Peace Corps
Office of Inspector General

PC/Ethiopia office in Addis Ababa

Castle in Gonder, Ethiopia

Flag of Ethiopia

Final Audit Report:
Peace Corps/Ethiopia
11-02-A

February 2011

EXECUTIVE SUMMARY

We found that Peace Corps/Ethiopia's (hereafter, the post's) financial and administrative operations and its compliance with agency policies and federal regulations required improvement. We noted deficiencies in three of the five internal control standards of the Government Accountability Office: standards requiring a control environment, control activities, and effective monitoring. Internal control is an essential component of an organization's framework to detect and prevent waste, fraud, abuse, and mismanagement.

Many issues noted in this report occurred prior to the arrival of the present country director (CD) and administrative officer (AO). Some of the more important findings are summarized below.

Imprest Fund Management
Managerial oversight over the imprest fund was inadequate. We found that during one 13-month period, the prior CD performed only one verification, and another quarterly verification was missed in spring of 2009. Moreover, for five separate months during the audit period, no verifications were performed. In addition, the AO's verifications did not include a complete review of reconciling documents and their proper recording on the cash reconciliation statement. Further, staff members did not settle their interim cash advances in a timely manner. Timely and complete verifications and ongoing monitoring of interim advances are essential internal control procedures over the post's most liquid asset.

Leases
All six of the post's leases contained discrepancies. Although payment was made in local currency, the lease payment terms were stated in both local currency and U.S. dollar equivalents or, for one lease, in U.S. dollars only. Because of hyper-inflation and a significant devaluation of the Ethiopian birr, landlords requested option period payment increases using the U.S. dollar amounts in the leases, resulting in substantially higher lease costs. In addition, the correct lease template was not used for three of the six leases, and two residential leases did not have required regional director approval. Further, the CD signed the lease for her residence.

Volunteer Allowances
Although the 2009 living allowance survey was properly performed, both living allowances surveys conducted in 2008 were inadequate, and no conclusions were drawn on the allowance's sufficiency. In addition, the post's 2008 settling-in survey was sent to Volunteers but the responses were not compiled and evaluated. Further, independent price surveys were not performed for both the 2008 and 2009 settling-in surveys. Timely and proper Volunteer allowance surveys are particularly important due to the hyper-inflation experienced in the country.

Property Management
We found property, including a video camera, two pieces of medical equipment and 15 satellite phones that were not recorded in the post's inventory database. In addition, the AO's required quarterly reconciliation of property inventory against receiving reports and requisition

documents was not performed, to determine if inventory changes were properly reflected. The above deficiencies made the post's property vulnerable to loss or misuse.

Vehicles Management

Post management provided inadequate oversight over vehicle usage. During a 19-month period, except for about three weeks, only the general services officer (GSO) reviewed and initialed the vehicle usage logs. Required reviews by the AO and the billing officer were not performed. Post vehicle logs were incomplete and in some cases illegible. As a result, log reviews were limited in their effectiveness.

Medical Supplies

The post began implementing the agency's November 2008 revision of its medical supplies policy the month before the audit. We found inaccuracies in the post's records resulting from dispensed drugs not reflected in the medical supply inventory log. In addition, the CD did not submit the log annually to the Office of Medical Services for review, as required. The reliability of medical inventory information is critical in making appropriate and cost-effective inventory ordering decisions; ensuring that supplies in required quantities are on hand to treat the Volunteers; and providing accountability.

President's Emergency Plan for AIDS Relief

The post received grants under the President's Emergency Plan for AIDS Relief (PEPFAR) program for HIV/AIDS-related small projects executed by Volunteers at their sites. The administrative unit did not compare the receipts submitted by Volunteers with the approved project budgets. Further, Volunteers did not always submit receipts as required. In addition, Volunteers were requested to submit their budgets in U.S. dollars, even though the funds ultimately received by Volunteers were in local currency, complicating control over actual project costs. The exchange rates used by Volunteers to convert their budgets into U.S. dollars were sometimes different than the rates used by the post to reconvert U.S. dollars into local currency funds. Additionally, at the date of the audit, the post's records showed $4.2 million of PEPFAR funds authorized and unused from prior year requests.

Administrative Staff

The present AO, who arrived at the post in late September 2008, has brought stability to the administrative function. Despite a difficult period where six AOs, including four on temporary duty status, served in that capacity, the dedicated administrative staff continued to function cohesively in support of post operations.

Our report contains 26 recommendations, which, if implemented, should strengthen internal controls and correct the deficiencies detailed in the accompanying report.

TABLE OF CONTENTS

Background

The Office of Inspector General conducted an audit of PC/Ethiopia March 22 – April 16, 2010.

The Peace Corps commenced its program in Ethiopia in 1962 and approximately 3,000 Volunteers have served there. The program was suspended between 1977 and 1995, and again in 2000 due to security concerns during the war between Ethiopia and Eritrea. Peace Corps returned to Ethiopia in 2007. At the time of our visit, 76 Volunteers were engaged in one project area, Health – HIV/AIDS. The present CD arrived at the post in December 2008, and the present AO arrived in late September 2008.

Our overall objective in auditing overseas posts is to determine whether the financial and administrative operations were functioning effectively and complied 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

We found that PC/Ethiopia's financial and administrative operations required improvement in a number of areas and did not fully comply with agency policies and federal regulations. For example, we found that the post did not:

- Establish an adequate and effective system of internal control to prevent and detect waste, fraud, and abuse
- Exercise proper managerial oversight over the imprest fund.
- Properly prepare leases
- Conduct appropriate living and settling-in allowance surveys including market basket and independent price surveys
- Maintain effective internal control over property inventory and keep accurate inventory records
- Oversee vehicle usage in accordance with agency policy
- Fully implement the agency's medical supplies inventory policy and keep accurate medical supplies inventory records
- Establish adequate controls and procedures over HIV/AIDS-related small projects

During the period April – September 2008, the administrative function was overseen by four temporary duty AOs. Many issues noted in this report occurred prior to the arrival of the present CD and AO.

A. ASSESSMENT OF INTERNAL CONTROL

1. *Internal control at the post was deficient.*

"Standards for Internal Control in the Federal Government" issued by the Government Accountability Office (hereafter, GAO Standards) stipulates five standards which "define the minimum level of quality acceptable for internal control in government … These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance."

Peace Corps Manual (PCM) section 784.3.0 reinforces the GAO requirement for adequate and effective internal control, as follows:

> Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting and program execution. Internal control applies to program, operational and administrative areas as well as accounting and financial management. Monitoring the effectiveness of internal control should occur in the normal course of business.

We found weaknesses in compliance with three of the five control standards:

- Control environment, which requires "a positive and supportive attitude toward internal control and conscientious management." A positive control environment is the foundation for other internal control standards as it provides an appropriate climate and structure so that the organization may function effectively and efficiently.
- Control activities, which are "the policies, procedures, techniques, and mechanisms that enforce management's directive … They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, … physical control over vulnerable assets, and segregation of duties …."
- Monitoring, which states that "ongoing monitoring occurs in the course of normal operations. It includes regular management and supervisory activities …."

The post's non-compliance with the above internal control standards was an underlying cause for many findings in this report. We found control vulnerabilities in critical areas such as imprest fund management, property inventory, vehicles, and medical supplies.

Adequate internal control, according to the GAO Standards, "serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud." Having strong internal controls in place, including effective supervision and oversight, would strengthen post operations.

We recommend:

A.1.1 That the country director and administrative officer strengthen the post's internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect waste, fraud, and abuse.

B. Imprest Fund Management

1. Post management's oversight of the imprest fund was inadequate.

Overseas Financial Management Handbook (OFMH) section 13.2.1 states: "The Country Director, as the Post Manager, has responsibility for imprest management because of the use of cash and the consequent potential for internal control problems."

The policy enumerates specific responsibilities of the CD, which include "ensuring that an unannounced, monthly verification of the imprest fund is conducted … It should be conducted quarterly by the Country Director, and in the remaining months it may be delegated to the Administrative Officer."

Further, OFMH section 13.24.1 states: "The verification includes a complete reconciliation, with a cash count and verification of supporting documents for all balances on the 365 (line by line) and completion of the Checklist for Verifying Officers."

Management's oversight of the imprest fund was inadequate. During one 13-month period, the prior CD performed only one imprest fund verification. Additionally, for five separate months during the audit period, no verification at all was performed. Further, the AO's imprest fund verifications did not include a complete review of reconciling documents and their proper recording on the cash reconciliation statement.

Managerial oversight of the imprest fund is an essential internal control over the post's most liquid asset and is required to effectively safeguard the fund and detect and prevent inadvertent errors and fraud.

We recommend:

B.1.1 That the country director ensure proper quarterly imprest fund verifications including a review of supporting documents for all balances on the cash reconciliation statement.

2. Staff did not clear their interim cash advances in a timely manner.

OFMH section 13.18.2 requires that interim cash advances be "liquidated (accounted for) within three (3) working days." The policy further states: "It is the responsibility of the cashier to monitor the clearance of interim advances and to notify the Administrative Officer if advances are not cleared within 3 days for direct follow-up action."

We found that staff did not consistently clear their interim advances in a timely manner. Eleven of the 24 monthly imprest fund reconciliations between October 2007 and February 2010 had delinquent interim cash advances. These were not consistently brought to the attention of the AO for direct follow-up action. Comments on the accompanying "Monthly Checklist for Verifying Officer" ranged from "Need to follow up," to "Measures being taken to reconcile advances," yet the problem persisted throughout the period under audit. The comment for one month incorrectly responded, "Yes," to a question whether interim cash advances were being liquidated timely.

Clearing interim advances in a timely manner ensures a prompt return of unused funds and a prompt accounting for funds spent.

We recommend:

B.2.1 That the administrative officer remind post staff of the requirement to their interim cash advances within three working days.

B.2.2 That the cashier monitor interim advances and notify the administrative officer if advances are not cleared within three working days.

B.2.3 That the administrative officer monitor the status of outstanding interim advances in order to ensure that they are cleared within the required time period.

B.2.4 That the verifying officer report uncleared interim cash advances on the "Monthly Checklist for Verifying Officer."

C. LEASES

1. The post's leases contained deficiencies.

PCM section 733 and OFMH section 30 provide policy and guidance on the preparation and content of leases. Leases are particularly important as they represent a significant in-country expenditure.

The post had a lease for the office and five leases for U.S. direct hire residences. We found deficiencies in all six leases. For five of the six leases, the annual amounts were stated in both local currency and U.S. dollar equivalents. For the remaining lease, the annual amounts were in U.S. dollars only. U.S. dollars were included on the leases despite the fact that payment was in local currency. For two of the leases, the Office of Acquisitions and Contract Management (OACM) specifically questioned the inclusion of U.S. dollars during its review. The policy and overseas support manager at OACM, in a memo to the CD and the AO regarding the CD's residential lease, stated: "Please update Clause V [the clause showing lease payments for the base and the four option years] with only the LCU [local currency] amounts." However, we found that the leases had not been adjusted by the post to reflect OACM's comment.

Because of hyper-inflation in Ethiopia and a significant devaluation of the Ethiopian birr, landlords requested, at the time of lease option renewals, to have their payments adjusted to reflect the U.S. dollar amounts in the leases at the current exchange rates. The AO explained the situation in a July 22, 2009 email to the Africa region's financial management officer: "So when landlords see a USD [U.S. dollar] amount in the lease, they are now opting for payment in USD." The AO in a July 29, 2009 email clarified that "…it is not legal to pay in USD…." Thus, he continued, "our only legal option is to issue a check in LCU at the exchange rate when we exercise the option. This will mean that we will need the extra funds to cover the exchange rate difference between MYR [mid-year review] and now." The result was a substantial unanticipated increase in actual lease payments.

Two of the five residential leases with annual payments over $20,000 did not have on file the required regional director approval. Also, a certificate of acceptance indicating the date that the lease was to be effective, was not on file for one lease.

Adhering to agency policy and procedures, as well as recommendations by the OACM, is essential to properly and accurately prepare leases and to effectively execute and control them on an ongoing basis.

We recommend:

C.1.1 That the post follow Peace Corps lease policy in the preparation of leases.

C.1.2 That the post comply with contract recommendations of the Office of Acquisitions and Contract Management.

2. The CD signed the lease for her own residence.

PCM section 515.4.0 states: "All leases shall be signed by the Country Director as the Peace Corps Contracting Officer, or someone delegated that authority by the Country Director." However, OFMH 30.1 provides that "Staff may not sign the leases for residences which they will personally occupy, nor may they approve payment vouchers for their residences, due to the GC [General Counsel] ruling that this could present a potential conflict of interest. Leases must be signed by another direct hire employee, with delegated procurement authority." Additionally, the Federal Acquisition Regulation (FAR) part 3, subpart 3.1, section 3.1.1-1 states: "The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships."

The CD signed the lease for the residence she was to occupy. Prior to her signing the lease, the post sent it to OACM for review. The memorandum response from OACM's policy and overseas support manager to the CD and AO delegated additional approval authority and raised technical issues regarding the lease but had no comment regarding the lease signatory. In accordance with OFMH section 30.1, the AO also requested and obtained approval of the lease from the acting regional director because the annual rent was over $20,000.

Despite the apparent contradiction between the PCM and the OFMH, both the acting chief acquisition officer and the general counsel opined that the *Peace Corps Manual* was controlling and that the CD had the legal authority to sign residential leases. The acting chief acquisition officer determined that ratification, which is defined in FAR part 1, subpart 1.602-3 as "the act of approving an unauthorized commitment by an official who has the authority to do so," was not warranted. However, she also stated that the appearance of a conflict of interest is contrary to the FAR and not in the best interest of the Peace Corps. Further, from an internal control standpoint, PCM section 784.3.0 (b) requires that "Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation." In line with this requirement, the individual who is the beneficiary of the housing should not be the one committing the agency by signing the lease document. Moreover, OFMH section 30.1 suffers from a lack of internal control by requiring that another direct hire employee at the post, who reports to the country director, sign the country director's residential lease.

According to the Office of General Counsel (OGC), the "GC ruling" on a potential conflict of interests was actually an informal email response to a query from the director of the Office of Global Accounts Payable (OGAP) regarding the appropriateness of CDs "signing the leases involving their own living quarters." The OGC email stated, "This would be a serious concern, since the lease directly affects his/her benefits."[1] OGAP included OGC's email guidance as part of the OFMH policy. The GC informed us that his office is reconsidering the appropriateness of the original email guidance and reviewing the language included in the OFMH. Because the leased U.S. government property in question would presumably be used and enjoyed by subsequent CDs, there is a question as to whether the benefits or perceived benefits of occupancy of the residence would be primarily realized by the government or by the CD. Moreover, the *Standards of Ethical Conduct for Employees of the Executive Branch* (5 C.F.R. Part 2635), issued by the Office of Government Ethics (OGE), which outlines circumstances that may result in an actual or perceived conflict of interest, do not directly address this situation. As a result, the GC informed us that OGC intended to seek from OGE a formal advisory opinion, in accordance with 5 C.F.R. 2638.301-313.

[1] OGC's advice was sought and provided on June 15, 2007.The query related to OGAP's "reviewing internal practices, to assure they are appropriate" and had no relation to this particular lease situation.

We recommend:

C.2.1 That the Office of General Counsel obtain a formal opinion from the Office of Government Ethics on the question of whether a staff member can sign a lease for a residence that they will occupy.

C.2.2 That the Office of General Counsel, in consultation with the Office of Acquisitions and Contract Management and the Office of the Chief Financial Officer, review and update as needed the agency's lease guidance in the *Peace Corps Manual* and the *Overseas Financial Management Handbook* and that the revised guidance take into account internal control requirements.

D. Volunteer Allowances

1. The post did not complete the 2008 living allowance survey and evaluate the allowance's adequacy.

PCM section 221.5.1 states that "Volunteers are entitled to a living allowance in order that they may serve effectively and safely overseas." Living allowance surveys are the principal means by which a post verifies that the allowance is adequate and, if not, determines an appropriate adjustment. Timely and properly performed surveys are critical in a hyper-inflationary economy such as Ethiopia's to ensure that the allowance reflects the current living needs of the Volunteers.

Several Peace Corps policies provide guidance with respect to living allowance survey requirements:

PCM section 221.5.7.3 states: "Increases or decreases to the base living allowance must be based on the findings of the Volunteer living allowance survey, as supported by the market basket survey."

PCM section 221.5.7.2 states: "To verify living allowance survey submissions, a market basket survey shall be conducted by staff .… The market basket survey is to be used as a guide to validate the cost data on the living allowance survey submissions."

Further, PCM section 221.5.7.1 states: "The [living allowance] survey data should represent costs in a typical month and include item name, quantity, unit, and cost."

The two living allowance surveys the post conducted in 2008 were incomplete. The responses to the initial survey were annulled by the TDY AO "due to a low response rate … and inconclusive results." A second, condensed survey, which was developed by Volunteers rather than the post and agreed to by the prior CD, was inappropriate. It consisted of a single page and was unrepresentative of total costs in a typical month because it surveyed only food and a few supply items. Moreover, the Volunteers' responses were not compiled, and no conclusion was drawn. Further, a market basket survey was not performed. As a consequence, no determination was made by the post regarding the adequacy of the living allowance. The post performed a correct living allowance and related market basket survey in 2009. Accordingly, no recommendation is being made.

2. The post did not complete its 2008 settling-in allowance survey nor perform independent price surveys in 2008 and 2009.

At the conclusion of pre-service training, newly sworn-in Volunteers are given a settling-in allowance to provide for their needs when arriving at their sites. PCM section 221.3.1 states that the allowance is for the purchase of "necessary housing supplies and equipment."

To verify that the allowance is adequate, PCM section 221.4.2 requires that the post conduct Volunteer settling-in surveys and related independent price surveys.

The post did not complete the 2008 settling-in allowance survey. The post distributed the settling-in survey forms to new Volunteers but did not compile and evaluate the results. Moreover, the post did not perform independent price surveys in 2008 and 2009 to support the results of Volunteer surveys.

Volunteers rely upon the post to provide them with adequate allowances, which are mandated by section 2504 of the Peace Corps Act of 1961, as amended. Properly conducted settling-in allowance surveys help ensure that the allowance is adequate.

We recommend:

D.2.1 That the post conduct complete settling-in allowance surveys, including independent price surveys, compile and analyze the Volunteer responses and conclude as to the allowance's adequacy.

3. The post did not always send timely e-mail notifications to headquarters of departing Volunteers.

Peace Corps policy requires that the post notify headquarters of departing Volunteers within 24 hours of their close of service (PCM section 223.12.1) or early termination (PCM section 223.4.2) dates. We found that six of the 35 notifications we reviewed were sent from two to 51 workdays after the Volunteer's departure. Four of the six late instances occurred during the TDY period. The AO told us that he is personally handling the notifications to ensure that they are done on time.

Timely notification permits headquarters to promptly perform Volunteer processing, collect any amounts due the agency, and expedite release of the readjustment allowances.

We recommend:

D.3.1 That the post send e-mail notifications to headquarters within 24 hours of Volunteers' close of service or early termination dates.

E. PROPERTY MANAGEMENT

1. The post's internal controls and procedures over property inventory were inadequate, and some property was not recorded in the post's records.

The GAO Standards state: "An agency must establish physical control to secure and safeguard vulnerable assets .... Such assets should be periodically counted and compared to control records." The GAO Standards assert that "… control activities help to ensure that all transactions are completely and accurately recorded."

PCM section 511.6.1 requires that "the Administrative Officer reconcile the inventory against receiving reports and requisition forms at least once a quarter."

The post's internal controls and procedures over property inventory were inadequate. Our testing of the property inventory database identified post property that was not reflected in the database. In the case of a video camera, which was being used outside the office, there was no record of the asset in the property database and no document showing sign-out by the user. In effect, the asset was off the post's records.

Two pieces of equipment located in the medical unit, an electrocardiogram machine and a combination optomoscope and autoscope, were neither tagged nor in the inventory database. Further, one cell phone was unaccounted for; the general services manager (GSM) told us that this was an untagged cell phone maintained in his office.

In addition, the post's 15 satellite phones were not recorded in the inventory database. The listing of the IT specialist, who was responsible for controlling the satellite phones, included nine of 15 phones. He told us that his listing had not been updated for six phones that were returned to the office while he was on leave. The AO maintained a separate listing that showed the correct number of phones. However, his listing contained an incorrect tag number for one phone, and we noted that another phone was not tagged. During the course of the audit, the AO took possession of the phones for safekeeping, locking them in his office.

Internal control procedures such as maintaining an accurate and complete property inventory database; updating it for changes on an ongoing basis; performing periodic reconciliations during the year; and conducting physical inventory verifications and investigating discrepancies are important steps in protecting property from waste, fraud, and abuse.

Unrecorded assets, such as those noted above, represent a serious condition because the assets are particularly vulnerable. Without appropriate controls in place, and without accurate and reliable inventory data, property could well go missing or could be diverted.

We recommend:

E.1.1 That the post ensure that all property is recorded in the property inventory database in accordance with agency policy (including affixing tags to property needing them) and that post update the property inventory database for changes on an ongoing basis.

E.1.2 That the administrative officer oversee a review of invoices for the last two years to ensure that all acquired post property has been recorded.

E.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least quarterly.

F. VEHICLES MANAGEMENT

1. Management oversight over vehicle usage required improvement.

Vehicles represent the agency's single most significant owned assets at a post, and their maintenance and utilization is a major operating cost. The significance of the agency's vehicle investment and the opportunity for waste, fraud, or abuse in vehicle utilization make oversight by post management critical.

PCM section 527.5.4 requires that the AO, the staff member responsible for initiating vehicle repairs or maintaining the vehicle records, and the staff member responsible for billing authorized non-official vehicle use review, initial, and date the vehicle usage logs weekly. Further, PCM section 527, Attachment A, provides a standard vehicle usage log form.

We found that management oversight of vehicle usage by reviewing log activity was inconsistent. During a 19-month period, except for about three weeks, only the general services manager (GSM) reviewed and initialed the logs; required reviews by the AO and the billing officer were not performed. Further, for periods when the GSM was on leave, no review of the logs took place.

Also, the post did not use the standard vehicle usage log form in the PCM. The AO told us that the form in use was an old form that had been placed in operation before his arrival at the post. Most notably, the post's form did not include a "purpose of trip" column. Further, on several occasions "Various" was placed in the destination column. Without specific destination and purpose of trip information, an informed review would not be possible. For example, we noted four trips between the post and the U.S. embassy during one four-day period, of 14, 15, 21, and 26 kilometers. Without details regarding the trips' purpose, it was uncertain if the differences in kilometers between the same two points represented valid official use of the vehicles. The variations should have prompted questions during the log review process.

Moreover, we noted one situation where the ending kilometer balance of one log page did not agree with the beginning balance on the next page. The difference appeared to be a posting error, but it appeared to have not been noted during the log review. In addition, some log pages were illegible, complicating the log review. We also noted that the driver's name was not always filled in. Such data establishes accountability and facilitates follow-up.

Finally, authorization was not on file for the personal usage of post vehicles by two U.S. direct hire employees in 2008. Authorizations were, however, on file for similar personal usage in 2009.

Review and oversight of the post's vehicle usage logs are important internal control procedures to ensure that the vehicles are being used appropriately and reduce the potential for waste, fraud, and abuse.

We recommend:

F.1.1 That all required staff members review, initial, and date the vehicle usage logs weekly and investigate unusual or questionable postings.

F.1.2 That the post use the appropriate vehicle usage log.

F.1.3 That the administrative officer advise staff of the importance of completing all requested information in the vehicle usage logs and ensure that all the information is being provided.

G. MEDICAL SUPPLIES

1. The post did not fully implement the agency's medical supplies inventory policy.

PCM section 734 specifies the post's requirements relating to medical supplies inventory. The policy was revised in November 2008 to strengthen internal control over medical supplies.

PCM section 734.3.5 delineates overall control objectives and responsible parties. It states:

> The CD and PCMO [Peace Corps Medical Officer] share the responsibility to maintain effective control over medical supplies …. Assurance that effective controls are in place is achieved through maintaining appropriate segregation of duties, accurate record keeping, secure storage, and periodic inventories.

PCM section 734.3.5.1 states:

> The MSIC [Medical Supply Inventory Control] Clerk must maintain an accurate and complete set of inventory records for all medical supply items that are specially designated or controlled substances (Medical Inventory Control Log).

This policy section further states that "… the PCMO must maintain records on the dispensing and disposal of these items." Attachment D to the policy provides a "Record of Medical Supplies Dispensed" form to be completed by the PCMO.

In addition, PCM section 734.3.5.3 (c) states:

> Annually, the Medical Inventory Control Log must be signed by the CD and be submitted to OMS for review. The annual requirement for CD sign-off the inventory of specially designated medical supplies and controlled substances will assess inventory on hand as of March 31 and is due to OMS by April 15 each year.

The post did not begin implementing the agency's medical supplies policy, which was issued in November 2008, until the month prior to the audit. In February 2010, the post established a medical inventory control log under control of the GSM, who was designated the MSIC clerk.

However, the post did not implement a dispensed inventory form. Rather, the medical unit maintained its record of drugs dispensed to Volunteers on a listing pasted to its drug cabinet and did not provide dispensing information to the MSIC clerk for updating the records. As discussed in H.2, we noted discrepancies between our test counts and the medical inventory control log, principally due to unrecorded dispensed drugs.

Further, the CD did not sign and submit to OMS the medical inventory control log as of March 31 and due by April 15 annually. The log and is an important tool in OMS' review and oversight of post medical supplies.

Accurate and complete inventory records and prompt reporting to OMS are important to effectively control medical supplies. Strong internal controls and procedures are required to prevent theft, abuse, or misuse.

We recommend:

G.1.1 That the post fully implement the agency's policy on medical supplies inventory.

2. Discrepancies existed between the medical supplies inventory and the related records.

PCM section 734.3.5 states: "Assurance that effective controls are in place is achieved through … accurate record keeping …."

The post did not keep current, accurate, and complete medical inventory records. We noted discrepancies between the medical supplies on hand and the post's records. As discussed in H.1, the discrepancies were principally due to the non-recording in the MSIC's records of drugs dispensed to Volunteers.

Discrepancies in Medical Supplies Inventory

Drug	Drug Quantity in Log	Auditor's Drug Count	Difference
Drug A	23 strips	20 strips	3 strips[1]
Drug B	172 tablets	138 tablets	34 tablets[2]
Drug C	76 units	79 units	3 units[3]
Drug D	5 units	4 units	1 unit[1]

1. Dispensing not recorded.
2. Twelve tablets were dispensed on three separate occasions but not recorded in the log. Two tablets were unaccounted for.
3. The beginning inventory balance and the dispensed inventory posting were both incorrect.

Accuracy in the recording of medical supplies and timeliness in the updating of the inventory records are essential in detecting and preventing waste, fraud, and abuse. Further, the reliability of medical inventory information is critical in making correct and cost-effective inventory ordering decisions and ensuring that the medical unit has the appropriate items and quantities of medical supplies on hand to effectively treat Volunteers.

We recommend:

G.2.1 That the post conduct a complete physical inventory of medical supplies in accordance with agency policy and update the inventory records accordingly.

G.2.2 That the post record medical supplies received and dispensed to Volunteers on an ongoing basis using the required forms.

H. IT SECURITY

1. Staff did not complete computer use forms.

PCM section 542, Attachment A provides a "User Verification Form" to be completed by staff. The form confirms that the user has read and will abide by the IT security rules of behavior.

We found that while the IT specialist had obtained User Verification Forms from the Volunteers, he had not obtained them from the staff. These forms are important in order to document staff members' awareness of computer usage rules and regulations and agreement to comply with them.

Subsequent to the audit, the IT specialist informed us that he had obtained computer use forms from the staff, and he sent us examples of the forms received. Accordingly, no recommendation is being made.

I. PRESIDENT'S EMERGENCY PLAN FOR AIDS RELIEF

1. PEPFAR small project funding controls and procedures were inadequate.

The post had grants, authorized under PEPFAR, called Volunteer Activities, Support, and Training (VAST), for small HIV/AIDS-related projects to be performed by Volunteers in their communities. During our review, we noted a number of deficiencies in controls and procedures over these grants.

The administrative unit did not compare the receipts submitted by Volunteers with the approved project budgets, to verify that the expenditures were in line with the project as planned and approved. Furthermore, Volunteers did not always submit receipts as required.

Volunteers were requested to provide their budgets on the project proposal form in U.S. dollars, even though the funds to be received were in local currency. Moreover, the exchange rates used by Volunteers to convert their local currency budgets into U.S. dollars were sometimes different than the rates used by the post to request the local currency funds. As a result, it was uncertain if the local currency amounts provided to Volunteers were in line with project needs.

The post did not systematically monitor the status of the projects during their implementation stage. Monitoring would include maintaining contact with Volunteers while projects are being performed and, on a judgment basis, visiting such projects during and subsequent to implementation. The post has recognized the need for such monitoring and has requested approval from the Africa region for a new position, grants project coordinator, whose responsibilities would include overseeing the project process from conception to completion.

Additionally, some documents for a particular project were maintained in the programming unit, while other documents were maintained in the administrative unit. The filing system complicated the post's oversight and control to ensure that all aspects of a project were completed.

Implementing effective internal controls over the project process would help ensure that the projects are conceived, approved, implemented, and closed out in an effective and efficient manner.

We recommend:

I.1.1 That the post establish internal controls and procedures over the Volunteer Activities, Support, and Training (VAST) grant process to ensure that projects are conceived, approved, implemented, and closed out effectively and efficiently.

I.1.2 That the post have Volunteers prepare and submit their project budgets in local currency.

I.1.3 That the post monitor project implementation.

I.1.4 That the administrative unit compare the final accounting for Volunteer Activities, Support and Training (VAST) funds, including receipts, with the project budget and follow up discrepancies.

2. The post needs to determine how its carryover PEPFAR funds will be used.

At the date of the audit, the post's records showed $4.2 million of PEPFAR funds authorized and unused from prior year requests. These funds may be used in future years. The post needs to determine, in consultation with the region and the headquarters Office of AIDS Relief, how it will cost-effectively maximize the use of these funds on a timely and ongoing basis.

We recommend:

I.2.1 That the country director, in consultation with the region and the Office of AIDS Relief, determine how it will best maximize the use of its carryover President's Emergency Plan for AIDS Relief (PEPFAR) funds.

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. They are discussed in the accompanying audit report and noted below. (Amounts are in U.S. dollars or U.S. dollar equivalents of Ethiopian birr (EB) at the rate of $1 equals 13.5 EB.) We did not identify any questioned costs.

Funds to be Put to Better Use

Recommendation number	Description	Amount
C.1	Unanticipated additional lease costs in fiscal year 2010 because of increases requested by landlords based on the U.S. dollar amounts or equivalents in the leases, due to hyper-inflation and the devaluation of the local currency.	$82,000*

* Calculated as the approximate difference between the local currency amount per the lease (or, for the U.S. dollar-denominated lease, the local currency amount using the base year's exchange rate) and the local currency amount actually paid to the landlord.

LIST OF RECOMMENDATIONS

We recommend:

A.1.1 That the country director and administrative officer strengthen the post's internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect waste, fraud, and abuse.

B.1.1 That the country director ensure proper quarterly imprest fund verifications including a review of supporting documents for all balances on the cash reconciliation statement.

B.2.1 That the administrative officer remind post staff of the requirement to clear their interim cash advances within three working days.

B.2.2 That the cashier monitor interim advances and notify the administrative officer if advances are not cleared within three working days.

B.2.3 That the administrative officer monitor the status of outstanding interim advances in order to ensure that they are cleared within the required time period.

B.2.4 That the verifying officer report uncleared interim cash advances on the "Monthly Checklist for Verifying Officer."

C.1.1 That the post follow Peace Corps lease policy in the preparation of leases.

C.1.2 That the post comply with contract recommendations of the Office of Acquisitions and Contract Management.

C.2.1 That the Office of General Counsel obtain an opinion from the Office of Government Ethics on the question of whether a staff member can sign a lease for a residence that they will occupy.

C.2.2 That the Office of General Counsel, in consultation with the Office of Acquisitions and Contract Management and the Office of the Chief Financial Officer, review and update as needed the agency's lease guidance in the *Peace Corps Manual* and the *Overseas Financial Management Handbook* and that the revised guidance take into account internal control requirements.

D.2.1 That the post conduct complete settling-in allowance surveys, including independent price surveys, compile and analyze the Volunteer responses and conclude as to the allowance's adequacy.

D.3.1 That the post send e-mail notifications to headquarters within 24 hours of Volunteers' close of service or early termination dates.

E.1.1 That the post ensure that all property is recorded in the property inventory database in accordance with agency policy (including affixing tags to property needing them) and that post update the property inventory database for changes on an ongoing basis.

E.1.2 That the administrative officer oversee a review of invoices for the last two years to ensure that all acquired post property has been recorded.

E.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least quarterly.

F.1.1 That all required staff members review, initial, and date the vehicle usage logs weekly and investigate unusual or questionable postings.

F.1.2 That the post use the appropriate vehicle usage log.

F.1.3 That the administrative officer advise staff of the importance of completing all requested information in the vehicle usage logs and ensure that all the information is being provided.

G.1.1 That the post fully implement the agency's policy on medical supplies inventory.

G.2.1 That the post conduct a complete physical inventory of medical supplies in accordance with agency policy and update the inventory records accordingly.

G.2.2 That the post record medical supplies received and dispensed to Volunteers on an ongoing basis using the required forms.

I.1.1 That the post establish internal controls and procedures over the Volunteer Activities, Support, and Training (VAST) grant process to ensure that projects are conceived, approved, implemented, and closed out effectively and efficiently.

I.1.2 That the post have Volunteers prepare and submit their project budgets in local currency.

I.1.3 That the post monitor project implementation.

I.1.4 That the administrative unit compare the final accounting for Volunteer Activities, Support, and Training (VAST) funds, including receipts, with the project budget and follow up discrepancies.

I.2.1 That the country director, in consultation with the region and the Office of AIDS Relief, determine how it will best maximize the use of its carryover President's Emergency Plan for AIDS Relief (PEPFAR) funds.

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 three sources: (1) document and data analysis, (2) interviews, and (3) direct observation. Our audits are conducted in accordance with the government auditing standards prescribed by the Comptroller General of the United States.

The audit of PC/Ethiopia covered fiscal years 2008, 2009, and 2010 through February 28, 2010. While at the post, we interviewed key staff including the CD, the AO, staff responsible for administrative support, and the U.S. PCMO. A number of local staff requested that the post initiate a training and development program to strengthen their current job skills and to learn new skills. We also interviewed Volunteers to obtain their views on the effectiveness of the post's administrative and financial systems in supporting them. Volunteers told us that they appreciated the interest shown by the staff in their success and well-being. As part of the audit process, we briefed the CD and AO. At headquarters, we conducted a general briefing for regional staff.

We relied on computer-processed data from the post's accounting system. 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*, the *Overseas Financial Management Handbook*, federal regulations, and current Peace Corps policies and initiatives.

APPENDIX B

LIST OF ACRONYMS

AO	Administrative Officer*
CD	Country Director
GAO	Government Accountability Office
GC	General Counsel
GSM	General Services Manager
MSIC	Medical Supply Inventory Control
OACM	Office of Acquisitions and Contract Management
OFMH	Overseas Financial Management Handbook
OGE	Office of Government Ethics
OIG	Office of Inspector General
OMS	Office of Medical Services
PC	Peace Corps
PCM	Peace Corps Manual
PCMO	Peace Corps Medical Officer
PEPFAR	President's Emergency Plan for AIDS Relief
PSC	Personal Services Contractor
TDY	Temporary Duty
VAST	Volunteer Activities, Support, and Training

* Name subsequently changed to Director of Management and Operations

APPENDIX C

MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT

Peace Corps

DATE: January 14, 2011

TO: Kathy Buller, OIG

Through: Daljit K. Bains, Chief Compliance Officer Daljit K Bains

From: Dick Day, Africa RD

CC: Stacy Rhodes, Chief of Staff
Carrie Hessler-Radelet, Deputy Director
Joaquin Ferrao, Deputy IG
Brad Grubb, Assistant IG
Bill Rubin, General Counsel
Esther Benjamin, AD/OGO
Lynn Foden, AF CHOPS
Nwando Diallo, CD, Ethiopia
Rob Claussen, AO, Ethiopia

SUBJECT: Africa Region's Response to the OIG Preliminary Report of the Financial Audit of Peace Corps/Ethiopia

Enclosed please find Africa Region's response to the recommendations made by the Inspector General for Peace Corps/Ethiopia, as outlined in the Preliminary Report of the OIG Financial Audit, December 2010.

The Region concurs with 25 recommendations, and does not concur with one, D.2.1 addressing settling-in allowance. Region will continue to work with Post to ensure full implementation of the OIG recommendations.

A.1.1 That the country director and administrative officer strengthen the post's internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect waste, fraud, and abuse.

> **Concur:** The CD and AO continue to strengthen Post's internal control environment, activities, and monitoring in a manner that will safeguard assets and prevent and detect waste, fraud, and abuse. As noted in the OIG preliminary report, most of the findings are related to issues predating the arrival of the AO in September 2008 and the CD in December 2008. Since then, the AO and CD have taken a number of steps to strengthen Post's internal control environment,

1

APPENDIX D

OIG COMMENTS

Management concurred with 25 recommendations and did not concur with one recommendation. We closed 18 recommendations: A.1.1, B.1.1, B.2.1, B.2.2, B.2.3, B.2.4, C.1.1, C.1.2, D.2.1, D.3.1, E.1.1, F.1.1, F.1.2, F.1.3, I.1.1, I.1.2, I.1.3, I.2.1. We left open 8 recommendations: C.2.1, C.2.2, E.1.2, E.1.3, G.1.1, G.2.1, G.2.2, I.1.4. These recommendations remain open pending confirmation from the chief compliance officer that the following has been received:

- For recommendation C.2.1, a copy of a formal opinion from the Office of Government Ethics on the question of whether a staff member can sign a lease for a residence that they will occupy.

- For recommendation C.2.2, documentation that a review of the agency's lease guidance in the Peace Corps Manual and the Overseas Financial Management Handbook was conducted and such guidance was updated as needed, and that the revised guidance takes into account internal control requirements.

- For recommendation E.1.2, documentation that the administrative officer has overseen a review of invoices for the last two years to ensure that all acquired post property has been recorded.

- For recommendation E.1.3, documentation that the administrative officer has performed the required property inventory reconciliation at least quarterly.

- For recommendation G.1.1, documentation that the post has fully implemented the agency's policy on medical supplies inventory.

- For recommendation G.2.1, documentation that the post has conducted a complete physical inventory of medical supplies and updated the inventory records.

- For recommendation G.2.2, documentation that the post is using the required form to record medical supplies received and dispensed to Volunteers.

- For recommendation I.1.4, documentation that the post is comparing the final accounting of Volunteer Activities, Support, and Training (VAST) funds, including receipts, with the project budget.

While we closed recommendation B.1.1, we would like to note that the OFMH requirement to review all documents, including closed bureau vouchers appearing on the cash reconciliation statement, is based on the State Department regulation in the Foreign Affairs Manual, section 4FAH-3 H-397.1-3, "Procedures for Verification of Operating Cash Advance," that all paid receipts (subvouchers) on hand be reviewed as part of the verification. In addition, we would like to note that, per the cashier's records, required monthly verifications for January and July

APPENDIX D

2009 were not conducted; the headquarters overseas cashier liaison confirmed that she had not received verifications for these months.

For recommendation D.2.1, with which management did not concur, we have accepted management's response and have closed the recommendation. We continue to believe that because the settling-in allowance is a commitment of agency funds and directly affects Volunteer well-being, an independent survey is an important management tool "to provide verification of price trends and support the analysis of the Volunteer survey [MS 221.4.2]," regardless of the percentage of the increase.

In their response, management described actions they are taking or intend to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the region or post has taken these actions nor that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

APPENDIX E

AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Senior Auditor Steven Kaffen performed the audit of Peace Corps/Ethiopia.

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

REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

Fraud, waste, abuse, and mismanagement in government affect everyone from Peace Corps Volunteers to agency employees to the general public. We actively solicit allegations of inefficient and wasteful practices, fraud, abuse, and mismanagement related to Peace Corps operations domestically or abroad. You can report allegations to us in several ways, and you may remain anonymous.

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