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To: Carrie Hessler-Radelet, Director
Keri Lowry, Regional Director, EMA
Daljit Bains, Chief Compliance Officer

From: Kathy A. Buller, Inspector General

Date: February 5, 2015

Subject: Final Report on the Audit of Peace Corps/Nepal
(IG-15-02-A)

Transmitted for your information is our final report on the Audit of Peace Corps/Nepal.

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

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

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914.

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

cc: Jacklyn Dinneen, White House Liaison
Rudy Mehrbani, General Counsel
Carlos Torres, Associate Director, Global Operations
Paul Jung, Associate Director, Office of Health Services
Nancy Gehron, Chief Administrative Officer, EMA
Kristin Besch, Chief of Operations, EMA
Nelson Chase, Country Director, Nepal
Troy Kofroth, Director of Management and Operations, Nepal
Patrick Choquette, Director of Innovation
Anne Hughes, Deputy Chief Compliance Officer
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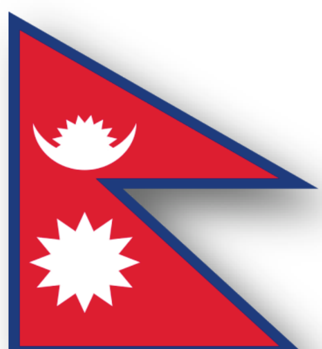
East Asia Desk

Peace Corps
Office of Inspector General

Peace Corps/Nepal staff and OIG auditors at the Peace Corps office in Kathmandu, Nepal



Flag of Nepal

Final Audit Report:
Peace Corps/Nepal
IG-15-02-A

February 2015

EXECUTIVE SUMMARY

BACKGROUND

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Nepal (hereafter referred to as “the post”) from March 10–21, 2014. The post re-opened in January 2012, after closing in 2005, due to safety and security concerns for Volunteers. Nearly 4,000 Peace Corps Volunteers have served in Nepal since the program’s inception in 1962.

Staff:
- U.S. direct hires: 3
- Personal services contractors: 19

Funds (approx.):
- Fiscal Year (FY) 2013 post spending - $1.2 million
- Average regional overhead - $409,000

Map of Nepal

WHAT WE FOUND

The post, despite having only been open for a little over two years, is very high functioning. We found the financial and administrative operations were effective and complied with agency policies and applicable federal laws and regulations. However, there are a few areas in need of improvement: the post neither de-obligated prior period fund obligations nor complied with the agency’s policy for disposal of excess property.

RECOMMENDATIONS IN BRIEF

Our report contains two recommendations directed to the post, including: that the post comply with agency policies when disposing of excess property and that the post coordinate with the Office of Budget and Analysis to de-obligate funds relating to pre-service training.

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BACKGROUND

OIG conducted an audit of the post March 10–21, 2014. In 2005, the Peace Corps closed the Nepal program due to safety and security concerns for Volunteers. By January of 2012, the Peace Corps re-established the Nepal program.

Nearly 4,000 Peace Corps Volunteers have served in Nepal since the program's inception in 1962. At the time of our audit, 38 Volunteers were working in the agriculture sector. The post had three U.S. direct hires and 19 personal services contractors. The post's FY 2013 spending was approximately $1.2 million. In addition, at headquarters, the Europe, Mediterranean and Asia region incurred an average of approximately $409,000 per overseas post.[1]

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

AUDIT RESULTS

OBLIGATIONS

The post did not ensure that funds were de-obligated in a timely manner.

Peace Corps policy specifies that unliquidated (outstanding) obligations should be reviewed at least quarterly and again as of September 30th to determine if obligations need to be adjusted (*Peace Corps Manual* section (MS) 753.8.2). These adjustments include contract modifications, reducing the amounts for unbilled obligations based on previous payments, or de-obligating funds that have completed payments. Policy further states "Normally, obligations outstanding at the end of a fiscal year should be settled within a relatively short period after September 30th and final adjustments made" (MS 753.8.3). Three times a year, the headquarters budget analyst reviews the open obligation summary report and requests the post provide projected closure dates for the open obligations and an explanation as to why the obligations are open.

We reviewed the February 2014 open obligation summary report and determined that both headquarters and the post did not take timely action to de-obligate funds totaling $34,194 U.S. dollar equivalent (USDE) for pre-service training and fuel. It is important to de-obligate funds so that the agency's financial liability is reduced. The post's budgeted obligations are financed using Peace Corps funds, but these costs are reimbursed through an inter-agency agreement with U.S. Agency for International Development. If unused obligations are not de-obligated in a

[1] The agency was unable to provide the total cost per post 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 $8.2 million incurred by the Europe, Mediterranean, and Asia region in direct support of its 20 overseas posts in FY 2013, which is an average of $409,000 per post.

timely manner, the Peace Corps is unable to use these funds before they expire. Additionally, reviewing, adjusting, and liquidating obligations are necessary in order to create efficiency and effectively manage agency funds.

Pre-Service Training. The post had six open obligations for staging costs related to Peace Corps trainees' in-country travel and lodging totaling $23,579 USDE. Per the director of management and operations (DMO), the costs for trainees are paid by the post; however, the obligations are created and liquidated by headquarters. The pre-service training occurred at the end of the fourth quarter in FY 2013, but the obligations were not liquidated as of the end of the end of the third quarter in FY 2014.

Fuel. The post had three open obligations for fuel totaling $10,615 USDE. The post did not de-obligate the prior period fund obligation. As of the end of the end of the third quarter in FY 2014, these obligations had been closed.

We recommend:

1. **That the director of management and operations work with the Office of Budget and Analysis to comply with policy to conduct quarterly reviews of open obligations and regularly adjust and liquidate obligations when payment is complete.**

PROPERTY MANAGEMENT

The post did not provide adequate oversight of the sale of excess property.

MS 711.5.4 states that post is responsible for maintaining the necessary records to support the acquisition, transfer (to and from Post), and disposal of assets within the custody of the post. The post provided excess property to the U.S. Embassy, which conducted three auctions between December 2012 and December 2013. The post had a process to prepare a list excess property to be auctioned and provide the embassy with fiscal coding information for the proceeds of any sales made. However, the post did not reconcile the original list of transferred property to the unsold items at the auction house. We noted discrepancies between the embassy's and the post's auction records. The post sent a total of 365 items for auction; however, the embassy's sales accounted for only 307 items. Per the DMO, the differences were a result of the embassy reclaiming embassy-owned property that was provided to post to help set up the post when it was being re-opened. Policy states, property that is transferred to another federal agency needs to be recorded in BarTracks, the Peace Corps' asset tracking system, and documented using forms SF-120 "Report of Excess Personal Property" and the SF-122 "Transfer Order Excess Personal Property (*Personal Property Management Handbook*). Without proper oversight, it is difficult to ascertain if the agency received the appropriate amount for the excess property sold.

We recommend:

2. **That the director of management and operations develop a process to reconcile the lists of items sold to items sent to the embassy and comply with policy to complete the necessary documentation for items transferred.**

OTHER AREAS OF CONCERN

The post's medical supply inventory was not current or complete.

The post's medical supply inventory system did not have accurate amounts for two out of 18 medical supplies classified as specially designated because the medical supply inventory control clerk misinterpreted the quantity listed on the receiving report. During the physical verification of medical supplies, we noted that quantities for two specially designated medical supplies listed in the medical inventory system were overstated. Without an accurate medical inventory system, the post increases the risk of theft or misuse of medical supplies.

We did not issue a recommendation to the post regarding medical supplies because the post corrected the errors.

The post did not abide by the five year contract terms for leasing the main office building.

The Peace Corps Act (22 USC 2509 (c))defines the five year contract authority. Furthermore, MS 733.5 states, "Leases may be awarded for up to, but not to exceed five years, subject to the availability of funds for obligation at the time of contract execution." Despite Peace Corps policy, the post entered into an office property lease for five years and one month. The contract outlines the option year term extension as October to September. However, the contract lease began in September 2012, when the post accepted the premises as being ready for occupancy and with an option year extension to September 2017. By extending the contract over five years, the post was noncompliant with federal regulations that restrict multi-year contracts from exceeding five years. During the audit, the post modified the property office lease to a maximum contract term of five years.

List of Recommendations

We recommend:

1. That the director of management and operations work with the Office of Budget and Analysis to comply with policy to conduct quarterly reviews of open obligations and regularly adjust and liquidate obligations when payment is complete.

2. That the director of management and operations develop a process to reconcile the lists of items sold to items sent to the embassy and comply with policy to complete the necessary documentation for items transferred.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

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

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

The audit of PC/Nepal covered all information from January 2012 through March 21, 2014. While at the post, we interviewed key staff including the country director, DMO, staff responsible for administrative support, and Peace Corps medical staff. We communicated issues and areas of improvement to post senior staff and Peace Corps management at headquarters, and included significant issues noted during our audit in this report. We primarily reviewed the following processes and associated controls:

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

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

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

APPENDIX B: LIST OF ACRONYMS

DMO	Director of Management and Operations
FY	Fiscal Year
MS	Peace Corps Manual Section
OIG	Office of Inspector General
USDE	United States Dollar Equivalent

APPENDIX C: CRITERIA USED TO SUPPORT ISSUES IN THE REPORT

Peace Corps Requirements

THE PEACE CORPS MANUAL

MS 711.5.4, "Posts" states, "(e) Maintains the necessary records to support the acquisition, transfer (to and from Post), and disposal of assets within the custody of the Post."

MS 733.5.0, "Contract Term" states, "Leases may be awarded for up to, but not to exceed five years, subject to the availability of funds for obligation at the time of contract execution."

MS 753.8.2, "Nature of Review" states

> Unliquidated (outstanding) obligations should be reviewed at least quarterly, particularly for the 3rd quarter budget review and as of September 30 to determine whether:
>
> - payments have been completed and, therefore, any outstanding balance should be de-obligated;
> - in the case where payments have not been completed, an adjustment in the obligation should be made on the basis of previous payments plus payments expected to be made;
> - other information indicates that the recorded obligation should be adjusted by amending documentation in the case of contracts, purchase orders, etc.;
> - and they are appropriately recorded.

MS 753.8.3, "Prior Year Funds" states, "Normally, obligations outstanding at the end of a fiscal year should be settled within a relatively short period after September 30 and final adjustments made. Further reporting may then be discontinued in accordance with the following paragraph."

PROPERTY MANAGEMENT HANDBOOK

"Excess Property and Property Disposal: Transfer" states

> The most preferred method of disposal is transfer to another Peace Corps office or to another US government agency. While this is not always an option for Posts, it should be explored when possible. RROs should work with their local GSA office on best methods of transfer and/or disposal.
>
> **Documenting the transfer—**Property that is transferred to another federal agency or to another Peace Corps office must have its BarTracks record updated by two weeks after the transfer date.
> The method of disposal selected should be "Transfer" and the "Recipient" should be listed as whatever agency or Peace Corps office took possession of the asset.
> The office must also complete the SF-120 "Report of Excess Personal Property" and the SF-122 "Transfer Order Excess Personal Property".

Appendix D: Questioned Costs and Funds to be Put to Better Use

We identified funds to be put to better use during the course of the audit.

Funds Put to Better Use

Recommendation Number	Description	Amount
1	Unliquidated obligations for pre-service training and fuel	$34,194

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

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

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

APPENDIX E: AGENCY'S RESPONSE TO THE PRELIMINARY REPORT

Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Daljit K. Bains, Chief Compliance Officer

From: Keri Lowry, Regional Director
Nelson Chase, PC Nepal

Date: January 22, 2015

CC: Carrie Hessler-Radelet, Director
Laura Chambers, Chief of Staff
Joaquin Ferrao, Deputy Inspector General
Judy Leonhardt, AIG/Evaluations
Carlos Torres, Associate Director, Global Operations
Keri Lowry, EMA Regional Director
Kris Besch, EMA Chief of Operations
Nancy Gehron, EMA Chief Administrative Officer
Stacey Ann Ferguson, CDO Southeast Asia
Joseph Hepp, Chief Financial Officer

Subject: Agency Response to the Preliminary Report on the Audit of Peace Corps/Nepal (Project No. 14-AUD-04)

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Nepal, outlined in the Preliminary Report sent to the Agency on December 11, 2014.

EMA Region concurs with the 2 recommendations directed to PC/Nepal by the Office of the Inspector General (OIG) in its preliminary Audit report. Post has addressed and provided supporting documentation for both of the recommendations.

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

Recommendation 1

That the director of management and operations work with the Office of Budget and Analysis to comply with policy to conduct quarterly reviews of open obligations and regularly adjust and liquidate obligations when payment is complete.

1

Concur

Response: Post has reconciled the specific open obligations referenced in the preliminary audit report and has implemented an on-going quarterly review of open obligations. Currently, the guidance within Manual Section 753.8.3 specifies that unliquidated obligations should be reviewed at least quarterly. The Office of Budget and Analysis will update this manual section to reflect that open obligations are required to be reviewed three times per year, not quarterly. The Office of Budget and Analysis anticipates that this change will occur by May 2015.Post coordinates with the Office of Budget and Analysis on Open Obligation Reviews tri-annually in an official open obligation review exercise.

Guidance from OCFO was circulated to Posts on October 29, 2014, which outlines the review schedule for open obligations. This guidance has been included for this recommendation.

Documents Submitted:

- Results of Most Recent Open Obligation Review, completed 11-14-2014.

Documents to be Submitted: Updated Manual Section, 753.8.3

Status and Timeline for Completion: Anticipated completion by the Office of the Chief Financial Officer (OCFO) by May, 2015.

Recommendation 2

That the director of management and operations develop a process to reconcile the list of items sold to the embassy and comply with policy to complete the necessary documentation for items transferred.

Concur

Response: Post has developed a Standard Operating Procedure for transferring, selling, and reconciling items sent to the embassy for disposal.

Documents Submitted:

- Standard Operating Procedure titled "Process for disposition of items through the U.S. Embassy Auction and Reconciliation of Property Sent to the U.S. Embassy with Auction Results"

Status and Timeline for Completion: Completed on January 6, 2015

Appendix F: OIG Comments

Management concurred with both recommendations. Both 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. 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 G: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This audit was conducted under the direction of former Assistant Inspector General for Audits Bradley Grubb by Lead Auditor Rebecca Underhill. Additional support was provided by Auditor Renita Davis.

Judy Leonhardt
Assistant Inspector General for Audits

OIG CONTACT

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

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