




Office of Inspector General

Office
202.692.2900
peacecorps.gov/OIG
[OIG Reports](#)

Hotline
202.692.2915 800.233.5874
[Online Contact Form](#)
OIG@peacecorps.gov

To: Carrie Hessler-Radelet, Acting Director
Daljit Bains, Chief Compliance Officer

From: Kathy A. Buller, Inspector General 

Date: February 27, 2013

Subject: Final Report on the Audit of Peace Corps/Malawi
(IG-13-02-A)

Transmitted for your information is our final report on the audit of Peace Corps/Malawi.

Management concurred with all 14 recommendations. Based on management's response we revised recommendation number 4 to provide the post with the possibility of closing the recommendation if the replacement checks cannot be collected from the government of Malawi and we removed the Office of Global Operations from recommendation 5. We closed five recommendations (numbers 1, 2, 7, 8, and 12) based on a review of corrective actions and supporting documentation. The remaining recommendations will stay 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 Bradley Grubb at 202.692.2914 or to Lead Auditor Hal Nanavati at 202.692.2929.

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

Attachment

cc: Stacy Rhodes, Chief of Staff/Chief of Operations
Elisa Montoya, White House Liaison/Senior Advisor to the Director
Bill Rubin, General Counsel
Esther Benjamin, Associate Director, Global Operations
Joseph Hepp, Chief Financial Officer
Samuel Taylor, Budget Officer
Paul Shea, Director of Global Accounts Payable
Dick Day, Regional Director, Africa

Alyssa Karp, Chief Administrative Officer, Africa
Edward Hobson, Associate Director, Safety and Security
Brenda Goodman, Deputy Associate Director, Volunteer Support
Kathy Rulon, Acting Director, Office of Global Health and HIV
Kevin Novotny, Country Director
Normand Tremblay, Director of Management and Operations
Jennifer Parrish-Taylor, Special Assistant to the Chief Compliance Officer
Malawi Country Desk



Peace Corps Office of Inspector General



Peace Corps/Malawi Office in Lilongwe



Map of Malawi



Flag of Malawi

Final Audit Report: Peace Corps/Malawi IG-13-02-A

February 2013

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of Peace Corps/Malawi (hereafter referred to as “the post”) June 11 to 22, 2012. At the time of the audit, the post had three U.S. direct hires, two foreign service nationals, two third-country national contractors, and 16 personal services contractors. The post’s fiscal year (FY) 2011 operating budget was approximately \$1.94 million plus an average of \$460,000 per post in costs, such as U.S. Direct Hire salaries and benefits, centrally-managed by the Africa region (see Background).

We found that the post’s financial and administrative operations required improvement in a number of areas and did not fully comply with agency policies. Specifically:

- A lack of segregated duties, adequate controls, and oversight over the process for collection of host country contribution (HCC) payments resulted in an ineffective process that caused two HCC payments, an important funding source, to go uncollected.
- The post did not enforce separation of duties in property management and permitted the general services officer (GSO) to carry out vehicle auctions without adequate oversight. As a result, three vehicles sold at third party auctions did not appear to be sold with open and fair competition in accordance with Peace Corps policy.
- The post did not fully implement the agency’s medical supplies policy for inventory management. As a result, medical supply inventories were inaccurate and incomplete, and prevented the medical unit from having the reliable information needed to make the critical inventory planning decisions necessary to provide high quality medical support to Volunteers.

Our report contains 14 recommendations, which, if implemented, should strengthen internal control and correct the deficiencies detailed in the accompanying report. Management concurred with all 14 recommendations and took timely action to remediate our findings. As a result, we closed five recommendations. The remaining nine recommendations remain open pending documentation described in Appendixes C and D.

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BACKGROUND

OIG conducted the audit of the post June 11 to 22, 2012. We previously performed an audit May 18 to June 12, 2003 and issued a report in December 2003 (IG-03-05-A).

The first group of Volunteers arrived in Malawi in 1963 and approximately 2,522 Volunteers have served since then. At the time of our audit, 124 Volunteers were working in the following program sectors: education, environment, and health and HIV/AIDS. The post's FY 2011 budget was approximately \$1.94 million. In addition at headquarters the Africa region incurs an average of \$460,000 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. We reviewed whether the post's internal control was in place and operating effectively. Appendix A provides a full description of our audit objective, scope, and methodology.

AUDIT RESULTS

HOST COUNTRY CONTRIBUTIONS

The post's process for collecting HCC payments lacked proper separation of duties, adequate controls, and oversight of refunds.

The Education, Health, Environment and Tourism ministries of the Government of Malawi provided cash contributions to the post based on the number of Volunteers serving within the respective ministries. Each ministry contributes to the Peace Corps at a different rate per Volunteer and disburses payment at different times. During our review we found that the post did not have adequate controls to ensure the HCC was properly recorded and collected.

The HCC collection process was managed by the executive assistant without adequate oversight by the director of management and operation (DMO). The executive assistant estimated the HCC amount to be collected from each ministry; prepared a pro-forma invoice in Microsoft Word; maintained a manual tracking sheet; performed follow-up with the ministry officials; arranged for the collection of checks; and provided information for preparing bills of collection to the financial assistant based on the check amount. The ministries contacted the executive assistant when they had checks ready for the HCC, and the executive assistant arranged for a driver to pick-up the checks and deliver them to the post. According to the DMO, no other employee had sufficient knowledge of the various aspects of the HCC process or contact with the respective officials in the ministries to manage the HCC collection process.

¹ The agency was unable to provide the total cost per post as certain costs are centrally-budgeted and managed by headquarters offices including U.S. Direct Hires salaries and benefits. Office of Budget and Analysis provided the total cost of \$12 million incurred by the Africa region in direct support of its 26 overseas posts in FY 2011, with an average of \$460,000 per post.

The *Overseas Financial Management Handbook* (OFMH), section 27.2, states:

As with other types of collections, the Cashier may not take possession of an HCC check/payment before the prepared transaction has been entered into FOR Post and the Bill of Collection has been printed. HCC Posts must document their process for securing a contribution that is delivered unexpectedly with someone other than the Cashier. In addition, posts must monitor the Bill of Collection log in FOR Post to ensure that funds are received in a timely way and are properly accounted for.

The post did not follow Peace Corps' policies for preparing bills of collection (BOC) in the FOR Post system. The executive assistant prepared manual BOCs (pro-forma invoices) and sent them to the ministries for payment. She prepared the official BOC in FORPost after collecting the check. These collections were not properly tracked and monitored to ensure all HCC payments due were collected. It is Peace Corps policy to enter all HCC BOCs into FOR Post when the HCC is due to Peace Corps. The *Overseas Financial Management Handbook* (OFMH), Section 7.6.5, states:

Posts must enter the BOC for HCC at the start of the due period. For example, if Post is scheduled to receive quarterly payments, enter the BOC at the start of the quarter, even though the BOC will be outstanding for 3 months (or longer). If the exact amount is not known, enter the estimated amount.

In addition, the post had not adequately documented the process for estimating and collecting HCC from various ministries and the post did not train an alternate person to perform these duties. The post neither obtained the HCC payment rates per Volunteer nor the payment schedules from respective ministries for estimating the amount of HCC due to the Peace Corps. Post management did not obtain supporting reports or other documentation from the ministries to verify the accuracy and completeness of the HCC checks collected and recorded by the post. Post management helped us obtain the list of checks issued by various ministries for calendar year 2011 and year-to-date 2012 from the Malawian Accountant General's Office.

We compared this list with the checks deposited in the bank by the post and noted that two checks issued by the Ministry of Education in March 2011, amounting to approximately 532,226 Malawian Kwacha (MWK) (3,512 U.S. dollar equivalent (USDE)) were not deposited in the post's bank account. The post did not have a record of receiving these checks and no one at the post knew that these checks were issued by the ministry. During our audit, the DMO informed the Ministry of Education officials that the post did not collect these checks and requested replacement checks.

The post currently relies on HCC payments as a funding source for operations. Therefore, the HCC payments must be properly recorded and tracked to ensure timely collection and to prevent loss or misappropriation. Appropriate controls, separation of duties, compliance with agency policies and procedures, and adequate oversight over the HCC process are critical to mitigate risk of loss and misappropriation of funds of HCC payments disbursed by ministries.

We recommend:

1. That the director of management and operations appropriately separate the duties for managing the host country contributions, including preparing bills of collection and collecting checks from respective ministries.

2. That the director of management and operations expand the standard operating procedures for the post's host country contribution process to include ensuring all bills of collection are processed in FORPost system prior to collection.
3. That the director of management and operations implement a process to issue bills of collection for all host country contributions in FORPost based on the respective per Volunteer rates and a tracking process to ensure that all payments are received.
4. That the director of management and operations follow up with Malawian ministry officials to attempt to obtain replacement checks for the two missing host country contribution payments.

PROPERTY MANAGEMENT

The post did not enforce separation of duties in property management and permitted the GSO to carry out vehicle auctions without adequate oversight.

The post engaged a third party auctioneer to dispose of three vehicles and other excess property items such as used furniture and computers. During our review of the post's property management practices, we found that the post management did not comply with the agency guidance or provide adequate oversight and transparency over disposal of vehicles and property. We identified three vehicles with questionable sale prices, which we reported to the OIG Investigations Unit.

Sale of Vehicles. The Peace Corps *Vehicle Fleet Management Guide* requires that vehicles must be sold for a fair and reasonable in-country price. Proceeds from the sale of vehicles are a significant resource to the agency and are used to fund vehicle replacements. The post had three vehicle sales in January 2012 but when the highest bidder declined to pay the accepted bid price the auction house sold the vehicles at substantially lower prices allegedly to the next highest bidders (See Table 1). The GSO said he became aware that the price "skyrocketed" and that he advised the auctioneer to sell to the second highest bidder when the winning bidder could not pay.

The GSO did not ask the auction house to record the contact information of the next highest bidders to follow-up and verify that they had purchased the vehicles. The post did not obtain copies of the vehicle auction bids from the auctioneer, preventing the post from verifying the legitimacy of the winning bid. Further, the post did not perform market research, which could have indicated improper auction practices if the proceeds received after the auction were less than the expected estimated market value. Verifying sales information and developing independent price estimates helps to provide assurance that the auction receives legitimate bids and that bids are not accepted outside of the auction process.

Table 1. January 2012 Vehicle Disposals

Vehicle	Winning Bid	Accepted Bid	Difference	10% Auction Commission	Amount to Post
2007 Land Cruiser CD 112	3,500,000*	3,000,000	500,000	300,000	2,700,000
	(\$21,446)**	(\$18,382)	(\$3,064)	(\$1,838)	(\$16,544)
2007 Land Cruiser CD 113	5,000,000	3,700,000	1,300,000	370,000	3,330,000
	(\$30,637)	(\$22,672)	(\$7,966)	(\$2,267)	(\$20,404)
2007 Land Cruiser CD 115	5,000,000	3,800,000	1,200,000	380,000	3,420,000
	(\$30,637)	(\$23,284)	(\$7,353)	(\$2,328)	(\$20,956)
Total	13,500,000	10,500,000	3,000,000	1,050,000	9,450,000
	(\$82,721)	(\$64,338)	(\$18,382)	(\$6,434)	(\$57,904)

*Figures are presented in MWK unless noted otherwise.

**USDE. The January 2012 conversion rate was 163.20 MWK to the USD.

Based on the analysis of the information provided, it appears that the high bids originally accepted during the auction were false bids. Therefore, the three vehicles were not sold with fair and open competition.

Sale of Excess Property. During our review of support for the excess property sale we noted that the GSO did not reconcile the list of property transferred to the auctioneer with the sales receipts of actual property sold to verify the payment received was accurate and complete. We compared a sample of 10 items sold from the auctioneer's original sales receipts with the auctioneer's sales detail provided with payment. We identified two discrepancies: one erroneous sales receipt of MWK 20,000 was recorded as MWK 2,000 (\$110 USDE in the Peace Corps' favor) and another sales receipt of MWK 30,000 was recorded as MWK 3,000 (\$165 USDE in favor of the auctioneer).

The post informed us that all of the items remaining unsold were kept with the auctioneer to be re-auctioned. However, the post did not have a formal, written agreement to support this type arrangement with the auctioneer. Further, the post did not have a list of the items that remained with the auctioneer. This could compromise the agency's interest as it allows the auctioneer to have uncontrolled access over government property. Without proper documentation, the post may not be aware of subsequent property sales and would not know to collect the proceeds.

GSO Responsibility. The GSO did not perform his duties effectively to protect the agency's interest, which may have resulted in less than the maximum proceeds for vehicle sales. The GSO is in charge of handling several critical administrative functions and manages procurement, property, vehicles, and other critical matters on behalf of the DMO. The position is based on trust and requires that the duties are conducted in a transparent manner and that there is no conflict of interest while dealing with staff and third parties on behalf of the Peace Corps. The

issues identified above could have been mitigated by proper GSO oversight and communication of vehicle and property sales.

We recommend:

5. That the director of the Office of Management provide additional guidance for sales of property and vehicles, to include adequate controls and oversight by post management to ensure the property sales are conducted in compliance with agency policies and procedures.
6. That the director of management and operations develop procedures for the post's property and vehicle sales that implement the controls that ensure fair and open auctions.
7. That the director of operations and management, in coordination the country director, provide adequate oversight of the general services officer and take appropriate administrative action of general services staff.

MEDICAL SUPPLIES

The post did not fully implement the agency's policy for medical supply inventory management.

The *Peace Corps Manual* section (MS) 734² states that:

It is the policy of the Peace Corps to maintain effective controls and procedures that govern the procurement, receipt, storage, inventory, dispensation, and disposal of medical supplies and to adopt and implement special standards applicable to controlled substances.

As adequate medical care may not be easily accessible in many host countries, posts have a medical office with medical staff and maintain medical supplies necessary to provide medical care to Volunteers during their service. In accordance with *Medical Technical Guidelines* 240, the country director (CD) is responsible for providing an appropriate working environment for the operation of the post medical office and to ensure that effective controls for medical supply management are in place through required staff assignments, segregation of duties, secure storage, and periodic inventories.

Medical Supply Forms and Inventories. We conducted a physical count of medical supplies with an Office of Medical Services (OMS) program analyst. We noted that several key controls were not in place or operating effectively, including maintaining accurate and complete medical supply records, separation of duties, and standard operating procedures. We noted the following:

- The post did not properly complete the medical inventory workbook provided by OMS to track specially designated medications and controlled substances or properly submit their annual inventory to OMS. Inventory entries, such as receipt and dispensation

² MS 734 was updated in December 2011 with implementing procedures in *Medical Technical Guideline* 240, October 2011.

entries, were not properly recorded in the workbook. Medical inventory staff could not explain the discrepancies or why the workbook was not kept up-to-date.

- The medical inventory staff did not have an adequate understanding of their roles and responsibilities, which may have contributed to the medical inventory inaccuracies. For example, the medical supply inventory control clerk, responsible for maintaining the inventory workbook, did not include the adjusted beginning balances based on the previous quarterly inventory count in the new copy of the medical inventory workbook.
- The medical inventory staff lacked adequate training to ensure that the inventory count was accurate and complete.

As a result, the medical inventory workbook was incomplete and the balances on hand were inaccurate. During the post's quarterly physical inventory count of specially designated and controlled substances, we identified significant differences (14 of the 30 medications) between the book balance in the inventory workbook and quantities on hand. This increased the post's vulnerability to theft or abuse of medical supplies and prevented the post from using the information to make the inventory planning decisions needed to provide high quality medical support to Volunteers.

Medical Sharing Agreements. Peace Corps policy allows the transfer or exchange of excess medical items, including controlled substances, from one Peace Corps post to another or to the U.S. Embassy. MS 734 does not permit medical supplies to be transferred to a foreign embassy. The post utilized an informal, unwritten medical sharing agreement between the U.S. Embassy and the British Embassy. According to the post, they have this agreement in place in order to obtain and exchange emergency medical supply needs for three rarely used and expensive medications, which include snake bite venom antidote, a thrombolytic medication used for heart attacks, and rabies immunoglobulin (kept by the post). According to the Peace Corps medical officer (PCMO), it would be costly for the post to maintain all three drugs, and they are rarely used, more typically expiring beforehand. We identified an instance in June 2012 where the post transferred medical supplies to the British Embassy.

MS 734 requires a signed inventory receipt from the receiving agency to document transfer of medical supplies and controlled substances to the U.S. Embassy. The documentation is essential for recording the transfer and tracking medical supply accountability and must be forwarded to OMS and the Office of Management. When the post transferred medications to the British Embassy, the post did not obtain a written confirmation or receipt from the embassy when the medication was delivered.³

Additionally, when posts transfer medications, MS 734 requires them to notify OMS by providing the transfer information. The post did not notify OMS for the two transfers to the U.S. Embassy or the one transfer to the British Embassy.

³ According to the PCMO, the post provided this medication to the British Health Clinic as a short term emergency reserve until their ordered supplies arrived. The medication was returned to the post when the British Health Clinic had received their supplies.

We recommend:

8. That the country director clarify the roles and responsibilities of the medical system inventory staff and provide adequate training to perform their duties.
9. That the medical supply inventory control clerk begin a new copy of the medical inventory workbook every quarter using the adjusted beginning balances based on the previous quarterly inventory count and record all purchasing, dispensing, and disposing of specially designated medications and controlled substances timely.
10. That the medical supply inventory control clerk conduct a reconciliation of medical supplies and the inventory workbook and identify the reasons for the differences. The country director monitor this process and initiate any needed corrective action.
11. That the post discontinue transferring its medical supplies to foreign embassies and comply with *Peace Corps Manual* section 734 when transfers are made to the U.S. Embassy, to include obtaining written confirmation for all transfers and notifying the Office of Medical Services.

BILLINGS AND COLLECTIONS

The post did not issue bills of collection for personal use of telephones and value added tax in a timely manner.

Peace Corps policy permits the limited use of government property, such as telephone usage, for personal use under certain circumstances. MS 547, section 4.2, Use of Government Technology Services and Equipment, states:

Use of government technology services and equipment, including access to the Internet, is for official use by authorized personnel. Limited personal use (using government equipment for purposes other than accomplishing official or otherwise authorized activity) is allowed as provided in this Manual Section. However, personal use is a privilege and not a right, and may be revoked or limited at any time at the discretion of an employee's supervisor or the Chief Information Officer. Personal use is subject to the following rules.

- (a) Employee personal use of government equipment must not adversely affect the employee's performance; must be of reasonable duration and frequency; and involve activities that cannot reasonably be done at another time.

OFMH section 7 allows the post to collect for personal use of a telephone using the itemized bill from the utility company. The DMO informed us that the post discontinued issuing bills of collection for personal use of telephone after 2010. The DMO recently performed an analysis of the post's telephone charges and identified an excessive telephone usage by staff for personal purposes. At the time of our visit, the DMO and CD told us that they were evaluating a process to implement a new policy for charging staff for personal telephone use.

In addition, for utility payments, the post did not deduct the value added tax (VAT) refund at the time of processing invoices and it did not file a claim with the Malawian authorities to claim the refund of the VAT paid. The post normally deducts VAT from third party vendors invoices and provides vendors with its VAT tax exemption certificate. Following the audit, the DMO initiated a claim for a refund of MWK 58,494 (\$281 USDE) from VAT paid on certain utility invoices processed in May and June 2012. We estimated that the total funds put to better use for VAT paid over the last four fiscal years for all utilities totaled \$7,773 USDE.

We recommend:

12. That the director of management and operations and the country director develop and implement a post policy to issue bills of collection for personal telephone usage.
13. That the post deduct the value added tax from utility invoices or claim a refund and that make an effort to file a refund claim for prior periods with the government of Malawi.

DISBURSEMENTS

Invoices were not being dated stamped to indicate when they were received by the post.

OFMH section 66.10 requires:

Payments to vendors issued by PC/Washington are made consistent with Federal accounting practices and the Prompt Payment Act, 31 U.S.C. § 3903. The purpose of the Prompt Payment Act is to ensure that federal agencies make timely payment to vendors and to provide for late interest penalties against agencies that pay vendors after a payment due date. Under the Prompt Payment Act, payment to a vendor is due 30 days after receipt of a proper invoice or after Government acceptance of the supplies delivered or services performed; whichever date is later.

In consideration that the 30-day period for payment may begin when the Peace Corps receives a proper invoice, it is important that the vendor provides all required documentation to initiate the processing for payment. Posts should enter vendor invoices into FOR Post upon receipt of goods/services or properly prepared invoice, whichever is later. The date entered into FOR Post is the date used as the receipt date for Prompt Payment.

We determined that 3 invoices out of 22 sampled disbursements were not date stamped to indicate when they were received by the post. Without a properly documented date of receipt, the DMO could not ensure that invoices were entered into FORPost on the correct date. As a result, the post did not have assurance that it complied with the Prompt Payment Act.

We discussed this matter with the director of the Office of Global Accounts Payable who informed us that the financial management officers at Peace Corps headquarters were aware of this issue and were notifying posts of the date stamp requirement on a case by case basis if they saw instances of noncompliance.

We recommend:

14. That the director of management and operations ensure it is standard procedure for the post to consistently date stamp all invoices the moment they are received in the office.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We did not identify any questioned costs during the course of the audit, but we did identify funds to be put to better use. These are funds that could be used more efficiently if management took actions to implement and complete the recommendations.

Funds to be Put to Better Use

Recommendation Number	Description	Amount
3	Collection of host country contribution checks	\$3,512
13	Unclaimed value added tax refund for utilities (projected for two years)	\$7,773

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of management and operations appropriately separate the duties for managing the host country contributions, including preparing bills of collection and collecting checks from respective ministries.
2. That the director of management and operations expand the standard operating procedures for the post's host country contribution process to include ensuring all bills of collection are processed in FORPost system prior to collection.
3. That the director of management and operations implement a process to issue bills of collection for all host country contributions in FORPost based on the respective per Volunteer rates and a tracking process to ensure that all payments are received.
4. That the director of management and operations follow up with Malawian ministry officials to attempt to obtain replacement checks for the two missing host country contribution payments.
5. That the director of the Office of Management provide additional guidance for sales of property and vehicles, to include adequate controls and oversight by post management to ensure the property sales are conducted in compliance with agency policies and procedures.
6. That the director of management and operations develop procedures for the post's property and vehicle sales that implement the controls that ensure fair and open auctions.
7. That the director of operations and management, in coordination the country director, provide adequate oversight of the general services officer and take appropriate administrative action of general services staff.
8. That the country director clarify the roles and responsibilities of the medical system inventory staff and provide adequate training to perform their duties.
9. That the medical supply inventory control clerk begin a new copy of the medical inventory workbook every quarter using the adjusted beginning balances based on the previous quarterly inventory count and record all purchasing, dispensing, and disposing of medical supplies timely.
10. That the inventory control clerk conduct a reconciliation of medical supplies and the inventory workbook and identify the reasons for the differences. The country director monitor this process and initiate any needed corrective actions.
11. That the post discontinue transferring its medical supplies to foreign embassies and comply with *Peace Corps Manual* section 734 when transfers are made to the U.S. Embassy, to

include obtaining written confirmation for all transfers and notifying the Office of Medical Services.

12. That the director of management and operations and the country director develop and implement a post policy to issue bills of collection for personal telephone usage.
13. That the post deduct the value added tax from utility invoices or claim a refund and that make an effort to file a refund claim for prior periods with the government of Malawi.
14. That the director of management and operations ensure it is standard procedure for the post to consistently date stamp all invoices the moment they are received in the office.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective in auditing overseas posts is to determine whether the financial and administrative operations are functioning effectively and comply with Peace Corps policies and federal regulations. Our audit conclusions are based on information from four 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 Peace Corps/Malawi covered FYs 2009 through May 2012. While at the post, we interviewed key staff including the CD, the DMO, staff responsible for administrative support, and the two Peace Corps medical officers. As part of the audit process, we briefed the CD and DMO. At headquarters, we conducted a general briefing for regional staff.

We relied on computer-processed data from the post's accounting system and verified such data with hard-copy documents as required. While we did not test the system's controls, we believe the information generated by the system and used by us was sufficiently reliable for our audit objective.

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

APPENDIX B: LIST OF ACRONYMS

BOC	Bill of Collection
CD	Country Director
DMO	Director of Management and Operations
FY	Fiscal Year
GSO	General Services Officer
HCC	Host Country Contribution
MS	Peace Corps Manual Section
MWK	Malawian Kwacha
OFMH	Overseas Financial Management Handbook
OIG	Office of Inspector General
OMS	Office of Medical Service
PCMO	Peace Corps Medical Officer
USDE	U.S. Dollar equivalent
VAT	Value Added Tax

APPENDIX C: AGENCY'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Daljit K. Bains, Chief Compliance Officer

From: *for* Dick Day, Regional Director, Africa Region
Kevin Novotny, Country Director/Malawi

Date: January 31, 2013

CC: Carrie Hessler-Radelet, Acting Director
Stacy Rhodes, Chief of Staff
Joaquin Ferrao, Deputy Inspector General
Bradley Grubb, Assistant Inspector General/Audits
Esther Benjamin, Associate Director, Global Operations
Michael Simsik, Chief of Operations, Africa Region
Alyssa Karp, Chief Administrative Officer, Africa region
Brenda Goodman, Deputy Associate Director, Office of Health Services
Garry Stanberry, Acting Associate Director, Management

Subject: Agency Response to the OIG Financial Audit of Peace Corps/Malawi, November 2012

Enclosed please find the agency's response to the recommendations made by the Inspector General for Peace Corps/Malawi as outlined in the Preliminary Report of the Audit of the IG Audit sent to the Agency on November 20, 2012.

The Region concurs with 14 recommendations provided by the OIG in its Preliminary Audit Report: Peace Corps/Malawi. Post has addressed and provided supporting documentation for 12 of the 14 recommendations and Region will work to address the remaining recommendations by the set target dates.

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 appropriately separate the duties for managing the host country contributions, including preparing bills of collection and collecting checks from respective ministries.

Concur:

Post has developed and is in the process of implementing a new HCC Collection process. This revised process enhances segregation of duties by developing a standard operating procedure (SOP) that clearly defines the roles of the executive assistant, receptionist, finance assistant, cashier, director of management and operations, and country director.

Documents Submitted:

- SOP_HCC_Collections.doc

Status and Timeline for Completion:

Post intends to be fully implementing by the end of Q2 FY13.

Recommendation 2

That the director of management and operations expand the standard operating procedures for the post's host country contribution process to include ensuring all bills of collection are processed in FORPost system prior to collection.

Concur:

Post has developed an expanded SOP for HCC collection and processing. This includes creation of BOC as incurred, monthly, instead of when collected. The new process will proactively inform the ministries of monies owed on a monthly basis with expected quarterly payments.

Documents Submitted:

- SOP_HCC_Collections.doc

Status and Timeline for Completion:

Post intends to be fully implementing by the end of Q2 FY13.

Recommendation 3

That the director of management and operations implement a process to issue bills of collection for all host country contributions in FORPost based on the respective per Volunteer rates and a tracking process to ensure that all payments are received.

Concur:

Post has developed an expanded SOP for HCC collection and processing. This includes creation of an HCC Expected Log based on the respective per volunteer rates for each

ministry; and which is the base for the development of the BOC; and a HCC Received Log with which PC/Malawi can reconciled checks received with checks outstanding.

Documents Submitted:

- SOP_HCC_Collections.doc

Documents to be Submitted:

- HCC Checks Expected log
- HCC Received Log
- HCC collections Cover Sheet

Status and Timeline for Completion:

Post intends to be fully implementing by the end of Q2 FY13.

Recommendation 4

That the director of management and operations follow up with Malawian ministry officials to obtain replacement checks for the two missing host country contribution payments.

Concur:

The Director of Management and Operations will follow up with Malawian Ministry Officials in an effort to recuperate replacement checks for the two missing host country contribution payments.

Documents to be Submitted:

- Photocopy of replacement checks (if received) or letter/email from Ministry Official explaining lack of ability to issue replacement checks. If no response by Ministry by March 31, 2013, a letter to the file indicating request made and lack of response.

Status and Timeline for Completion:

March 31, 2013

Recommendation 5

That the director of the Office of Management, in coordination with the Office of Global Operations, provide additional guidance for sales of property and vehicles to include adequate controls and oversight by post management to ensure the property sales are conducted in compliance with agency policies and procedures.

Concur:

It is the role of the Office of Management to develop guidance for sales of property and vehicles to ensure property sales are conducted in compliance with agency policies and procedures. Accordingly, as PC/Malawi has recently revised and disseminated guidelines regarding auction steps and procedures, Post will share this with the Office of Management to assure compliance, adjust accordingly, and develop a Standard Operating Procedure (SOP) that meets local conditions.

Documents Submitted:

- PCM Auction process Steps and Procedures.doc

Documents to be Submitted:

- SOP-Auctions

Status and Timeline for Completion:

Process is documented and effective immediately. PC/Malawi will confirm compliance with Office of Management and fully develop SOP by end of FY13 Q3.

Recommendation 6

That the director of management and operations develop procedures for the post's property and vehicle sales that implement the controls that ensure fair and open auctions.

Concur:

The director of management and operations has developed guidelines regarding auctions steps and procedures which will be utilized in FY13 Q2. These guidelines present clear responsibilities for actions that need to take place before, during and after the auction, and provide clear details on the duties of each of the following staff: GSO, GSA, and DMO.

Documents Submitted:

- PCM Auction Process Steps and Procedures.doc

Status and Timeline for Completion:

Completed, January 2013

Recommendation 7

That the director of management and operations, in coordination with the Country Director, provide adequate oversight of the general services officer and take appropriate administrative action of general services.

Concur:

The director of management and operations has implemented a new structure of the General Services unit with clear roles, responsibilities, and expectations. The new structure reinforces the separation of duties, clearly assigns different tasks to different staff members; e.g. one general service assistant (GSA) for procurement, one GSA for receiving and inventory, a clear role for the motor pool manager, etc. and elevates the general services officer (GSO) position to one of management and oversight rather than performing the tasks himself. The GSO mentioned in the report was put on a performance improvement plan in August 2012, and resigned from PC/Malawi in January 2013.

Documents Submitted:

- GS Unit Tasks and Responsibilities-Jan_2013.doc

Status and Timeline for Completion:

Completed, January 2013

Recommendation 8

That the Country Director clarifies the roles and responsibilities of the medical system inventory staff and provide adequate training to perform their duties.

Concur:

The following new staff assignments have been made: Acceptance Point Clerk (GSA); Inventory Reconciliation Clerk (ITS); and Medical Supply Inventory Control Clerk (SSC). Training for these staff was conducted on January 23, 2013. The Job Descriptions of these staff members have not been modified as they all volunteered for this duty and these tasks fall under the clause 'other duties as assigned'

Documents Submitted:

- APC Training Document.ppt
- IRC Training Document.ppt
- MSICC Training Document.ppt

Status and Timeline for Completion:

Completed, January 2013

Recommendation 9

That the medical supply inventory control clerk begin a new copy of the medical inventory workbook every quarter using the adjusted beginning balances based on the previous quarterly inventory count and record all purchasing, dispensing, and disposing of specially designated medications and controlled substances timely.

Concur:

The MSICC has been beginning a new copy of the medical inventory workbook every quarter using the adjusted beginning balances based on the previous quarterly inventory count and recording all purchasing, dispensing, and disposing of specially designated medications and controlled substances.

Documents Submitted:

- Medical Inventory Workbook.pdf

Status and Timeline for Completion:

Completed, June 2012

Recommendation 10

That the medical supply inventory control clerk conduct a reconciliation of medical supplies and the inventory workbook and identify the reasons for the differences. The country director monitors this process and initiates any needed corrective action.

Concur:

The MSICC conducted a reconciliation of medical supplies and the inventory workbook and has identified the reasons for any differences discovered. CD confirmed and verified per PC Manual Section 734.

Documents Submitted:

- Medical Inventory Workbook.pdf

Status and Timeline for Completion:

Completed, June 2012

Recommendation 11

That the post discontinue transferring its medical supplies to foreign embassies and comply with *Peace Corps Manual* section 734 when transfers are made to the U.S. Embassy, to include obtaining written confirmation for all transfers and notifying the Office of Medical Services.

Concur:

Malawi has very poor health care facilities as well as poor access to emergency medications on a consistence basis. PC/Malawi must have access to 3 specific seldom used medications; snake anti venom, a thrombolytic medication for heart attacks and rabies immunoglobulin. Each of these medications is important to the health and well being of volunteers. They are also expensive and very seldom used. Each medication can cost three to six thousand US dollars. Historically, PC/Malawi has been able to share these costs and avoid expirations by sharing the burden with other health care clinics in Lilongwe. This includes the British High Commission and the US Embassy. When PC/Malawi transfers medical supplies to the US Embassy procedures outlined in PCMS 734 are followed.

PC/Malawi believes that we have a duty to all of Peace Corp's partners in the Foreign Aid missions in that, during an emergency, when a life is at risk, we must respond with whatever resources we have available. Our medical professionals cannot ignore a life threatening need when it arises.

When the need to transfer medications arises, PC/Malawi has developed the following guidelines, which have worked well, and are closely adhered to:

- The above emergency drugs are available as and when needed;
- These can be loaned in an emergency from and to the above named clinics;
- Guarantee (and quality) of replacement must be agreed before loaning them;
- Time of one month or less to have them replaced and purchased from the original institution;
- A monthly inventory and update of these drugs is essential to avoid shortages.

A careful reading of MS 734 does not preclude such a sharing agreement in the transfer of medications. It states that "Under no circumstances must any medical supply be donated to organizations other than U.S. Government Agencies." No medications are transferred to local organizations. No medications are ever donated to other embassies or organizations. Instead, medications are loaned with the explicit intent that they will be replaced as soon as possible. Our partners; medical professionals from other embassies, are also available to us in case of need. In a country with very meager resources networking and collaboration makes our job easier and improves outcomes for the Volunteers.

The Office of Health Services recognized a physician's ethical responsibility to first "do no harm". To withhold lifesaving medication would not be consistent with this tenant of medical practice. As of now, MS 734 is silent on the practice of providing medication to non-Peace Corps volunteers in such a circumstance. It is the intention of OHS to add clarifying language to MS734 that states in the rare and exceptional circumstance that this emergency transfer of medication is necessary to save a life, it will be so authorized. A sentinel event report will be submitted to the Office of Quality Health Care within OHS to track this occurrence. This modification of MS 734 will be submitted to the Senior Policy Committee April 2013.

Region will work with OHS to update documentation to reflect the ability to transfer life saving medications, with proper controls and notifications procedures and processes.

Documents to be Submitted:

- Updated MS 734
- Transfer Guidelines

Status and Timeline for Completion:

April 30, 2013

Recommendation 12

That the director of management and operations and the Country Director develop and implement a post policy to issue bills of collection for personal telephone usage.

Concur:

The director of management and operations has implemented a BOC process for personal phone calls made by staff.

Documents Submitted:

- PCM Telecommunication Policy.doc
- PCM Billing Policy.doc
- BOC Memo October 2012.doc

Status and Timeline for Completion:

Completed, October 2012

Recommendation 13

That the post deducts the VAT from utility invoices or claim a refund and that make an effort to file a refund claim for prior periods with the Government of Malawi

Concur:

The director of management and operations has initiated a process to claim the VAT refund on a periodic basis. The Malawi Revenue Authority (MRA) has established a minimum of 300,000MwK to file a claim, and requires a fee of approximately 30 USD to file said claim. As PC/Malawi finance department collects invoices that warrant VAT refunds they are compiled until they reach 300,000MwK minimum limit. Once the limit is reached, they are

sent to the US embassy for a Diplomatic note to the Ministry of Foreign Affairs confirming our eligibility for VAT refund. They are then submitted to MRA.

Documents Submitted:

- May and June Tax Claims.pdf
- Tax Receipt MRA.pdf

Status and Timeline for Completion:

Completed, August 2012

Recommendation 14

That the director of management and operations ensure it is standard procedure for the post to consistently date stamp all invoices the moment they are received in the office.

Concur:

The Director of Management and Operations has initiated the process that all invoices are consistently date stamped the moment they are received in the office.

Documents Submitted:

- PCV Lodging Invoice.pdf

Status and Timeline for Completion:

Completed, January 2013

APPENDIX D: OIG COMMENTS

Management concurred with all 14 recommendations. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. Based on management's response we revised recommendation number 4 to provide the post with the possibility of closing the recommendation if the replacement checks cannot be collected from the government of Malawi and we removed the Office of Global Operations from recommendation 5. We closed five recommendations (numbers 1, 2, 7, 8, and 12) based on evidence of corrective actions that address the 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. The remaining nine recommendations remain open pending a copy of documentation listed in the agency's response.

APPENDIX E: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Lead Auditor Hal Nanavati and Senior Auditor Gabrielle Perret performed the audit of Peace Corps/Malawi.



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 e-mail Assistant Inspector General for Audit Bradley Grubb, at bgrubb@peacecorps.gov, or call him at (202) 692-2914.

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Main Office: 202.692.2900
Website: <http://www.peacecorps.gov/OIG>
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