



# Limited Scope Audit Peace Corps/China

Final Report No. IG-12-06-A  
August 2012

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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In Fiscal Year (FY) 2012, the Office of Inspector General (OIG) Audit Unit conducted reviews of 15 overseas posts. The objective of these reviews was to identify weak controls, report on areas of noncompliance, and assess financial and administrative risks. The reviews were also used to inform OIG of overseas posts that have high risks and weak controls. OIG used the reviews to plan its overseas posts audits and scheduled its site visits to target the high risk areas. The posts visited by auditors will receive a full audit and report. Based on the review, auditors determined that a site visit to Peace Corps/China (hereafter “the post”) was not necessary. This report communicates the results of the review to enable the post and its regional management (Region) to better assess and enhance its financial and administrative controls.

The auditors primarily relied on information from headquarters management offices covering fiscal years 2010, 2011, and 2012. Our scope included vouchering, bills of collection, purchase and travel cards, staff security certifications, leases, property, medical supplies, and vehicles.

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.

Management concurred with all seven recommendations. As a result, we closed two recommendations. The remaining five recommendations will remain open pending confirmation from the chief compliance officer that the documentation reflected in Appendices A and B is received.

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## BACKGROUND

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Map of China, Source: The World Factbook

The first group of Volunteers arrived in China in 1993. At the time of our review, 162 Volunteers were working in the education sector. The post had three U.S. direct hires, 23 Personal Service Contracts (PSCs), and 1 short-term PSC. The Peace Corps’ Congressional Budget Justification FY 2013 shows the post’s budget was approximately \$3.0 million in FY 2012.

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## AREAS OF IMPROVEMENT

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### IMPREST FUND

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We verified that the cashier was properly appointed. We confirmed that the post conducts monthly imprest fund reconciliations. However, based on review of the last six months of imprest fund reconciliations, we determined that interim advances were not always returned timely. In January 2012, the post's management instructed staff to clear travel advances within three days.

We also found that the post used a revolving advance to cover medical care and supplies. The Peace Corps' *Overseas Financial Management Handbook* (OFMH) section 13.18 states:

As the sub-cashier makes payments, he or she will exchange paid receipts for additional cash at least once each month."

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 post's management explained that medical office required cash on hand to pay up-front costs associated with medical care for Volunteers. Instead of requesting an interim advance from the cashier each time a Volunteer required services from local hospitals, the medical officer would use the cash from the monthly interim advance. The medical officer would provide the cashier with receipts for the paid medical services and the cashier would reissue the interim advance. By receiving a routine amount of cash the medical office staff operated as a sub-cashier and not an occasional money holder.

**We recommend:**

1. That the post discontinue the use of a revolving interim advance by either receiving approval from Office of Global Accounts Payable for a sub-cashier or issuing interim advances only as needed for specific purchases.

### VALUE ADDED TAX

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A review of the post's bills of collection shows that the post is not receiving reimbursement for taxes paid. According to the country agreement, Peace Corps is exempt from taxes paid in China:

The Government of China will exempt from all taxes (including the value-added tax on vehicles), customs duties, and other charges all Program equipment and supplies introduced into or acquired in China by the Government of the United States, or any contractor financed by it, for use hereunder.

China's value added tax (VAT) rate is set at 17 percent, with a reduced rate of 13 percent that applies to products such as books and types of oils. The post discussed the possibility of filing

VAT refunds with the U.S. Embassy. However, because Peace Corps is not registered as a diplomatic agency with the China tax authority, the post cannot use the same method of claiming reimbursement as the U.S. Embassy.

**We recommend:**

2. That the post pursue obtaining Value Added Tax refunds from the Chinese Government.

## **MEDICAL SUPPLIES**

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The post submitted its annual inventory to the Office of Medical Services. The inventory was signed by the medical clerk, the cashier serving as the medical supply inventory control clerk (MSICC), and the director of management and operations. The post elected to use its own format for the medical supply inventory. The post's inventory tracked medical supplies purchased, dispensed, and disposed. However, the inventory did not include information about the physical count and the results of the physical verification. *Peace Corps Medical Technical Guideline 240*, "Medical Supplies and Equipment," includes the official inventory workbook as an attachment and states:

This "Control Log" is an electronic Excel spreadsheet provided by VS and is required to capture all documentation collected on the forms PC-734A, PC-734B, PC-734D, and PC-734E. The Inventory Workbook is the official inventory record for post and is maintained by the MSICC.

**We recommend:**

3. That the medical supply inventory control clerk update the medical supply inventory to include results of the physical count and a comparison of the recorded amounts or use the medical supply inventory workbook from the *Peace Corps Medical Technical Guideline 240*.

## **PURCHASE AND TRAVEL CARDS**

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*Peace Corps Manual* section (MS) 731 paragraph 3.1 states, "It is the policy of the Peace Corps for employees to use a bank issued credit card (Purchase Card) for the purchase of goods and services to the maximum extent practicable..." This is consistent with federal policies to provide a streamlined procurement method that saves government agencies time and administrative costs. According to the post's management most vendors in China will not accept electronic funds transfers or American credit cards for purchases. During our review of FY 11 imprest payments we noted several vendors that were paid over \$1,000 each from the imprest fund. Although vendors may be reluctant to accept electronic payment, the post should continue to make the request and follow-up to ensure that the vendors have not changed their policy.

The post used its travel card to charge airline and other transportation costs. The monthly travel card statements were reviewed and approved by the country director in hard copy form and sent to the chief administrative officer for the Europe, Mediterranean, and Asia region at

headquarters for electronic approval. However, the statements should be approved by the country director electronically in the Citibank card management system. The post explained that poor Internet connectivity made electronic approval difficult, so the country director reviewed hard copy versions of the statements. Recent changes to the information technology at the post may improve the connectivity and allow the country director to electronically approve the travel card statements.

**We recommend:**

4. That the director of management and operations continue to pursue the increased use of the electronic fund transfers and purchase card for routine payments by following up with the vendors that are paid most often with imprest funds and request to use an electronic payment method.
5. That the country director determine whether electronically approving travel card statements is feasible given the information technology limitations. If feasible, the country director should discontinue the hard copy review and approve travel card statements in the Citibank system.

## **SECURITY CERTIFICATIONS**

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

Prior to executing a Personal Services Contract with a host country resident for a contractual term of service of fewer than 260 work days (short-term PSC), the following administrative process must be completed and documented. The Contracting Officer must ensure that:

- (1) an appropriate check with relevant law enforcement entities concerning the proposed contractor is completed and documented;
- (2) the appropriate reference and previous employment checks are conducted;
- (3) the proposed contractor's name is submitted to the U.S. Embassy for Embassy Name Checks (no exterior checks); and
- (4) the Contracting Officer must review this information prior to contract execution.

Using the payment records we were able to develop a list of all PSCs paid in FY 2011 and 2012. We compared the names of paid PSCs to the Office of Safety and Security's database used to track all security certifications for PSCs. We were able to match 49 PSCs. We selected a sample of 20 PSCs and verified that a copy of the security certification was signed, current, and maintained in the Office of Safety and Security's application.

However, post did not have a security certification for a PSC paid \$879 through the imprest fund in FY 2012. The individual was also paid by the post in FY 2009 and 2012. Although the individual worked for the post on a limited basis, it is important that all PSCs receive proper certification or background checks, especially if they are frequently contracted with Peace Corps. MS 743.8.3 states that the process for checking short-term contractors' criminal history and references "must be repeated every three years for any short-term PSC contracting with Peace Corps on a recurring basis." According to the post's management, the individual was

previously a PSC, then casual labor as needed. Currently the individual will be serving as a backup Peace Corps medical officer and the post has initiated the security certification process.

**We recommend:**

6. That the director of management and operations obtain the security certifications for its short term personal service contracts and submit the appropriate documentation to the Office of Safety and Security.

## **GRANT PROGRAMS**

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The post had a total of six Volunteers use \$8,824.24 in Peace Corps partnership funds beginning in March 2009. The projects were for reasonable amounts and involved estimated community contributions of over 45 percent. However, two of the projects were approved in May 2011 but have not been closed. The post provided documentation showing that one of the two had been canceled. The other project had not yet been completed and the post is working with the Volunteer to implement it.

**We recommend:**

7. That the post follow up on outstanding Peace Corps Partnership Project grants and ensure Volunteers submit final reports once projects are complete.

## **OTHER AREAS REVIEWED**

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We reviewed additional documentation at headquarters including bills of collection, leases, vehicle reports, Volunteer allowance surveys, and vouchers. We did not identify any significant issues or weaknesses. However, we did note the following issues already addressed by the post's management:

- Based on our review of bill of collection logs we noted that the post had recorded bills of collection with Peace Corps/China as the debtor. The post discontinued this practice in FY 2011.
- The post submitted its FY 2011 Administrative Management Control Survey (AMCS) to headquarters and self identified areas of weakness related to general services, such as filing travel vouchers timely, conducting annual inventories, and reviewing itemized phone bills. The post has taken steps to improve these areas.

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## LIST OF RECOMMENDATIONS

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**We recommend:**

1. That the post discontinue the use of a revolving interim advance by either receiving approval from Office of Global Accounts Payable for a sub-cashier or issuing interim advances only as needed for specific purchases.
2. That the post pursue obtaining Value Added Tax refunds from the Chinese Government.
3. That the medical supply inventory control clerk update the medical supply inventory to include results of the physical count and a comparison of the recorded amounts or use the medical supply inventory workbook from the *Peace Corps Medical Technical Guideline 240*.
4. That the director of management and operations continue to pursue the increased use of the electronic fund transfers and purchase card for routine payments by following up with the vendors that are paid most often with imprest funds and request to use an electronic payment method.
5. That the country director determine whether electronically approving travel card statements is feasible given the information technology limitations. If feasible, the country director should discontinue the hard copy review and approve travel card statements in the Citibank system.
6. That the director of management and operations obtain the security certifications for its short term personal service contracts and submit the appropriate documentation to the Office of Safety and Security.
7. That the post follow up on outstanding Peace Corps Partnership Project grants and ensure Volunteers submit final reports once projects are complete.

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## AGENCY RESPONSE

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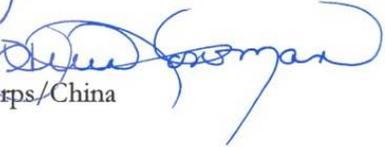


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### MEMORANDUM

**To:** Kathy Buller, Inspector General

**Through:** Daljit Bains, Chief Compliance Officer 

**From:** Helen Lowman, EMA Regional Director   
Bonnie Thie, Country Director, Peace Corps/China

**Date:** June 18, 2012

**CC:** Stacy Rhodes, Chief of Staff/Chief of Operations  
Carrie Hessler-Radelet, Deputy Director  
Joaquin Ferrao, Deputy Inspector General  
Esther Benjamin, Associate Director for Global Operations  
Joseph Hepp, Chief Financial Officer  
Lisa Bilder, Chief of Acquisitions and Contract Management  
Brenda Goodman, Associate Director Volunteer Support  
David Burgess, Chief of Operations, EMA Region  
Maura Fulton, Chief of Programming and Training, EMA Region  
Jake Sgambati, Chief Administrative Officer, EMA Region

**Subject:** Agency Response to the Preliminary Limited Scope Report on the Audit of Peace Corps/China, May 2012

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Enclosed please find the EMA Region's response to the recommendations made by the Inspector General for Peace Corps/China, as outlined in the Preliminary Limited Scope Report sent to the agency in May 2012.

The EMA Region concurs with all seven recommendations provided by the OIG in its Preliminary Limited Scope Report on the Audit of Peace Corps/China. Post has included documentation as necessary. Post will work to address all other recommendations by the set target dates.

## APPENDIX A

The EMA Region will continue to work with Post and the departments identified in the Preliminary Limited Scope Report on the Audit of Peace Corps/China to ensure closure of these recommendations by the dates included within for outstanding recommendations. The PC/China staff and the EMA Region welcome the opportunity to continue to improve. We appreciate the insight and information provided by the Peace Corps Office of the Inspector General.

### **Recommendations and Responses**

**01. That the post discontinue the use of a revolving interim advance by either receiving approval from Office of Global Accounts Payable for a sub-cashier or issuing interim advances only as needed for specific purchases.**

**Concur:**

Post has asked for approval from OGAP for a Medical Unit sub-cashier (non-US PSC). Contract modifications will be made to reflect a designation of sub-cashier duties. Post will seek approval from the Office of Global Accounts Payable for this designation.

**Documents to be Submitted:**

- 1) Amended contract reflecting the addition of sub-cashier duties.
- 2) Request to the Office of Global Accounts Payable for the designation as a sub-cashier.
- 3) Delegation from Office of Global Accounts Payable showing approval.

**Status and Timeline for Completion:**

August 1, 2012

**02. That the post pursue obtaining Value Added Tax refunds from the Chinese Government.**

**Concur:**

Post will continue to pursue obtaining Value Added Tax refunds from the Chinese Government.

**Documents to be Submitted:**

- 1) Post will formally request that the US Consulate in Chengdu raise the matter again with the Chinese authorities through diplomatic channels.

**Status and Timeline for Completion:**

January 1, 2013

**03. That the medical supply inventory control clerk update the medical supply inventory to include results of the physical count and a comparison of the recorded amounts or use the medical supply inventory workbook from the *Peace Corps Medical Technical Guideline 240*.**

**Concur:**

Post now uses the supply inventory workbook from the Peace Corps Technical Guideline 240.

## APPENDIX A

### **Documents to be Submitted:**

1) A copy of the medical supply inventory workbook from the medical offices of Peace Corps China.

### **Status and Timeline for Completion:**

June 2012

**04. That the director of management and operations continue to pursue the increased use of the electronic fund transfers and purchase card and for routine payments by following up with the vendors that are paid most often with imprest funds and request to use an electronic payment method.**

### **Concur:**

Administration will continue to pursue payment via electronic funds transfer for routine payments with vendors Post does business with most frequently. See attachment to email.

### **Documents to be Submitted:**

1) Results of queries to frequent vendors to post regarding EFT possibilities.  
2) FOR Post vendor report with common vendors designated for EFT payment method.

### **Status and Timeline for Completion:**

August 1, 2012

**05. That the country director determine whether electronically approving travel card statements is feasible given the information technology limitations. If feasible, the country director should discontinue the hard copy review and approve travel card statements in the Citibank system.**

### **Concur:**

After the new DMO arrives in July 2012, the Country Director will resume approving the electronic travel card statement, provided internet connectivity allows timely approval. Currently, the Country Director is the sole purchase and travel card holder at Post, and, as such, must rely on the CAO to approve the statements.

### **Status and Timeline for Completion:**

July 31, 2012

**06. That the director of management and operations obtain the security certification for its short term personal service contracts and submit the appropriate documentation to the Office of Safety and Security.**

### **Concur:**

Post obtained the security certification for the PSC in question and has submitted the appropriate documentation to the Office of Safety and Security.

### **Documents Submitted:**

1) Security certification from RSO at US Consulate in Chengdu.

## APPENDIX A

### **Status and Timeline for Completion:**

May 2012

**07. That the post follow-up on outstanding Peace Corps Partnership Project grants and ensure Volunteers submit final reports once projects are complete.**

### **Concur:**

The PCV with the outstanding PCPP grant completed the project and will submit all final documents before Close of Service.

### **Documents to be Submitted:**

1) PCPP grant close-out paperwork.

### **Status and Timeline for Completion:**

September 1, 2012

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## OIG COMMENTS

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Management concurred with all seven of the recommendations. As a result, we closed two recommendations. The remaining five recommendations will remain open pending confirmation from the chief compliance officer that the documentation listed in the agency's response is received through the TeamCentral recommendation tracking system.

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.

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## AUDIT COMPLETION AND OIG CONTACT

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### AUDIT COMPLETION

Assistant Inspector General for Audit Bradley Grubb performed the limited scope audit of Peace Corps/China.



Bradley Grubb

Assistant Inspector General for Audit

### OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please email Assistant Inspector General for Audit Bradley Grubb at [bgrubb@peacecorps.gov](mailto:bgrubb@peacecorps.gov), or call him at (202) 692-2914.

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