



Peace Corps Office of Inspector General



PC/Kenya office in the Nairobi suburbs



Tea plantation near Kericho, Kenya



Flag of Kenya

Final Audit Report: Peace Corps/Kenya IG-10-12-A

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EXECUTIVE SUMMARY

We found that Peace Corps/Kenya's financial and administrative operations and its compliance with agency policies and federal regulations required improvement. Some of the more important findings are summarized below.

Imprest Fund Management

The quarterly and monthly imprest fund verifications did not include a review of reconciling documents and their proper recording on the cash reconciliation statement. Complete verifications are an essential internal control over the post's most liquid asset.

Volunteer Allowances

The 2009 living allowance market basket survey was ineffective in validating the results of the Volunteer living allowance survey. Moreover, the post did not perform a living allowance market basket survey in 2008, and did not perform settling-in allowance independent price surveys for the Volunteer groups that swore in during 2008 and 2009. Additionally, the results of the settling-in surveys submitted by the Volunteers were not analyzed, including a determination of response rates and results, and conclusions were not made regarding the allowances' adequacy. The above conditions are significant since Volunteers depend on timely and adequate allowances for their health and well-being.

Billings and Collections

The billing officer, who issues bills of collections, is responsible for monitoring the status of billings and following up delinquencies. However, this function was being performed by the collections officer. Further, billings for personal phone usage were sometimes issued and collected late in 2007-2008, due to certain staff not promptly reviewing the phone bills to identify personal calls. This issue is no longer a problem at the post, and no recommendation is being made. Also, bills were issued regardless of amount, as low as \$1 or less, resulting in an inefficient use of resources.

Property Management

Controls and procedures over post property, which are essential for proper accountability and oversight, were inadequate or, in some cases, nonexistent. The same staff member maintained the inventory listing of information technology (IT) equipment and performed the 2009 physical inventory of IT property, violating the internal control requirement for segregation of duties. Moreover, the post did not perform a physical inventory verification of its non-IT property in 2009. In addition, the 2008 listing of office property was not updated during the year for changes. Furthermore, a new listing prepared in 2009 was not reconciled with the 2008 listing and differences identified and followed up. The property control officer and the administrative officer did not perform periodic reconciliations as required. Also, we noted property that had no Peace Corps tag or two tags, one of which was Peace Corps'. Without adequate and effective internal controls and procedures over property, including maintaining and updating inventory records and

performing periodic verifications, property could well go missing, with a resulting loss to the agency.

Vehicles Management

The vehicle usage logs were not reviewed, initialed, and dated by all required individuals to verify that the post's vehicles were being used appropriately. Further, since 2007, an unused Peace Corps vehicle has been sitting idle on the post's premises awaiting registration documents so that it could be sold. The post actually sold the vehicle in November 2007 without the required registration documents for 1,731,000 Kenya shillings or about \$23,000. However, the post was required to return the proceeds when the buyer was unable to register the vehicle. We were informed by the post that the registration documents were received in January 2010.

Personnel Management and PSC contracts

The post miscalculated the 2009 and 2010 contracts of its personal services contractors (PSCs). The post modified the 2009 contracts when the discrepancies were identified and told us it intended to do the same for the affected 2010 contracts, resulting in a reduction in PSC salaries. In addition, compensatory time was not reflected on the staff's timesheets or in the post's official time and attendance records. Proper internal control over staff time requires that additional hours worked and hours taken as compensatory time be officially accounted for.

Medical Supplies

The post did not implement the agency's medical supplies policy. Contrary to policy, the medical secretary maintained the medical supplies inventory records. Further, the person responsible for taking the quarterly physical inventory recorded her counts but did not investigate differences from the inventory records. In addition, the prior country director did not submit the medical inventory control log annually to the Office of Medical Services for review, as required. Finally, we found discrepancies in quantities between our test counts and the medical supplies inventory records. The reliability of medical inventory information is critical in making correct and cost-effective inventory ordering decisions and in ensuring that medical supplies in required quantities are on hand to treat the Volunteers.

Administrative Staff

We found a dedicated and conscientious administrative staff that had functioned cohesively in support of post operations. Volunteers told us that they had received effective ongoing assistance from the administrative unit.

Appendix B includes comments from post staff and Volunteers interviewed. Our report contains 23 recommendations, which, if implemented, should strengthen internal controls and correct the deficiencies detailed in the accompanying report.

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INTRODUCTION

The Office of Inspector General (OIG) conducted an audit of PC/Kenya January 20 – February 12, 2010. We previously performed a combined audit and program evaluation of the post in 2003 (IG-03-02-AE, “Final Report on the Evaluation and Audit of Peace Corps/Kenya” issued in October 2003).

The Peace Corps commenced its program in Kenya in 1964. Since then, approximately 5,000 Volunteers have served there. In January and February 2008, the Volunteers were evacuated due to the violent aftermath of the Kenya presidential election. Volunteers returned to Kenya in June 2008. At the time of our visit, 75 Volunteers were engaged in three project areas: education, public health, and small enterprise development. The country director arrived at the post in mid-September 2009, and the administrative officer arrived in March 2005. Many of our findings occurred prior to the arrival of the country director.

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/Kenya’s financial and administrative operations required improvement and did not fully comply with agency policies and federal regulations.

For example, we found that the post did not:

- Perform complete imprest fund verifications.
- Conduct appropriate living and settling-in allowance surveys including market basket and independent price surveys.
- Maintain adequate internal controls and procedures over property inventory.
- Perform weekly reviews of vehicle usage logs by all required persons.
- Accurately calculate salary costs on PSC contracts.
- Record compensatory time on timesheets and the official time and attendance records.
- Fully implement the agency’s medical supplies policy and keep accurate medical supplies inventory records.

A. 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 country director, 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."

The cashier informed us that imprest fund verifications of the country director and administrative officer did not include a complete review of reconciling documents and their proper recording on the cash reconciliation statement. Also, the prior country director did not perform an imprest fund verification in the first quarter of fiscal year 2009; however, verifications since then have been timely and accordingly, no recommendation is being made.

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:

- A.1.1 That the country director and the administrative officer perform complete imprest fund verifications that not only include a cash count but also a review of supporting documents for all balances on the cash reconciliation statement.

B. VOLUNTEER ALLOWANCES

1. The post's 2009 market basket survey was ineffective in corroborating the Volunteer living allowance survey results.

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 221.5.7.3 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.”

The post performed a Volunteer living allowance survey in 2009. The Volunteer responses, totaling a strong 83.6% of all Volunteers, were compiled and analyzed. However, the post’s market basket survey (MBS) was ineffective in validating the Volunteer survey results. For example, cost data was not obtained in the MBS for the category “clothing.” Further, for some categories, such as “reading” and “domestic help,” the post’s compilation contained wide cost variations by location without explanation or evidence of follow-up. Also, the MBS categories “food” and “reading” were completed for all locations surveyed, but other categories were completed for only some locations. In addition, the post used an MBS form with some different categories, such as “domestic help,” than the Volunteer survey. Using the same categories would facilitate the validation of Volunteer survey results.

In addition, the post did not perform a living allowance market basket survey in 2008. These are required to be performed annually in conjunction with the Volunteer living allowance surveys.

Properly conducted market basket surveys, which provide an independent verification of costs, are an essential element in a post’s review of the adequacy of the Volunteer living allowance.

We recommend:

- B.1.1 That, to facilitate validating the cost data from the Volunteer living allowance survey, the post conduct a market basket survey with the same cost categories as the Volunteer survey.
- B.1.2 That the post use the results of the market basket survey in evaluating the results of the Volunteer living allowance survey and determining if the allowance is adequate to support Volunteer living needs.

2. The post did not analyze the settling-in surveys nor perform independent price surveys.

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 its review and evaluation of the Volunteer settling-in surveys. The post distributed the settling-in survey forms to the new Volunteers and compiled the response data on a spreadsheet. However, the post did not analyze the results and conclude as to the adequacy of the allowance. In addition, the post did not perform related independent price surveys in 2008 and 2009 to confirm the results of the Volunteer survey.

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

We recommend:

- B.2.1 That the post analyze the results of its Volunteer settling-in survey and conclude as to the allowance’s adequacy.
- B.2.2 That the post conduct an independent price survey in conjunction with the Volunteer settling-in allowance survey to confirm the results of the Volunteer survey.

C. BILLINGS AND COLLECTIONS

1. The post did not always bill promptly for personal phone usage and have the billing officer handle follow-up of billings, and had not set a minimum cost-effective billing amount.

PCM section 777.8.0 states: “Debts are incurred through the non-official use of Government-owned transportation, communication facilities or living accommodations, loss of funds, loss or damage to government-owned equipment, property, etc.” PCM section 777.16.4 states: “An employee indebtedness should be settled promptly.” This requires that the post’s billing office maintain an effective and efficient processing and control system that bills the staff for amounts owed the post in a timely manner.

PCM section 777.3.2 specifies the responsibilities of the billing office. These include:

“Preparation, issuance and control of billings; advises debtors where payments or remittances should be made; maintains an aggressive follow-up program for outstanding bills until collection or other means of settlement are made.”

By comparison, the collections office, according to PCM section 777.3.4, “is responsible for the control and deposit of remittances and collections.”

In addition, OFMH section 7.2.1, number 4, states: “Ensure that the Billing File has ‘closure’ documents (e.g., General Receipt, Void justification/re-entry, etc) for all BOCs that are not outstanding.”

Further, OFMH section 7.1.1 states that “... agency policy authorizes CDs to establish written, post-specific policy, applicable to all staff (including FP, FSN, and PSCs) which sets a threshold for billing based on a consideration of the costs incurred in the billing and collection process - i.e., is it cost effective to bill for an amount of less than ‘x’.”

We noted the following departures from billing and collection policy and procedure:

Billings for personal phone usage were sometimes issued and collected late in 2007-2008. We noted bills of collection that were issued in 2008 up to nine months after the date that the phone bill was received at the post. The administrative officer and the billing officer told us that the tardiness in billing was due to certain staff not promptly reviewing the phone bills to identify personal calls. The issue is not a current problem, and, accordingly, no recommendation is being made.

Further, the collections officer (cashier) oversaw the status and follow-up of BOCs issued, rather than the billing officer, who is best placed and most knowledgeable to perform this function.

In addition, we noted that the billing files were maintained by different staff. For example, the motor pool coordinator maintained the billing files for U.S. direct hire personal usage of post vehicles. The general services assistant maintained the billing files for auctions of vehicles and furniture and equipment. And, the Volunteer records clerk maintained the files for billings to Volunteers. Centralizing BOC files in the billing office would strengthen billing officer control.

Finally, the post had not determined an amount under which it would not be cost-effective to bill for phone charges. We noted monthly billings in amounts as low as the Kenya shilling equivalent of \$1 or less. During the audit, the country director set a monthly minimum of 750 Kenya shillings (\$10 at the exchange rate of 75 Kenya shillings to the U.S. dollar) to bill for personal phone usage.

We recommend:

- C.1.1 That the billing officer centralize the billing files in the billing office to strengthen control.

D. PROPERTY MANAGEMENT

1. The post's internal controls and procedures over property inventory were deficient.

PCM section 511.5.1 states: "Before beginning inventory, the Property Officer should check the property management records against written documentation of property/equipment changes to ensure that all changes have been entered in the property management database."

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

In addition, "Standards for Internal Control in the Federal Government" issued by the Government Accountability Office (hereafter, GAO Standards) states: "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 also require the separation of incompatible duties. It states: "Key duties and responsibilities need to be divided and segregated among different people to reduce the risk of error or fraud." The GAO Standards assert that "... control activities help to ensure that all transactions are completely and accurately recorded."

The post's internal controls and procedures over property inventory were inadequate, as follows:

- The IT specialist maintained the IT inventory listing and also performed the physical inventory verification, violating the internal control requirement to segregate incompatible responsibilities.
- The September 2008 property inventory listing was not updated for changes during the year, violating the requirement for the timely recording of transactions and events. A new listing was prepared in September 2009. However, the two listings were not compared, unexplained differences were not investigated, and no physical inventory verification was conducted.

The general services assistant, who has responsibility for inventory control, told us that he would use the September 2009 inventory listing as the basis for establishing a property inventory database, that he would update it on an ongoing basis for changes, and that he would verify the accuracy of this database in connection with the 2010

physical inventory. The administrative officer told us that she would monitor the work to ensure that it is done appropriately and timely.

- The property control officer did not reconcile the property inventory records with written documentation of changes before beginning inventory.
- The administrative officer did not reconcile the inventory against receiving reports and requisition forms at least once a quarter.
- The listing of property requested by and sent to headquarters in November 2009 was not updated from the November 2008 submission. Accordingly, it showed numerous discrepancies, including the locations of property. Also, items were inconsistently listed. For example, some IT converters and transformers were included on the listing, while others were excluded.
- We found property with two tags, of which one was the Peace Corps tag: the safes in the offices of the cashier, finance assistant, and Volunteer records clerk. We also found property with no Peace Corps tags: Sony Trinitron Vega televisions in the IT specialist's office and the Volunteer resource center, a lawn mower on the office compound, and two refrigerators in the kitchen.

Adequate and properly implemented internal controls and procedures are essential for effective accountability and oversight over post property. Control procedures such as delineating and segregating staff responsibilities, 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 are important steps in protecting the property from waste, fraud, and abuse.

The aforementioned deficiencies made the post's property vulnerable to loss. Without appropriate controls in place, and without accurate and reliable inventory data, property could inadvertently or advertently go missing and the condition not identified. The resulting property loss would have an adverse financial impact on the agency.

We recommend:

- D.1.1 That the post establish and maintain an accurate property inventory database and regularly update it for changes.
- D.1.2 That the property control officer reconcile the property inventory database with written documentation of changes to ensure that all changes have been recorded before the physical inventory is conducted.

- D.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least once a quarter.
- D.1.4 That one staff member maintain the property inventory database and another staff member conduct the physical inventory.
- D.1.5 That the post review its property and eliminate duplicate tags and affix tags to property needing them.
- D.1.6 That the post provide current and accurate information on its annual inventory submission to headquarters.

E. VEHICLES MANAGEMENT

1. All required personnel did not review, initial, and date the vehicle usage logs weekly.

PCM section 527.5.4 requires that the administrative officer, 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.

We found that while the administrative officer was reviewing, initialing, and dating the vehicle usage logs on a weekly basis, the motor pool coordinator and the billing officer were not.

The motor pool coordinator, who was responsible for repairs and maintenance, told us that, although he did not initial and date the logs, he reviewed them and showed us his analyses using data extracted from the logs.

Review and oversight of the post's vehicle usage logs are important internal control procedures in ensuring that the post's vehicles are being used appropriately.

We recommend:

- E.1.1 That the required staff members review, initial, and date the vehicle usage logs weekly.

2. The post has maintained a Peace Corps vehicle in excess of the established ceiling since 2007, pending proper documentation so that the vehicle can be sold.

PCM section 527.5.6 states: “The Agency's ‘Vehicle Fleet Management Guide’ sets out in-depth the procedures and requirements for use of the Agency's vehicle fleet.” The Guide states: “Please dispose of vehicle as soon as possible. Proceeds from the sale of vehicles are a significant resource to the Agency.”

Further, PCM section 527.5.1.1 states: “A post may not maintain a vehicle fleet in excess of the established ceiling ...” with certain exceptions including “for a temporary period necessary to dispose of an excess or replaced vehicle.”

Since 2007, an unused 2002 Toyota Land Cruiser owned by the Peace Corps has been sitting idle at the post awaiting registration documents so that it can be sold. This situation has resulted in the actual number of vehicles at the post being greater than the established vehicle ceiling as indicated on the last “vehicle status report” submitted to headquarters by the post.

The vehicle was driven from PC/Uganda to PC/Kenya in 2006 by the regional safety and security coordinator upon his relocation to Kenya. The documents to register the vehicle in Kenya, according to the post, either could not be located or were not prepared. Upon the vehicle’s arrival in Kenya, U.S. embassy plates were placed on the vehicle so that it could be driven in the country. However, notwithstanding the lack of documents, the post auctioned the vehicle in November 2007 for 1,731,000 Kenya shillings (about \$23,000). The buyer was unable to register the vehicle because of the missing documents, and accordingly the post returned the funds. In January 2010, the post was notified by the U.S. embassy’s general services officer that the required registration documents had been received.

As a result of the above situation, agency resources that could have been used for other purposes were tied up for two years. Moreover, the vehicle’s market value may well have diminished during that period, which may result in lower proceeds to the agency when it is sold.

We recommend:

- E.2.1 That the post sell the excess and unused Peace Corps vehicle, a 2002 Toyota Land Cruiser, following agency procedure.

F. PERSONNEL MANAGEMENT AND PSC CONTRACTS

1. The post's 2010 and 2009 PSC contracts were miscalculated.

The GAO Standards require the “accurate and timely recording of transactions and events.”

PSCs’ 2010 contracts were miscalculated. The discrepancy, which was discovered during our review of the contracts’ numerical accuracy, resulted from the inclusion of non-salary costs in the calculation. The administrative officer immediately recalculated the contract amounts. The result was a downward adjustment in total contract costs of about 60,000 Kenya shillings (about \$800). The administrative officer told us that the post intended to correct the contracts.

In addition, the 2009 contracts were miscalculated for 14 PSCs. We were told that a computer program used to determine total compensation costs erroneously included the PSCs’ daily wage rate to arrive at the total. The amount paid to staff was unaffected. The post was unable to provide us with the amount of the adjustment. The problem was identified in early calendar 2009 by headquarters, and the contracts were corrected.

Accuracy in the calculation of PSC pay and contract costs, and effective management oversight and monitoring, are essential to ensure that PSCs are correctly paid and that salary costs are properly determined.

We recommend:

- F.1.1 That the post correct the 2010 PSC contracts for the miscalculation.
- F.1.2 That the administrative officer establish internal control procedures to ensure that PSC compensation is accurately calculated and ensure that the calculations are reviewed before they are finalized on the actual contracts.

2. The post did not reflect compensatory time in its time and attendance records.

PCM sections 742.6.1 and 630.4.6 provide guidance in proper time and attendance procedure. Further, the GAO Standards require “accurate and timely recording of transactions and events” and state that “control activities help to ensure that all transactions are completely and accurately recorded.”

The post provided compensatory time to staff for extra hours worked. However, the post maintained the compensatory time “off the books,” using principally verbal or e-mail communication between the staff members and their supervisors. Timesheets did not reflect the extra hours worked that earned compensatory time. Further, compensatory time taken was shown on timesheets as regular work hours rather than as leave. Similarly, the post’s official time and attendance records, maintained on Form PC-57, did not reflect compensatory time.

Proper internal controls over time and attendance require a complete accounting for all time including compensatory time. Appropriate control procedures require that hours worked that earned compensatory time be recorded on timesheets and reviewed by their supervisors, and that leave taken relating to compensatory time earned be reflected on the timesheets and on the post’s official time and attendance records.

We recommend:

- F.2.1 That the staff record compensatory time on timesheets and that the timekeeper reflect compensatory time in the official time and attendance records.
- F.2.2 That the administrative officer develop written guidance with regard to recording and taking compensatory time, and disseminate it to the staff.

3. *Staff reporting to the country director have not been evaluated.*

OFMH section 3.1 requires that the country director ensure that staff is evaluated.

The country director has not completed performance appraisals for staff reporting to him. The country director, who arrived in mid-September 2009, told us that he intended to conduct the evaluations in the near future.

Evaluations are important in that they provide feedback to the staff member and create the opportunity for a dialogue with the staff member regarding past performance and career goals.

We recommend:

- F.3.1 That the country director complete 2009 performance appraisals for staff reporting to him.

G. TRAVEL MANAGEMENT

1. The staff travel per diem requires review.

OFMH section 57.5 says that country directors “should establish rates...which reflect reasonable costs of travel.” The policy further states: “Amounts authorized should be reviewed annually and adjustment made (increase or decrease) based on current prices.”

Some staff during interviews told us that the staff travel per diem for lodging and for meals and incidentals was inadequate given cost increases in the country. The per diem for lodging has remained constant for several years at 2,900 Kenya shillings (about \$39). The per diem for meals and incidentals was reduced from 2,000 (about \$27) to 1,500 Kenya shillings (about \$20) in 2006 and, except for travel to the Kenya coast, was reduced to 1,200 Kenya shillings (about \$16) in 2008.

The country director told us that he had requested that traveling staff provide him with lodging rates and hotel and other restaurant prices so that he can evaluate the per diem’s adequacy and take action as needed.

We recommend:

- G.1.1 That the country director review the staff travel per diem to evaluate its adequacy, and adjust the per diem as needed.

H. 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 controls and procedures over medical supplies.

PCM section 734.3.5 delineates overall control objectives and responsible parties. It states: “The CD and PCMO 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.”

The post did not fully implement PCM section 734 as follows:

- Contrary to policy, the medical secretary, rather than the medical supplies inventory control (MSIC) clerk, maintained the inventory records for all medical supplies.

Agency policy requires that the MSIC clerk “must be a person from outside the medical unit staff.” (PCM section 734.3.4 and 734.3.5.1)

- The person responsible for taking the quarterly physical inventory recorded her counts in the medical records. However, the MSIC clerk did not reconcile her counts with the recorded quantities and investigate differences (PCM 734.3.5.3(b)). Our test counts disclosed discrepancies a complete reconciliation would have identified.
- The prior country director did not annually sign the medical inventory control log or submit it to OMS as of March 31 and due by April 15. The log enumerates the inventories of controlled substances and specially designated medical supplies and is an important tool in OMS’ review and oversight activities (PCM section 734.3.5.3c)).

Proper segregation of responsibilities, along with accurate and complete inventory records, are essential internal controls over medical supplies. Effective internal controls and procedures are needed in order to prevent theft, loss, or abuse of medical supplies.

We recommend:

- H.1.1 That the post implement the agency’s policy on medical supplies, PCM section 734, to correct the deficiencies noted.

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

We noted discrepancies between the medical supplies on hand and the related records, as follows:

- The PCMO’s listing of controlled substances showed quantities for three drugs that had been destroyed.
- Our test counts showed quantity differences between what was on the records versus the actual inventory on hand. We determined the discrepancies were due to drugs dispensed to Volunteers that had not been posted to the listing since the last quarterly inventory.

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:

- H.2.1 That the posts conduct a complete physical inventory of medical supplies in accordance with PCM section 734 and update the inventory records accordingly.
- H.2.2 That the post record medical supplies received and dispensed to Volunteers on an ongoing basis rather than at the time of the quarterly physical inventory verification.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We identified certain questioned costs and funds to be put to better use during the course of the audit. They are discussed in the accompanying audit report and enumerated below along with the recommendation number in the report. (Amounts are in U.S. dollars or U.S. dollar equivalents of Kenya shillings at the rate of \$1 equals 75 Kenya shillings.)

Questioned Costs

Recommendation number	Description	Amount
F.1.1	Miscalculation of 2010 PSC contracts.	\$800.00

Funds to be put to Better Use

Recommendation number	Description	Amount
E.2.1	Peace Corps vehicle sitting idle and awaiting sale for over two years due to the absence of registration documents.	\$23,000.00

POST STAFFING

At the time of our visit, the post had thirty staff positions: two U.S. direct hires, five foreign service nationals, and twenty-three personal services contractors (including one working part-time). In addition, the agency's regional safety and security officer had an office at the post.

We interviewed ten staff members, including the two U.S. direct hire employees. All staff interviewed told us that they very much enjoyed working at the Peace Corps. They stated that, in particular, they enjoyed interacting with and supporting the Volunteers.

Volunteers told us that they appreciated the interest shown by the staff in their success and well-being. Volunteers also stated that they had received effective ongoing support from the administrative unit.

PC/Kenya Positions

Position	Status
Country Director	USDH
Administrative Officer	USDH
Safety and Security Coordinator	PSC
APCD/Education	FSN
APCD/Public Health	FSN
APCD/Small Enterprise Development	FSN
HIV/AIDS Coordinator	PSC
Training Coordinator	PSC
Language and Cross-Cultural Coordinator	PSC
Training Assistant/Logistician	PSC
Finance Assistant	FSN
Cashier	FSN
IT Specialist	PSC
General Services Assistant	PSC
Volunteer Records Clerk	PSC
Voucher Examiner	PSC
Mail/Key Operator	PSC
Receptionist	PSC
PCMO	PSC
PCMO (part-time)	PSC
Medical Secretary	PSC
Motor Pool Coordinator	PSC
Drivers (6)	PSC
Janitors (2)	PSC

LIST OF RECOMMENDATIONS

We recommend:

- A.1.1 That the country director and the administrative officer perform complete imprest fund verifications that not only include a cash count but also a review of supporting documents for all balances on the cash reconciliation statement.
- B.1.1 That, to facilitate validating the cost data from the Volunteer living allowance survey, the post conduct a market basket survey with the same cost categories as the Volunteer survey.
- B.1.2 That the post use the results of the market basket survey in evaluating the results of the Volunteer living allowance survey and determining if the allowance is adequate to support Volunteer living needs.
- B.2.1 That the post analyze the results of its Volunteer settling-in survey and conclude as to the allowance's adequacy.
- B.2.2 That the post conduct an independent price survey in conjunction with the Volunteer settling-in allowance survey to confirm the results of the Volunteer survey.
- C.1.1 That the billing officer centralize the billing files in the billing office to strengthen control.
- D.1.1 That the post establish and maintain an accurate property inventory database and regularly update it for changes.
- D.1.2 That the property control officer reconcile the property inventory database with written documentation of changes to ensure that all changes are recorded before the physical inventory is conducted.
- D.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least once a quarter.
- D.1.4 That one staff member maintain the property inventory database and another staff member conduct the physical inventory.
- D.1.5 That the post review its property and eliminate duplicate tags and affix tags to property needing them.
- D.1.6 That the post provide current and accurate information on its annual inventory submission to headquarters.

- E.1.1 That the required staff members review, initial, and date the vehicle usage logs weekly.
- E.2.1 That the post sell the excess and unused Peace Corps vehicle, a 2002 Toyota Land Cruiser, following agency procedure.
- F.1.1 That the post correct the 2010 PSC contracts for the miscalculation.
- F.1.2 That the administrative officer establish internal control procedures to ensure that PSC compensation is accurately calculated and ensure that the calculations are reviewed before they are finalized on the actual contracts.
- F.2.1 That the staff record compensatory time on timesheets and that the timekeeper reflect compensatory time in the official time and attendance records.
- F.2.2 That the administrative officer develop written guidance with regard to recording and taking compensatory time, and disseminate it to staff.
- F.3.1 That the country director complete 2009 performance appraisals for staff reporting to him.
- G.1.1 That the country director review the staff travel per diem to evaluate its adequacy, and adjust the per diem as needed.
- H.1.1 That the post implement the agency's policy on medical supplies, PCM section 734, to correct the deficiencies noted.
- H.2.1 That the post conduct a complete physical inventory of medical supplies in accordance with PCM section 734 and update the inventory records accordingly.
- H.2.2 That the post record medical supplies received and dispensed to Volunteers on an ongoing basis rather than at the time of the quarterly physical inventory verification.

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 Peace Corps/Kenya covered fiscal years 2008, 2009, and 2010 through December 31, 2009. While at the post, we interviewed key staff including the country director, the administrative officer, the safety and security coordinator, staff responsible for administrative support, and the full-time medical officer. We also interviewed Volunteers to obtain their views on the effectiveness of the post's administrative and financial systems in supporting them. As part of the audit process, we briefed the country director and administrative officer. 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, Overseas Financial Management Handbook, and current Peace Corps policies and initiatives.

APPENDIX B

MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT



DATE: August 16, 2010

TO: Kathy Buller, IG

FROM: Lynn Foden, Acting RD/AF

CC: Stacey Rhodes, Chief of Staff; Esther Benjamin, AD/OGO; Elisa Montoya, Acting Chief Compliance Officer; Nicola Cullen, Policy & Program Analyst; Larry Blake, AF; Steve Wisecarver, CD Kenya; Jolie Carey, CDO

SUBJECT: Africa Region's Response to the OIG Preliminary Report on the financial audit of Peace Corps/Kenya

The following responses reflect the consensus of the Africa Region. Of the twenty-three OIG recommendations, Region does not concur with one, C.1.1. Accompanying this report please find supporting documentation regarding Region's responses.

APPENDIX B

Recommendation A.1.1 That the country director and the administrative officer perform complete imprest fund verifications that not only include a cash count but also a review of supporting documents for all balances on the cash reconciliation statement.

Concur: The Country Director (CD) and Administrative Officer (AO) perform imprest fund verifications that include a cash count and a review of supporting documents for all balances on the cash reconciliation statement. The cashier monitor from RFMC/Paris, performed an audit of Post's cashiering operations in July 2009, noting that, "the overall operations are well managed and the internal controls system is functioning properly. No significant deficiencies were identified."

There has not been a discrepancy in Post's imprest fund for the past seven years. The CD and AO reconcile outstanding advances/interim receipts as part of the cash count. Post reviews vouchers before they are closed which are then locked into 4Post. The cashier cannot alter or change these reviewed and closed vouchers. Re-reviewing closed vouchers as part of the imprest fund verification is inefficient to Post's current procedures and practices which has maintained accurate accounts for the last seven years.

Recommendation B.1.1 That, to facilitate validating the cost data from the Volunteer living allowance survey, the post conduct a market basket survey with the same cost categories as the Volunteer survey.

Concur: The post will conduct market basket surveys using the same cost categories as the Volunteer survey.

Recommendation B.1.2 That the post use the results of the market basket survey in evaluating the results of the Volunteer living allowance survey and determine if the allowance is adequate to support Volunteer living needs.

Concur. Post uses the results of market basket surveys to analyze the results of the living Allowance surveys. As a result, the Volunteer living allowance was increased from 13,269 Kenyan Shillings to 16,000 Kenyan Shillings in FY 2009.

Recommendation B.2.1 That the post analyze the results of its Volunteer settling-in survey and conclude as to the allowance's adequacy.

Concur. Post will analyze the results of the next SIA survey (scheduled for October 2010).

Recommendation B.2.2 That the post conduct and independent price survey in conjunction with the Volunteer settling-in allowance survey to confirm the results of the Volunteer Survey.

Concur: Post will do this with the next SIA survey (scheduled for October 2010).

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Recommendation C.1.1 That the billing officer centralize the billing files in the billing office to strengthen control.

Do not Concur: Manual Section (MS) 777 does not require centralized billing. Peace Corps Kenya's current system of maintaining billing files by functional offices is in compliance and most effective in meeting Post's needs.

Recommendation: D.1.1 That the post establish and maintain an accurate property inventory database and regularly update it for changes.

Concur: We have updated and are maintaining an accurate property inventory database.

Recommendation D.1.2 That the property control officer reconcile the property inventory database with written documentation of changes to ensure that all changes are recorded before the physical inventory is conducted.

Concur: These duties were separated in 2009. The GSA maintains the master inventory list and the ITS and Cashier perform the physical inventory. The auditor confirmed the ITS and Cashier conduct separate physical inventory verifications.

Recommendation D.1.3 That the administrative officer reconcile the inventory against receiving reports and requisition forms at least once a quarter.

Concur: The AO will review inventory against receiving reports and requisition forms as necessary.

Recommendation D.1.4 That one staff member maintain the property inventory database and another staff member conduct the physical inventory.

Concur: These duties were already separated in 2009. The GSA holds the master inventory list and the cashier performs the physical inventory tracking. The AO conducted the physical inventory of all IT equipment and vehicles, which was due in March 2010.

Recommendation D.1.5 That the post review its property and eliminate duplicate tags and affix tags to property needing them.

Concur: Peace Corps Kenya has placed tags on the five items listed in the audit report that were previously missing tags. Items with more than one tag demonstrate the property's origin.

Recommendation D.1.6 That the post provide current and accurate information on its annual inventory submission to headquarters.

Concur: As of August 2010, Post updated its inventory which is now accurate. As a result, Post anticipates its annual submission will also be accurate.

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Recommendation E.1.1 That the required staff members review, initial, and date the vehicle usage logs weekly.

Concur: Per MS 527 5.4.2 The overseas AO reviews, initializes, and dates the Weekly Vehicle Usage Logs weekly and reports questions to the Country Director.

Per MS 527 5.4.3 The Motorpool Supervisor is responsible for initiating vehicle repairs and maintaining the vehicle maintenance records. He reviews the Weekly Vehicle Usage Logs. This staff member now initializes and dates the Weekly Vehicle Usage Logs.

Per MS 527 5.4.4 Since March 2010, the Financial Assistant reviews, initializes and dates the Weekly Vehicle Usage Logs on a weekly basis.

Recommendation E.2.1 That the post sell the excess Peace Corps vehicle, a 2002 Toyota Land Cruiser, following agency procedure.

Concur: Peace Corps Kenya has a strong record of cost effective and timely vehicle disposal.

Post has sold eleven (11) vehicles in the past five years. This has resulted in the return of 15,570,049 Kenyan Shillings (approximately \$195,000 USD) to the agency.

The former PCSSO vehicle was brought in from Uganda. Post had appropriate authorizations to sell this vehicle in 2007 with the caveat that the buyer would complete the registration process.

Unfortunately, after extensive back and forth, the prospective buyer did not complete the purchase. The American Embassy GSO in Kenya has needed four years to sort the paperwork and register the vehicle in Kenya in order for Peace Corps Kenya to sell this item according to agency regulations.

Recommendation F.1.1 That the post correct the 2010 PSC contracts for the miscalculation.

Concur: Post corrected the contracts in question in March 2010.

Recommendation F.1.2 That the administrative officer establish internal control procedures to ensure that PSC compensation is accurately calculated and ensure that the calculations are reviewed before they are finalized on the actual contracts.

Concur: The AO and FA conduct several reviews of contracts to verify calculations. GAO standards acknowledge that internal control provides reasonable, not absolute, assurance.

Recommendation F.2.1 That the staff record compensatory time on timesheets and that the timekeeper reflect compensatory time in the official time and attendance records.

Concur: This will be implemented by May 2010.

Recommendation F.2.2 That the administrative officer develop written guidance with regard to recording and taking compensatory time, and disseminate it to staff.

Concur: The AO will send out revised guidance by May 2010.

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Recommendation F.3.1 That the country director complete 2009 performance appraisals for staff reporting to him.

Concur: The CD has completed two of the outstanding reviews. The remaining will be completed by September 30th, 2010.

Recommendation: G.1.1 That the country director review the staff travel per diem to evaluate its adequacy, and adjust the per diem as needed.

Concur: The CD reviews staff travel per diem and concluded it is appropriate. Staff were surveyed in 2009. The former CD's memo regarding approved in-country lodging rates shows an increased to 3,500 Kshs. The CD and AO support staff to submit documentation in for increased per diem (e.g. menus, receipts, bills, etc.) This has yet to happen. In personal travels up-country, the current CD found per diem rates in line with current costs. Lodging rates are periodically reviewed and adjusted. There has been discussion to possibly increase lodging rates in specific locations such as Mombassa and Kisumu.

Recommendation H.1.1 That the post implement the agency's policy on medical supplies, PCM section 734, to correct the deficiencies noted.

Concur. Post will re-review roles and responsibilities with all six (6) staff involved in tracking medical inventory by end July 2010.

Recommendation H.2.1 That the post conduct a complete physical inventory of medical supplies in accordance with PCM section 734 and update the inventory records accordingly.

Concur: A complete physical inventory of medical supplies was conducted by Post in March 2010.

Recommendation H.2.2 That the post record medical supplies received and dispensed to Volunteers on an ongoing basis rather than at the time of the quarterly physical inventory verification.

Concur: Peace Corps Kenya records medical supplies received and dispensed to volunteers on a weekly basis. This has occurred since March 2010.

APPENDIX C

OIG COMMENTS

Management concurred with 22 recommendations and did not concur with one recommendation. We closed 13 recommendations: A.1.1, D.1.1, D.1.2, D.1.4, D.1.5, E.1.1, F.1.1 – F.2.2, H.1.1 – H.2.2. We left open 10 recommendations: B.1.1, B.1.2, B.2.1, B.2.2, C.1.1, D.1.3, D.1.6, E.2.1, F.3.1, G.1.1. These recommendations remain open pending confirmation from the chief compliance officer that the following has been received:

- For recommendations B.1.1 and B.1.2, a copy of a properly performed market basket survey and documentation showing that the results were compiled and used in evaluating the Volunteer living allowance survey. (See discussion in first paragraph below.)
- For recommendations B.2.1 and B.2.2, a copy of an independent price survey in conjunction with the Volunteer settling-in survey and documentation showing that the results of the settling-in survey were analyzed and that a conclusion was made as to the allowance's adequacy.
- For recommendation C.1.1, confirmation that the post has centralized its bills of collection files in the billing office.
- For recommendation D.1.3, documentation showing that the administrative officer has performed the required inventory reconciliation at least once a quarter. (See discussion in second paragraph below.)
- For recommendation D.1.6, a copy of the post's annual inventory submission to headquarters.
- For recommendation E.2.1, documentation evidencing that the post has sold the excess vehicle, a 2002 Toyota Land cruiser, that since 2007 was sitting idle and awaiting registration documents to be sold.
- For recommendation F.3.1, documentation showing that the country director has completed the 2009 appraisals for staff reporting to him.
- For recommendation G.1.1, documentation evidencing a review by the country director of staff travel per diem for lodging and MIE, by region as needed, in order to evaluate the per diem's adequacy.

While management concurred with recommendation B.1.2, its accompanying statement inferred that the post's 2009 market basket survey performed in conjunction with the 2009 living allowance survey, appropriately supported the Volunteer living allowance

APPENDIX C

increase. We found the market basket survey to be inadequate, for the numerous reasons detailed in our finding, and it did not validate the Volunteer survey results. Also, as pointed out in the finding, a market basket survey was not performed in 2008.

While management concurred with recommendation D.1.3, we take exception to management's accompanying statement that "The AO will review inventory against receiving reports and requisition forms as necessary." Peace Corps Manual policy, and our recommendation, is explicit in requiring reconciliations by the administrative officer "at least once a quarter." In our opinion, strict adherence to agency policy is essential to ensure that the deficiencies noted in property inventory do not recur.

While management concurred with recommendation F.1.2, which relates to the miscalculation of PSC contracts for 2009 and 2010, we take exception to management's rationalization that "GAO standards acknowledge that internal control provides reasonable, not absolute, assurance." In our opinion, it is essential that the administrative officer perform adequate and effective review and oversight to ensure that PSC contracts are accurate in all respects before they are signed by the country director and provided to staff.

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 D

AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Acting Assistant Inspector General for Audit Steven Kaffen performed the audit of Peace Corps/Kenya.

OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please email Steven Kaffen, Acting Assistant Inspector General for Audit, at skaffen@peacecorps.gov, or call him at 202.692.2905.

REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

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