



# Office of Inspector General

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**To:** Carrie Hessler-Radelet, Director  
Keri Lowry, Regional Director  
Anne Hughes, Chief Compliance Officer

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

**Date:** June 17, 2016

**Subject:** Final Report on the Audit of Peace Corps/Indonesia (IG-16-03-A)

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

Management concurred with all 12 recommendations. All 12 recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

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

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914, Lead Auditor Hal Nanavati at 202.692.2929, or Auditor Ann Lawrence at 202.692.2936.

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

cc: Laura Chambers, Chief of Staff  
Carlos Torres, Deputy Director  
Ken Yamashita, Associate Director, Global Operations  
Nina Favor, Country Director, Peace Corps/ Indonesia  
Kristin Besch, Chief of Operations, EMA Operations  
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# PEACE CORPS *Office of Inspector General*

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*OIG Auditors with Peace Corps/Indonesia staff*

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**Final Audit Report**  
Peace Corps/Indonesia  
IG-16-03-A  
June 2016



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## EXECUTIVE SUMMARY

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### BACKGROUND

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Indonesia (hereafter referred to as “the post”) from August 24, 2015 to September 11, 2015.

#### Staff:

- U.S. direct hires: 3
- Third country nationals: 1
- Full-time personal services contractors (PSCs): 39

#### Spending (approx.):

- Fiscal Year (FY) 2015 post spending: approximately \$2.0 million
- Average regional overhead: \$490,000



Map of Indonesia

### WHAT WE FOUND

The post’s financial and administrative operations were effective and complied with agency policies and applicable federal laws and regulations. We noted a few areas in need of improvement, including:

- The director of management and operations did not perform sub-cashier cash verification.
- The medical secretary purchased and dispensed medicine without recording it in inventory tracking worksheets.
- The post made disbursements to two vendors without adequate support.
- The post did not record names of the vendors as payees in FOR Post.
- The post management did not have adequate controls and did not monitor accuracy of credit hours allowed to staff.

### RECOMMENDATIONS IN BRIEF

Our report contains 12 recommendations directed to the post to improve controls and ensure compliance with Peace Corps policy. Those recommendations include: performing the required cash counts, maintaining adequate inventory records, recording names of payees receiving disbursements, and reviewing time keeping procedure to comply with credit hour policies.

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## BACKGROUND

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OIG conducted the audit of the post from August 24 to September 11, 2015. This is first OIG audit report since the post reopened in 2009.

The Peace Corps/Indonesia program was initiated in 1963, and closed in 1965 due to political unrest and concerns for Volunteer safety and security. It was reopened in 2009 following an invitation from the Indonesian government and a Peace Corps team's reassessment of the program's feasibility. At the time of the audit, Peace Corps/Indonesia operated one project: Teaching English as a Foreign Language (TEFL). The post had three U.S. direct hires, one third country national, 39 full-time personal service contractors, and six vacant positions. The post's FY 2015 spending was approximately \$2.0 million. In addition, at headquarters, the Europe, Mediterranean and Asia region incurred an average of approximately \$490,000 per overseas post.<sup>1</sup>

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

During our fieldwork, a cashier monitor from the Bangkok office of the Department of State's Bureau of the Comptroller and Global Financial Services (CGFS) visited the post for a prearranged review of cashiering operations. The cashier monitor did not identify any significant deficiencies.

### *Special Operating Status of Peace Corps/Indonesia*

Peace Corps/Indonesia operates under the umbrella of the Republic of Indonesia's bilateral cooperation agreement with the U.S. Agency for International Development (USAID). The Peace Corps entered into this arrangement in order to establish the post as quickly as possible, because the agency's committed entry into Indonesia had to coincide with an imminent presidential visit. USAID agreed for the Peace Corps to operate under this umbrella as a temporary measure until the foreign ministry grants the Peace Corps its own technical operating status. Peace Corps/Indonesia has been working for five years to achieve status as an independent U.S. government entity. Without an independent operating status to conduct business, the post could not obtain a tax identification number. As a result, certain vendors do not recognize the post as an entity and some vendors refused to accept purchase orders or enter into direct contracts with the post.

In August 2015, the ministry of finance decreed that Peace Corps/Indonesia has its own technical cooperation status. This decree outlines import duty exemptions for the post and its international

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<sup>1</sup> The agency does not determine a total cost per post beyond directly attributable post expenses, as certain costs are centrally budgeted and managed by headquarters offices including the salaries and benefits of U.S. direct hires. The Peace Corps Office of Budget and Analysis provided the total cost of \$8.8 million incurred by the Europe and Mediterranean Region in direct support of its 18 overseas posts in FY 2015, which is an average of \$490,000 per post.

staff. However, the post has not yet received documentation for VAT exemption. Currently, the post has to apply for their value added tax (VAT) exemption through the embassy. Once the president signs the decree, the post will be able to apply for their VAT exemption directly.

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## AUDIT RESULTS

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### *IMPREST FUND*

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#### ***The DMO did not perform sub-cashier cash verification.***

The post had two authorized sub-cashiers. The medical secretary operated as a permanent sub-cashier, and the training and evaluation assistant operated as a sub-cashier only during Volunteer pre-service training. The cash advances to sub-cashiers were small: approximately \$400 USDE. Nonetheless, we found that the post needed improvement in their sub-cashier management and oversight.

**Unannounced cash counts.** The medical secretary was appointed as a sub-cashier in June 2014; however, former DMOs did not perform cash verifications. The current DMO performed cash verification for the first time in June 2015. Exhibit C of the Overseas Financial Management Handbook (OFMH) requires the cash verification officer, in this case, the DMO, to perform cash verification every quarter.

Per the DMO, the post has already implemented the sub-cashier cash verification as required by Peace Corps policy.

**Intermingled funds.** We found that the medical secretary, a regular sub-cashier, had disbursed more funds than the advance received from the main cashier. We noted that on August 28, 2015, the sub-cashier fund had a negative balance of \$109 USDE. The medical secretary admitted to regularly using personal funds to purchase medical supplies and services, later obtaining reimbursements from the main cashier.

In supplementing cashier funds with personal funds, the medical secretary disbursed more money than the authorized cash advance limits. Per the Sub-Cashier Guide, “The sub-cashier should ensure that the imprest fund is not intermingled with personal or other funds.” This situation can be avoided if the sub-cashier submits vouchers timely to the principal cashier to replenish cash disbursed for expenses.

#### **We recommend:**

- 1. That the country director and the director of management and operations ensure sub-cashier cash counts are performed per Peace Corps policy.**
- 2. That the director of management and operations monitor sub-cashier activity and instruct the sub-cashier to refrain from using personal funds for business purposes by obtaining timely replenishment of funds from the cashier.**

***The post did not adequately plan for purchasing medicine and medical supplies.***

The medical secretary purchased small quantities of several routinely stocked items, such as insect repellent and prescription medicine, from local retail pharmacies using the sub-cashier advance. Per technical guidance (TG) 240:

Medical supplies for V/Ts [Volunteers/trainees] must be procured through PLS [Post Logistics and Support Division] or directly by post from a U.S. or approved overseas vendor. Exceptions can be made for one-time purchases to maintain continuity of V/T health care at post. Medical supplies required on a regular basis should be ordered through PLS or other approved overseas vendors.

During a recent visit, the Office of Health Services noted that the U.S. Embassy and Consulate mainly purchased medical supplies from the U.S. due to a lack of effective government control over medication manufacturing and pharmacies in the local market. Consequently, the retail pharmacy may not be the best source for prescription drugs.

The post can avoid this situation by ordering medical supplies in a timely manner. Doing so will allow the post to purchase supplies using the competitive bidding process from approved medical suppliers.

***The medical secretary purchased and dispensed medicine without recording it in inventory tracking worksheets.***

After the medical secretary purchased medicine and medical supplies from the retail pharmacy, they dispensed the purchased medicine and supplies directly to Volunteers. This circumvented the medical inventory purchasing and record keeping process. The secretary did not provide purchase and dispensing information to the medical supplies inventory control clerk for recording in the medical inventory tracking sheets.

**We recommend:**

- 3. That the country director ensure the Peace Corps medical officer order medical supplies in a timely manner from approved vendors and record all purchases in the medical inventory system.**
- 4. That the director of management and operations and the Peace Corps medical officer minimize use of sub-cashier advances for medical purchases.**

***TRAVEL EXPENSES***

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***The post did not comply with Peace Corps travel policy and procedures.***

During our review of travel advances and expenses, we noted that the post issued travel advances to staff based on estimated expenses for the entire quarter. In some instances, the staff later returned 80 percent to 100 percent of these advances. When posts disburse excessive travel advances, it risks creating the perception that the advances are a form of personal loan. OFMH 57.3 stipulates, "For posts that issue 'time period' advances . . . the advance amount should be based on a current project trip plan for the period . . . and must not exceed 45 days."

Per the DMO, these practices no longer occur, and the post now limits travel advances to 45 days. The DMO will monitor travel advances weekly to support clearance of advances within 5 days of travel ending.

**We recommend:**

5. **That the director of management and operations implement procedures to comply with Peace Corps travel policy and procedures for travel advances and timely submission of travel expenses by staff.**

### ***DISBURSEMENTS***

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***The post did not record the names of the vendors as payees in FOR Post.***

The post regularly provided advances to staff members to purchase goods and services from local merchants. From October 2011 to July 2015, the post made imprest fund disbursements of approximately \$561,000 USDE. When staff made purchases from vendors, the financial assistant did not accurately record the name of the vendors in the FOR Post system's payee field. During the same period, the post disbursed approximately \$56,700 USDE without recording names of the payees. There were 28 payments over \$500 USDE, amounting to approximately \$21,500 USDE. For example, several large utility payments were routinely grouped on one sub-voucher. In several instances, the cashier recorded the names of the staff members receiving cash replenishments instead of the vendors providing material or services. Per OFMH 13.14.1:

The "Payee" to be entered into FOR Post therefore must also be the vendor, not the staff member taking the interim advance. 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.

Without accurate and complete information in the system, it is difficult to analyze amounts paid to vendors, identify potential duplicates, prevent fraud, and conduct trend analysis.

**We recommend:**

6. **That the director of management and operations ensure names of the vendors and Volunteers receiving payments are recorded as payees.**

***The post made disbursements to two vendors without adequate support.***

The post had contracts with two vendors to provide several services during pre-service training. These services included securing facilities, arranging host families for the trainees, providing language and community trainers and supervisors, transporting the trainees, and delivering technical consultation. One of the sub-contractors was contracted to make payments to host families for trainee room and board. The contract was pre-negotiated based on the estimated number of Trainees and classes to be held. The post made a partial payment prior to the training's commencement, and then made additional contractual payments during and after the training.

However, the post made final payments based on invoices from these vendors without requiring them to provide a full breakdown supporting all the costs incurred, including requesting the number and names of trainers, the classes conducted, the host families paid, and other costs. Unless the post obtains such a breakdown and requires the post staff managing the training to determine the accuracy of the charges, it is impossible to verify that the vendors provided all services contracted for and paid for by the post.

**We recommend:**

- 7. That the director of management and operations obtain detailed invoices from the contractors to reconcile with the contracts and verify that the Peace Corps pays the contractors only for services actually rendered and defined in the contract.**

***SECURITY CLEARANCE***

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***The post hired short-term language trainers without adequate security background verifications.***

The post contracted with two vendors to provide approximately 26 language facilitators and 15 cultural liaison trainers, respectively. However, the post did not obtain and retain security clearances for these short-term contractors. Per Peace Corps Manual Section (MS) 744 Attachment B, "It is a requirement of law that the Peace Corps complete appropriate background checks on all staff, including foreign service nationals (FSNs) and personal service contractors (PSCs)."

**We recommend:**

- 8. That the country director obtain and retain applicable security clearances for all short-term language facilitators and cultural liaison trainers hired by the contractors during pre-service training.**

***MANAGEMENT OF CREDIT HOURS ALLOWED TO STAFF***

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***The post management did not have adequate controls and did not monitor accuracy of credit hours allowed to staff.***

We found that PSCs submitted timesheets that did not adhere to Peace Corps policy. Per MS 630, PSCs may only carry over 24 credit hours during normal pay periods and 48 credit hours during pre-service training, yet PSCs submitted timesheets exceeding these amounts. It appeared that the formulae in the Microsoft Excel worksheet template for preparing the timesheet appeared to be erroneous, thus allowing PSCs to record and submit timesheets for credit hours over the allowed limit.

Per the DMO, the post did not have a formal process for pre-approving credit hours or documenting that approval. The post is considering modifying the current timesheets to lock the formula in order to prevent unlimited accrual of credit hours.

**We recommend:**

- 9. That the director of management and operations modify the timesheets to prevent staff from carrying over more than 24 credit hours and/or claiming credit hours in excess of authorized amount.**
- 10. That the director of management and operations formalize the process for staff to notify the supervisor before earning credit hours.**

***BILLS OF COLLECTION***

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***The post did not issue bills of collections in a timely manner.***

When Volunteers terminate their service earlier than scheduled, they owe the post any unearned portion of allowances paid to them. Often Volunteers have already left the country before the final decision is made to end their service. In such instances, if the Volunteer has any balance left in their local bank account, they send their ATM card to the DMO to withdraw any remaining funds on their behalf. The post applies the withdrawn funds against any balance the Volunteer owes them, if applicable. Depending whether the Volunteer owes or is owed additional funds, the post will then either issue a bill of collection (BOC) or complete an electronic funds transfer to the Volunteer.

Per OFMH 7.2, the billing officer must issue a BOC as soon as the post realizes that a debt is due to the Peace Corps, i.e., when the Volunteer ends their service. However, per the post's financial assistant, the post practice was to wait until the Volunteer provided their ATM card, verify the balance in the bank account, and then issue a BOC only for the available balance. Any remaining amount owed was collected by the post from the readjustment allowance due to the Volunteer.

While preparing the BOC, the post deducted any reimbursement amounts due to the Volunteer for expenses incurred, such as travel expenses. As a result, the post recorded only a partial amount of allowances collected from volunteers and did not record amounts reimbursed to Volunteers for expenses. This eliminated the proper audit trail from FOR Post, as the post recorded incorrect amounts for the collections and disbursement transactions in respective obligation and object class codes. This practice may provide an opportunity for misuse and/or malfeasance of funds.

**We recommend:**

- 11. That the director of management and operations issue bills of collection as soon as the debt is due, as required by Peace Corps policy.**

***The post did not verify if vendors specified the Value Added Tax (VAT) on invoices.***

Per the country agreement with the Indonesian government, the post was exempt from paying VAT in Indonesia. Nonetheless, certain vendors charged VAT because the post did not have a license to operate as a business in Indonesia. In this situation, the post had an arrangement for claiming a VAT refund through the U.S. Embassy. Per U.S. Embassy guidelines, when the post received an invoice valued over \$220 USDE that indicated the amount of VAT charged, the administrative assistant submitted a refund request to the Embassy, which reimbursed Peace Corps.

However, we noted instances where large purchases did not indicate the VAT amount on the invoice. When invoices do not specify the VAT amount, the post is unable to collect a VAT refund through the embassy. Per the DMO, the post will ensure that the request for quotations are VAT inclusive and work with the Embassy to process all eligible VAT claims in a timely manner.

**We recommend:**

- 12. That the director of management and operations ensure all vendors specify value added taxes in their invoices.**

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

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We did not identify any questioned costs. During the course of the audit, we identified the following funds to be put to better use.

Recommendation number	Description	Amount
7	That the director of management and operations obtain detailed invoices from the contractors to reconcile with the contracts and verify that the Peace Corps pays the contractors only for services actually rendered and defined in the contract.	\$437,600

The Inspector General Act of 1978, as amended, defines funds to be put to better use and questioned costs as the following:

- “Funds to be put to better use” are funds that could be used more efficiently if management took actions to implement and complete the recommendation.
- “Questioned costs” are 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.

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## LIST OF RECOMMENDATIONS

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**We recommend:**

1. That the country director and the director of management and operations ensure sub-cashier cash counts are performed per Peace Corps policy.
2. That the director of management and operations monitor sub-cashier activity and instruct the sub-cashier to refrain from using personal funds for business purposes by obtaining timely replenishment of funds from the cashier.
3. That the country director ensure the Peace Corps medical officer order medical supplies in a timely manner from approved vendors and record all purchases in the medical inventory system.
4. That the director of management and operations and the Peace Corps medical officer minimize use of sub-cashier advances for medical purchases.
5. That the director of management and operations implement procedures to comply with Peace Corps travel policy and procedures for travel advances and timely submission of travel expenses by staff.
6. That the director of management and operations ensure names of the vendors and Volunteers receiving payments are recorded as payees.
7. That the director of management and operations obtain detailed invoices from the contractors to reconcile with the contracts and verify that the Peace Corps pays the contractors only for services actually rendered and defined in the contract.
8. That the country director obtain and retain applicable security clearances for all short-term language facilitators and cultural liaison trainers hired by the contractors during pre-service training.
9. That the director of management and operations modify the timesheets to prevent staff from carrying over more than 24 credit hours and/or claiming credit hours in excess of authorized amount.
10. That the director of management and operations formalize the process for staff to notify the supervisor before earning credit hours.
11. That the director of management and operations issue bills of collection as soon as the debt is due, as required by Peace Corps policy.
12. That the director of management and operations ensure all vendors specify value added taxes in their invoices.

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## APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

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

The audit covered fiscal years 2010, 2011, 2012, 2013, 2014 and 2015. While at the post, we interviewed key staff including the country director, the director of management and operations, staff responsible for administrative support, and the lead Peace Corps medical officer. We communicated issues and areas of improvement to senior staff at post and Peace Corps management at headquarters and included significant issues noted during our audit in this report. We primarily reviewed the following processes and associated controls:

- BOCs
- Contracts and Leases
- Cash and Non-cash Payments
- Imprest Fund
- Credit Card Transactions
- Information Technology General Controls
- Medical Supplies
- Personal Property and Vehicles
- Personal Services Contracts
- Volunteer Payments

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

Our audit criteria were derived from the following sources: Financial Accounting Standards Advisory Board's Statement on Federal Accounting Standards, the Peace Corps Manual, the Overseas Financial Management Handbook, Peace Corps Overseas Contracting Handbook, Peace Corps Personal Property Management Handbook, and other Peace Corps policies and initiatives. 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.

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## APPENDIX B: LIST OF ACRONYMS

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ATM	Automated Teller Machine
BOC	Bill of Collection
CGFS	Comptroller and Global Financial Services
DMO	Director of Management and Operations
FSC	Financial Services Center
FSN	Foreign Service National
FY	Fiscal Year
MS	Manual Section
OFMH	Overseas Financial Management Handbook
PLS	Post Logistics and Support Division
PSC	Personal Service Contractors
TEFL	Teaching English as a Foreign Language
TG	Technical Guidance
USDE	United States Dollar Equivalent
VAT	Value Added Tax

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## APPENDIX C: AGENCY RESPONSE TO THE PRELIMINARY REPORT

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**MEMORANDUM**

**To:** Kathy Buller, Inspector General

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

**From:** Keri Lowry, Regional Director, EMA   
Ken Yamashita, Associate Director, Global Operations   
Nina Favor, Country Director, PC/Indonesia

**Date:** June 14, 2016

**CC:** Carrie Hessler-Radelet, Director  
Laura Chambers, Chief of Staff  
Carlos Torres, Deputy Director  
Joaquin Ferrao, Deputy Inspector General  
Ken Yamashita, Associate Director, Global Operations  
Kristin Besch, Chief of Operations, EMA Operations  
Colin Williams, Director of Management and Operations, Peace Corps/Indonesia  
Amy Clark, Director of Programming and Training, Peace Corps/Indonesia  
Angela Kissel, Compliance Officer

**Subject:** Agency Response to the Preliminary Report of Peace Corps/Indonesia, April 2016  
(16-AUD-03)

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Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Indonesia as outlined in the Preliminary Report of Peace Corps/Indonesia sent to the Agency on April 28, 2016.

The Region and the Post have addressed and provided supporting documentation for six of the 12 recommendations provided by the OIG in its Preliminary Audit Report: Peace Corps/Indonesia, and will work to address the remaining recommendations by the set target dates.

**Recommendation 1**

**That the country director and the director of management and operations ensure sub-cashier cash counts are performed per Peace Corps policy.**

**Concur:**

**Response:** The Director of Management and Operations (DMO) will conduct unannounced sub-cashier cash counts consistently to comply with Peace Corps policy, the Sub-cashier Guide c.4 Verification of Sub-cashier Funds. The DMO will conduct unannounced cash counts to occur at least once per quarter for each sub-cashier. Full compliance will generate five cash count reports per year. The medical sub-cashier holds funds year-round, but the training team sub-cashier only holds sub-cashier funds during a 10-week Pre-Service Training held March through May each year.

**Documents Submitted:**

- Q3 FY2015 Medical Sub-Cashier Unannounced Cash Count

**Documents to be Submitted:**

- Sub-cashier Guide c.4 Verification of Sub-cashier Funds
- Q3 FY2016 Medical Sub-Cashier Unannounced Cash Count
- Q3 FY2016 Training Sub-Cashier Unannounced Cash Count

**Status and Timeline for Completion:** June 2016

**Recommendation 2**

**That the director of management and operations monitor sub-cashier activity and instruct the sub-cashier to refrain from using personal funds for business purposes by obtaining timely replenishment of funds from the cashier.**

**Concur:**

**Response:** Post's primary cashier and sub-cashiers received additional training and guidance from the Director of Management and Operations during the OIG audit using the Sub-cashier Guide c.4 Sub-cashier Responsibilities and Personal Liability document to address this recommendation. Unannounced sub-cashier cash counts conducted in Q3 FY2016 confirmed no intermingling of personal funds with Peace Corps funds had occurred. All cash on hand and paid receipts on hand equaled the sub-cashier's cash advance, and the sub-cashiers' ledgers did not include negative starting balances, indicating zero use of personal funds. Sub-cashiers are required to submit replenishment requests every two weeks or when 50 percent of the cash advance total has been spent, whichever occurs first.

**Documents to be Submitted:**

- Sub-cashier Guide c.4 Sub-cashier Responsibilities and Personal Liability
- Q3 FY2016 Medical Sub-Cashier Unannounced Cash Count
- Q3 FY2016 Training Sub-Cashier Unannounced Cash Count

**Status and Timeline for Completion:** June 2016

**Recommendation 3**

**That the country director ensure the Peace Corps medical officer order medical supplies in a timely manner from approved vendors and record all purchases in the medical inventory system.**

**Concur:**

**Response:** Beginning in November 2015, the Country Director (CD), DMO, and Peace Corps medical unit meet monthly to discuss medical supply needs and other administrative support for the medical unit. Almost all medication is now purchased in bulk at the beginning of each quarter for use the following quarter. The medical secretary uses sub-cashier funds only on very rare occasions to purchase medication for volunteers, and the practice of dispensing medication directly to patients has ceased. Regardless of purchase method, all medication procured is now entered into post's inventory by the medical assistant. The procedure for dispensing to volunteers is done according to MS734. The receipt form is filled out by the acceptance point clerk, and then the dispensed form is filled out and signed by PCMO and forwarded to the MSICC, who logs it into their inventory.

**Documents to be Submitted:**

- FY 16 MS 734 Attachment F PLS Request Forms
- FY16 Medical Inventory Workbooks
- FY16 Medical Supply Purchasing Plan

**Status and Timeline for Completion:** September 2016

**Recommendation 4**

**That the director management and operations and the Peace Corps medical officer minimize use of sub-cashier advances for medical purchases.**

**Concur:**

**Response:** The CD, DMO, and Peace Corps medical unit meet monthly to plan medical supply needs and other administrative support for the medical unit. Most medication is now purchased in bulk at the beginning of each quarter for use the following quarter. As a result, the use of sub-cashier funds to purchase medication has been greatly reduced.

**Documents to be Submitted:**

- FY 16 MS 734 Attachment F PLS Request Forms
- FY16 Medical Inventory Workbooks
- FY16 Medical Supply Purchasing Plan
- Medical Sub-Cashier Cash Ledgers

**Status and Timeline for Completion:** September 2016

**Recommendation 5**

**That the director of management and operations implement procedures to comply with Peace Corps travel policy and procedures for travel advances and timely submission of travel expenses by staff.**

**Concur:**

**Response:** The DMO implemented procedures to calculate and process travel advances for the maximum 45-day period allowed during peak periods of planned travel for pre-service training, site development, and site visits. This has reduced the number and frequency of travel advance applications.

The DMO will review the Outstanding Travel Advances report on a weekly basis to improve compliance with policy requiring clearing travel advances within five days.

**Documents to be Submitted:**

- Monthly Outstanding Travel Advances reports from FOR Post for FY2016 Q4
- PC Indonesia Guidelines and Requirements for Staff Travel Advances
- DMO email to all staff describing guidelines and requirements for travel advances

**Status and Timeline for Completion:** September 2016

**Recommendation 6**

**That the director of management and operations ensure names of the vendors and Volunteers receiving payments are recorded as payees.**

**Concur:**

**Response:** The first corrective action in response to this recommendation was to eliminate the frequent use of "Multiple Vendors" as a Payee name. Post now requires vendor data to be collected whenever possible, and payments over \$500 must be made to a specific Payee. Utility payments are now consistently disbursed separately to specific vendors.

**Documents Submitted:**

- Post Examples of Sub-Vouchers Showing Separate Payee Names for Utility Payments
- Post Examples of Sub-Vouchers Showing Separate Payee Names for PCV Payments

**Status and Timeline for Completion:** Completed, December 2015

**Recommendation 7**

**That the director of management and operations obtain detailed invoices from contractors to reconcile with contracts and verify that the Peace Corps pays contractors only for services actually rendered and defined in the contract.**

**Concur:**

**Response:** This recommendation pertains to post's Pre-Service Training general support and language training contracts. Post completed a lengthy and competitive procurement process in FY2016 Q2 to identify a new General Support Provider for Pre-Service Training and a new language school to provide Language Facilitators. Post worked with these vendors to ensure their invoices include a full breakdown supporting all costs incurred.

**Documents Submitted:**

- Invoices and Statement of Work for PST Language Facilitation
- Invoices and Statement of Work for PST General Support

**Status and Timeline for Completion:** Completed, February 2016

**Recommendation 8**

**That the country director obtain and retain applicable security clearances for all short-term language facilitators and cultural liaison trainers hired by contractors during preservice training.**

**Concur:**

**Response:** In consultation with Peace Corps' Offices of Safety and Security and Acquisitions and Contract Management, Post adopted a security clearance process approved by the Office of Safety and Security for short-term contractors working during PST. Due to the large number of short-term contractors employed during PST, the Regional Security Officer confirmed that Post was able to collect local police reports directly from the contractors instead of processing central checks through the RSO.

**Documents Submitted:**

- Country Director Security Clearance Memo for PST Community Liaisons
- Country Director Security Clearance Memo for PST Language Facilitators
- Office of Safety and Security guidance memo for Background Checks for Local staff, dated 13 August 2013
- Regional Security Officer supporting correspondence

**Status and Timeline for Completion:** Completed, March 2016

**Recommendation 9**

**That the director of management and operations modify timesheets to prevent staff from carrying over more than 24 credit hours and/or claiming credit hours in excess of authorized amount.**

**Concur:**

**Response:** The director of management and operations has required that credit hour balances be limited to 24, or 48 for full-time staff during PST. All staff are now in compliance with these limits. Each timesheet has been corrected and locked for editing to automatically limit accrual to the level allowed by Post policy.

**Documents Submitted:**

- Summary of Credit Hour Balances for All Staff, PP01-PP12 2016
- PC Indonesia Staff Handbook

**Status and Timeline for Completion:** Completed, January 2016

**Recommendation 10**

**That the director of management and operations formalize the process for staff to notify supervisors before earning credit hours.**

**Concur:**

**Response:** Post management will revise an outdated Staff Handbook by the end of FY16 to ensure Post's credit hour policies are consistent with MS 630 and MS 743 Procedures.

**Documents to be Submitted:**

- Updated Peace Corps Indonesia Staff Handbook, 2016 Version

**Status and Timeline for Completion:** September 2016

**Recommendation 11**

**That the director of management and operations issue bills of collection as soon as debts are due, as required by Peace Corps policy.**

**Concur:**

**Response:** PCVs have always been required to close their bank accounts and provide a bank statement showing VICA payments received before being cleared for final termination checkout. Collections and payments are no longer combined as one net amount, eliminating the mix of living allowance and in-country travel object classes from these calculations. Payments to PCVs are made against in-country travel obligations, and collections of unused living allowances from PCVs are made against the living allowance object class code on a prorated basis.

Early Terminations/Medical Separations that occur when the PCV is not present are calculated and deducted from their readjustment allowance using VESI in OdyWeb. The director of management and operations also requests that PCVs departing for medical evacuation leave their local ATM card locked in the director of management and operation's office to expedite account closures and final calculations should the PCV not be cleared to return to Post. The Director of Management and Operations will ensure bills of collection are issued as soon as debts are known by instructing the collections officer to create a bill of collection for the volunteer on the date of their termination.

**Documents Submitted:**

- Volunteer ET Financial Checkout Calculation Sheets
- FOR Post Bill of Collection Reports

**Status and Timeline for Completion:** Completed, January 2016

**Recommendation 12**

**That the director of management and operations ensure all vendors specify value added taxes in their invoices.**

**Concur:**

**Response:** While Peace Corps now has its own technical cooperation status, until a decree from the President of Indonesia confirms that Peace Corps Indonesia is exempt from paying value added tax, Post will continue to submit VAT reimbursement claims to the Embassy. Post will issue bills of collection when applying for reimbursement to track accurately the amount due to Peace Corps. Post is focusing on obtaining VAT-inclusive invoices consistently from pharmacies, utilities, and commercial lease landlords. Not all vendors can collect VAT, so Post is also coordinating with the U.S. Consulate's Management Office to identify additional vendors that can submit invoices that include VAT.

**Documents to be Submitted:**

- VAT Eligible Invoices greater than USDE \$220
- Bills of Collection for VAT Reimbursement Requests

**Status and Timeline for Completion:** September 2016

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## APPENDIX D: OIG COMMENTS

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Management concurred with all 12 recommendations. In its response, management described actions it is taking, or intends to take, to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact. All 12 recommendations remain open. We will review and consider closing these recommendations when the documentation reflected in the agency's response to the preliminary report is received.

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## **APPENDIX E: CRITERIA USED TO SUPPORT ISSUES IN THE REPORT**

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### **Federal Requirements**

#### **STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT**

The Government Accountability Office (GAO)'s Internal Control Management and Evaluation Tool states

Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud.

No one individual is allowed to control all key aspects of a transaction or event, and the responsibilities and duties involving transactions and events are separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial functions and handling of related assets. Duties are assigned systematically to a number of individuals to ensure that effective checks and balances exist. Where feasible, no one individual is allowed to work alone with cash, negotiable securities, or other highly venerable assets.

### **Peace Corps Requirements**

#### **OVERSEAS FINANCIAL MANAGEMENT HANDBOOK**

##### **13.18.2 Interim Advances**

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.

##### **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

### 13.18.1 Advances to the Subcashier and Alternate Cashier Alternate Cashier

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.

### 25.4 Reporting and Reconciliation

Global Accounts Payable records payments made against Post allotments from the monthly FSC VADR (Voucher Audit Detail) accounting reports and the liquidations are synced to FOR Post. Posts should monitor these liquidations by using the sync reports.

Liquidations will not appear by individual employee, they will be recorded as a lump sum for each object class within each pay period). However, posts can obtain detailed information from the FSN Payroll Expenditure Report available in FOR Post. This report was developed so Posts can reconcile detailed payment data to the actual payments for each FSN and tie back to the summary USDE amounts per pay period charged to FSN salary and benefits obligations. This report is modeled after FSC's FSN Payroll System Payroll Expenditure Report, which some posts may receive from the Embassy.

There are two versions of this report, detail by employee and by object class. The information on each version of the report includes: FSN name, Peace Corps object class, currency, pay scale, grade/step, annual pay rate, allowance rate, hours worked in pay period (PP), normal bi-weekly pay, adjustments to pay amounts and Fiscal Year to Date (YTD) Totals. Pay and YTD totals are shown in both LCU and USDE.

Post:

1. Review the FOR Post *FSN Payroll Expenditure Report by Employee Name each pay period*
2. Confirm that all staff on the report are: active staff, worked or had approved leave for that period and are being paid at the correct rate for their grade/step.
3. Contact the Embassy Payroll/Human Resources representative to make a correction if any information is incorrect or missing. Corrections will appear in the "Adjust" column on a future report.
4. Compare the *FSN Payroll Expenditure Report by Employee Name* to each FSN Earnings and Leave Statement (provided by the Embassy). If there are any discrepancies between the two reports, contact FOR Post Support via Track-It.
5. Record the reconciliation status in FORPost. See FORPost Help for detailed guidance. Note: If the Admin unit is not currently getting a copy of the Earnings and Leave Statements each pay period, you should request them from the Human Resources office at your Embassy.

## PEACE CORPS MANUAL

### MS 221 Volunteer Allowances

#### 5.0 Volunteer Living Allowance

##### 5.1 Policy

Volunteers are entitled to a living allowance in order that they may serve effectively and safely overseas. It is Peace Corps policy that Volunteers live modestly by the standards of the people they serve, yet not in a manner that would endanger their health or safety. Living allowances should be based on local living standards and costs and will thus vary among, and sometimes within, countries.

Each post should establish a base living allowance according to the categories outlined in Section 5.2. Supplements to the base living allowance may be added on a per Volunteer basis to cover housing, utilities, locality supplements, and Peace Corps Volunteer Leader supplements, as detailed in Section 5.3.

PCRVs receive a living allowance similar to other Volunteers in that country. Post may use an existing Volunteer survey to determine a PCRV living allowance or conduct a new survey if necessary.

#### 7.0 Billings, Collections and Deposits

##### 7.2 The Billing Process

Billing Officers prepare Bills of Collection (BOCs) when a reimbursement or other payment is due to Peace Corps. Common reasons include reimbursement to Peace Corps for a debt, reimbursement for personal phone calls or personal use of vehicles, host country contributions . . . , or proceeds of sales . . . .

#### 5.9 Overpayments at End of Service

Collections that cannot be made from the Volunteer at post or from the Readjustment Allowance will be pursued using the claims procedures set out in MS 777, *Billing and Collection Procedures, Debts, and Claims*.

### MS 777, Billing and Collection Procedures, Debts, and Claims

If an individual terminates his association with Peace Corps before settlement of an indebtedness, the initial billing activity will continue to press for payment by setoff or by direct contact. The indebtedness remains with the initial billing activity and Peace Corps accounts even though it may request collection assistance from the Director, Accounting Division, (M/FM/A) or another Agency. When all possibilities for follow-up have been exhausted the billing activity will apply the other settlement procedures mentioned later or transfer the indebtedness to Peace Corps/Washington for both accounting control and collection.

#### 22.1 Cash or Other Remittance

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.

#### 4.8.1.1.3 Credit Hours

##### MS 743 Procedures - 10.8 Credit Hour Policy

The Country Director, at his or her discretion, may establish a written credit hour policy for personal services contractors in accordance with Manual Section 630, section 4.8.1.1.8. The credit hour policy, if established, should be thoroughly explained to the personal services contractor upon contract signing.

##### MS 630 - 4.8.1.1.3 Credit Hours

Credit hours are those hours which an employee under the maxiflex schedule elects to work in excess of his or her basic work requirement, i.e., 80 hours per pay period for full-time employees, and which may be used to vary the length of a succeeding workweek or workday. A full-time employee may carry over no more than twenty-four (24) credit hours into a succeeding pay period; a part-time employee may carry over no more than one-fourth of his or her biweekly basic work requirement, not to exceed 24 hours.

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## APPENDIX F: AUDIT COMPLETION AND OIG CONTACT

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### AUDIT COMPLETION

This audit was conducted under the direction of Assistant Inspector General for Audit Judy Leonhardt by Lead Auditor Hal Nanavati and Auditor Ann Lawrence.



### 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@peacecorpsig.gov](mailto:jleonhardt@peacecorpsig.gov) or 202.692.2914.

# Help Promote the Integrity, Efficiency, and Effectiveness of the Peace Corps

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.

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