Response: In response to this unique incident, the Director of Management and Operations (DMO) provided a refresher training to all staff (inclusive of the CD, DMO, and DDMO) authorized to process imprest payments through the local Citidirect electronic funds transfer payment system. Within this training, specific focus was made on the supporting materials which should accompany each request for Citidirect payment processing. This includes an approved disbursement voucher with specific details on the payment attached in compliance with PC policy.

Additionally, per new Post procedures, all Citidirect payment requests must also be accompanied by a corresponding disbursement for bank fees associated with the approved transfers. This is to ensure reconciliation of the imprest account each day as the bank fees are automatically deducted per transaction with the approval of each transfer.

<u>Documents Submitted</u>:

- DMO memo to authorized users of Citidirect EFT detailing documentation requirements for local electronic fund transfer payments
- Two sample EFT payments

<u>Status and Timeline for Completion:</u> Completed, September 2017

<u>Recommendation 11</u>

That the Country Director and the Director of Management and Operations:

- **Monitor interim advances and follow up with staff to clear interim advances within 3 days.**
- **Ensure that the cashier issue a new advance to an employee only after clearing their previous interim advance.**
- **Ensure that interim advances are limited to authorized staff members and Volunteers.**
- **Ensure that the cashier records proper descriptions on the interim advance worksheet supporting the daily cash count.**

<u>Concur</u>
Response: Increased focus is being placed by the Country Director (CD) and Director of Management and Operations (DMO) on the management and monitoring of interim advances. In the last two all-staff meetings held in April and September 2017, respectively, the DMO has reminded all staff of the importance of clearing interim advances within three days and that those staff members that are found to be regularly non-compliant are at risk of this privilege being taken away.

While Post recognizes that clearing interim advances within three days is challenging due to activities that are geographically far from the office and often spanning a week or more, the CD and DMO have increased their monitoring of aged interim advances. The Principal Cashier is required to email the DMO for any interim advances more than 3 days old so that they can assist with the follow-up. Additionally, the Principal Cashier is required to explain reasons for any delays in the interim advance worksheet for later reference. The DMO also completes random checks of the daily cash counts to identify interim advances that may become aged to see if they can be resolved on time. Advances aged over 7 days are reported to the CD for follow-up.

New processes have also been implemented to ensure that advances are only issued to an employee after clearing their previous interim advance. While this has always been Post policy, the finance team now understands that even if the paperwork to clear advances has been submitted, new interim advances cannot be provided until the advance paperwork has been fully cleared through the accounting system. A certification is also now provided on the top of each advance by the Voucher Examiner documenting that the requestor holds no other open advances.

Prior to approval of all interim advances, the DMO will ensure that interim advances are only limited to staff members and Volunteers. In cases such as the one cited in the audit report, Post will seek out official GAP guidance in advance to assist with problems of disbursements that may be caused by ForPost errors. The DMO will also complete random checks each week of the interim advance worksheet to ensure that proper descriptions of transactions are entered by the Principal Cashier.

Documents to be Submitted:
- Four interim advance worksheets for the month of November 2017
- Sample advance voucher showing prior certification from the Voucher Examiner that there are no pending advances.

Status and Timeline for Completion: January 2018

Recommendation 12
That the Country Director and the Director of Management and Operations ensure that the cashier limits the sub cashier advances to the authorized amount.

Concur
Response: In February 2017, PC/Zambia amended the Line 19 Daily Cash Report used to track sub-cashier advances to include both local currency amounts and US dollar amounts. A column was also added in July 2017 to include the USD maximum amount as set by the Cashier Monitor so that it will be easily visible if a sub-cashier advance is ever requested for more than the maximum authorized. These enhancements to the Line 19 Daily Cash Report have provided additional controls for the CD and DMO to ensure that the cashier limits sub cashier advances to the authorized amount.

Documents Submitted:
- Amended Line 19 Daily Cash Report

Status and Timeline for Completion: Completed, September 2017

Recommendation 13
That the Country Director and the Director of Management and Operations ensure that Volunteers and staff make deposits only in the USDO account following the required procedure.

Concur
Response: The incidents cited only occurred twice at Post due to a misunderstanding of the policy and have never been repeated again. Post management is now very clear on the policy and will ensure that the required procedures are followed in regards to depositing funds in the USDO account and not Post's account. The Principal Cashier has also been reminded to research the OFMH and to reach out to the Cashier Monitor when such unique situations arise in the future.

<u>Documents Submitted</u>:

- Post account bank statements for FY17 to illustrate that such a deposit has never been made again.

<u>Status and Timeline for Completion:</u> Completed, September 2017

<u>Recommendation 14</u>

That the Director of Management and Operations implement a procedure to issue obligations under individual vendor names as required by policy and ensure that the staff record names of vendors and Volunteers receiving payments as the payee in compliance with Peace Corps guidance.

<u>Concur</u>

Response: Post has worked diligently over the past year to ensure that obligations are issued under individual vendor names as required by policy. As such and as noted in the audit report, significant reductions were identified in the first six months of FY17.

In an effort to further consolidate the achievements made, PC/Zambia has issued a new guidance effective October 1, 2018 that obligations should be issued under individual vendor names for any purchase over ZMW 1,000 and/or for vendors that Post expects to use more than three times in a fiscal year. There will be some exceptions to this policy for urgent procurements and for vendors that do not have bank details. However these exceptions will require approval in advance by the Director of Management and Operations (DMO) and be well documented.

Additionally, outside of emergencies and exceptions, post will continue to follow the guidance on multiple payments as outlined in section 13.14.3 of the Overseas Financial Management Handbook by using multiple payment listing receipts only when a number of Volunteers, Trainees, or trainers are being paid at one time for the same purpose and when the signatures of all payees will be obtained at one time.

<u>Documents Submitted</u>:

- Memo from DMO on Obligation Procedures and use of PC/Zambia

<u>Status and Timeline for Completion:</u> Completed, September 2017

<u>Recommendation 15</u>

That the Director of Management and Operations implement a procedure to comply with requirements for appropriate approvals of all disbursements over $3,000.

<u>Concur</u>

Response: Post will work to strengthen their existing systems to ensure full compliance with requirements for appropriate approvals of all disbursements over $3,000. In general, post believes that staff members are adequately informed of the proper procedures, but a policy reminder has been sent to relevant staff to ensure that the policy is well understood. Post will also focus on improved filing of contracts and supporting documentation as a draft selection memo was found for this procurement but not the entire procurement package.

Documents Submitted:
- Memo from DMO on Post procedures and approval requirements for disbursements over $3,000

Status and Timeline for Completion: Completed, September 2017

Recommendation 16
That the Director of Management and Operations consult the Office of the Chief Financial Officer/Acquisition and Contract Management for appropriate action for the furniture purchased that was inadequately competed.

Concur
Response: PC/Zambia will submit the documentation used to purchase the furniture to CFO/ACM for review and consultation on the proper way to move forward in closing out this issue.

Documents to be Submitted:
- Email correspondence with CFO/ACM
- Guidance from CFO/ACM

Status and Timeline for Completion: November 2017

Recommendation 17
That the Director of Management and Operations update the benefit clause in the PSC contracts according to the Embassy-issued local compensation plan and issue revised contracts for the local staff members.

Concur
Response: The benefit clause in the PSC contracts was updated according to the Embassy-issued local compensation plan and contracts with the revised clause were issued to local staff members effective October 1, 2016.

Documents Submitted:
- Attachment III for PSC contracts with amended clause

Status and Timeline for Completion: Completed, September 2017

Recommendation 18
That the Director of Management and Operations ensure all personal services contractors have appropriate security clearances in compliance with Peace Corps policy.

Concur
Response: PC/Zambia has prioritized the timely renewal of security clearances at Post. On a monthly basis, the HR Specialist provides the Director of Management and Operations (DMO) detailed information on the status of the security clearance and renewal application submission dates to the RSO. The DMO has also worked closely with the Regional Security Officer to prioritize clearances before reaching the expiry date and to complete five-year security clearances versus annual clearances for our pre-service training staff which will assist in keeping all security clearances up-to-date. Post has also completed a thorough review of vendor type in Odyweb to remove service vendors from the category of personal service contractors as this has the potential to distort the data on security clearances.

Documents Submitted:
- Listing of security clearances with no expiries for the month of September 2017

Status and Timeline for Completion: Completed, September 2017

Recommendation 19
That the Office of the Chief Financial Officer/Acquisition and Contract Management issue a policy requiring post management to enter in to a contract with the auctioneer as warranted by the nature of the auction arrangement.

Concur
Response: The Office of the Chief Financial Officer/Acquisition and Contract Management recognize a need for specific guidance on this issue. The CFO will work with Acquisition and Contract Management to add guidance on entering into a contract with an auctioneer in the Overseas Contracting Handbook (OCH) and distribute it to all Peace Corps posts.

Documents to be Submitted:
- New OCH language regarding contracts with auctioneers

Status and Timeline for Completion: March 2018.

Recommendation 20
That the Director of Management and operations sign a contract with the auction house.

Concur
Response: PC/Zambia is prepared to sign a contract with the auction house once formal guidance on this issue is provided by CFO and OACM.

Documents Submitted:
- PC Zambia contract with auction house

Status and Timeline for Completion: April 2018

Recommendation 21
That the Director of Management and Operations enhance the controls over verification of allowances prior to disbursement to ensure consistency and accuracy of living and leave allowances for new Response Volunteers.

Concur
Response: Post has developed and implemented a comprehensive allowance tracking spreadsheet for new Response Volunteers which ensures consistency and accuracy in the payment of allowances. This new tracking sheet also provides visibility to all concerned parties regarding what payments have been made for each Response PCV and the mechanism of payment for easy tracking.

Documents Submitted:
- PC/Zambia Response Volunteer Allowance Tracking Sheet

Status and Timeline for Completion: Completed, September 2017

APPENDIX E: OIG COMMENTS

Management concurred with all 21 recommendations. The 21 recommendations remain open pending a copy of documentation listed in the agency's response.

In their 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 region or post has taken these actions, nor 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.

APPENDIX F: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This audit was conducted under the direction of Assistant Inspector General for Audit Judy Leonhardt by Lead Auditor Hal Nanavati and Program Analyst A'Daris McNeese.

OIG CONTACT

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

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Anyone knowing of wasteful practices, abuse, mismanagement, fraud, or unlawful activity involving Peace Corps programs or personnel should call or write the Office of Inspector General. Reports or complaints can also be made anonymously.

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