



# Peace Corps Office of Inspector General

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*Port Vila, Vanuatu*



*Flag of Vanuatu*

## **Advice and Assistance: Peace Corps/Vanuatu**

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May 2010

May 12, 2010

**Memorandum for: Roger Conrad, Acting Regional Director, Inter-American and Pacific Operations**

**From: Gerald P. Montoya, Assistant Inspector General for Audit**



**Subject: Advice and Assistance – Peace Corps/Vanuatu**

This memorandum report is provided for your use and information. It summarizes our advice and assistance related to the detection of potential fraud at PC/Vanuatu during fiscal year 2009. Information in this memorandum was furnished to PC/Vanuatu on May 14, 2009 and to the Inter-America and the Pacific Region (IAP) acting regional director on May 21, 2009.

While performing any of our oversight responsibilities, indications of possible fraud may come to our attention. As a result, it may be appropriate for auditors to work with criminal investigators and/or legal authorities, and to assist in, or withdraw from, or defer further work to avoid interfering with a criminal investigation. During this review, certain issues came to our attention, which were referred to our Criminal Investigative Unit for further investigation. As a result of this referral the finalization of the results of our advisory work was suspended after field work was completed in order to avoid interfering with the investigation or related legal proceedings. The criminal investigative work was completed in September 2009 and the results were provided under a separate investigative report related to the sale of a vehicle to a PC/Vanuatu staff member.

**Background**

On February 11, 2009, IAP staff reported an attempted fraud perpetrated by a personal services contractor based in Port Vila, Vanuatu. The Peace Corps/Vanuatu country director alleged that the Peace Corps Medical Officer (PCMO) had submitted an invoice with false cost information to obtain reimbursement payment for home leave travel.

In early March 2009, an OIG special agent traveled to Vanuatu to investigate the allegations. The allegations were substantiated. The allegations came to attention of the country director while he was reviewing a payment voucher submitted to him for his approval, where he noticed several irregularities including:

- The claim for staff travel reimbursement was not submitted on a travel voucher form but rather, a vendor payment voucher.
- Airfare cost appeared excessive based upon known airfare costs from Port Vila to other destinations.

- Documentation used to support the claim for reimbursement only included an invoice from a travel agent and did not include an airline ticket receipt.

On March 11, 2009, the PCMO provided a sworn statement to the OIG admitting to a claim for reimbursement she knew to be false with the intent to fraudulently obtain money from the U. S. Government. The PCMO’s contract was subsequently terminated.

**Additional Request for Audit Support**

As a result of the of the allegation of potential travel reimbursement fraud, the Office of Global Accounts Payable, IAP Regional Office, and PC/Vanuatu requested additional advice and assistance to review other PC/Vanuatu operations to determine whether the fraudulent activity substantiated by our OIG special agent was an isolated incident or whether there were other post operations vulnerable to fraud, waste, or abuse. Our audit unit performed additional advisory work at PC/Vanuatu from April 21 – May 13, 2009.

**Scope of Review**

Our scope of review was limited to post operations involving the former PCMO. The specific areas reviewed were selected because of their high risk for additional fraud, waste or abuse that may have been committed by the former PCMO. Additionally, we reviewed other functional areas of concern to IAP management and PC/Vanuatu. The following areas were reviewed:

1. A review of the former PCMO’s contractual relationship with the Peace Corps. This review included all contract payments, benefits, allowances, time and attendance, and travel claims.
2. Medical service and supply vendor payments
3. Medical Inventory Control
4. Local Medical Supply Procurements
5. International Travel
6. Vehicle Maintenance Expenditures
7. Fuel Purchases
8. Vehicle Disposal
9. Property
10. Financial Management

**Results of Review**

Post Area of Concern	Audit Procedures	Finding(s)
<b>1. PCMO Contract</b>	<b>Examined contract payments</b>	<b>1.1. Former PCMO’s personal business license fees were authorized under the contract. License fees were not required for the</b>

	<p>former PCMO to work for the PC. License fees should not have been allowed.</p> <p><b>1.1 Recommendation: None.</b> Country director took action to disallow these types of expenses in the future.</p>
<p><b>Examined Salary and benefits allowed under the contract</b></p>	<p><b>1.2. Contract allowed for unusual payments including “home leave” although the PCMO was permanent resident of Vanuatu. Home leave travel amounted to a free paid vacation, including travel expenses.</b></p> <p><b>1.2 Recommendation: None.</b> Country director took action to disallow future unallowable contract cost.</p>
	<p><b>1.3 Former PCMO salary appeared too high for market conditions. Former PCMO was allowed to set own salary rates. Salary level was accepted contractually without independent verification of the local labor market.</b></p> <p><b>1.3 Recommendation: None.</b> Former PCMO contract was terminated. See Background section.</p>
<p><b>Reviewed Time &amp; Attendance</b></p>	<p><b>1.4 Former PCMO’s time and attendance while “on-call” was questionable. Allegation received that the former PCMO claimed time spent while “on call” after duty hours and weekends</b></p>

2. Medical Supply Vendors		<p>was inflated. We were unable to substantiate the allegation.</p> <p><b>1.4 Recommendation:</b> That the country director monitor future time and attendance claims for staff working “on-call” to minimize the opportunity for abuse.</p>
	Reviewed former PCMO benefits.	<p><b>1.5 Payments for health benefits were not supported by an actual insurance policy. Insurance provider refused to provide proof of policy. This allegation was not pursued since the PCMO contract was terminated.</b></p> <p><b>1.5 Recommendation:</b> None. Former PCMO contract was terminated. See background section.</p>
	Reviewed MOUs with local medical suppliers	<p><b>2.1 Former PCMO authorization to obtain goods and services from local medical suppliers on behalf of the Peace Corps had not been revoked after the PCMO’s contract was terminated.</b></p> <p><b>2.1 Recommendation:</b> None. Country director took immediate action to notify local medical suppliers to revoke the former PCMO’s procurement authority on behalf of Peace Corps.</p>
	Reviewed local procurement procedures	<p><b>2.2 Separation of duties in the ordering, approval and payment for medical</b></p>

<p>3. Medical Supply Inventory</p>	<p>supplies and drugs was inadequate.</p> <p><b>2.2 Recommendation:</b> That the country director implement procedures to ensure that there is sufficient internal control in the ordering, receiving, dispensing, recording, and payment of medical supplies and drugs.</p>
	<p><b>2.3</b> A majority of medical purchases were local procurements and therefore more expensive.</p> <p><b>2.3 Recommendation:</b> That the post procure supplies and drugs through Peace Corps Headquarters and limit local procurement to emergency or time sensitive needs.</p>
	<p><b>Reviewed inventory control procedures</b></p> <p><b>3.1</b> Poor control over medical supplies. Former PCMO dispensed drugs and supplies without recording in the medical records. No assurance that inventory supplies were not embezzled. Records were too incomplete to definitively determine the loss of inventory.</p> <p><b>3.1 Recommendation:</b> None. The PC/Vanuatu country director had recently implemented PCM section 734 to strengthen internal control over medical supplies after termination of the former PCMO.</p>

<p>4. Laboratory Billings</p>	<p><b>Reviewed payment vouchers for medical testing services</b></p>	<p><b>4.1 Poor internal control in the procurement of laboratory and other medical testing services.</b></p> <p><b>-Post paid for unallowable medical laboratory services on behalf of a staff member and a local national not affiliated with the Peace Corps.</b></p> <p><b>-Medical payment records were incomplete and not attributed to a particular patient. More questionable charges could exist but were too difficult to document due to the poor recordkeeping. Current PCMO stated the possibility of other unauthorized lab tests paid for by the Peace Corps.</b></p> <p><b>4.1 Recommendation: That the country director monitor payments for laboratory testing services to identify and prevent payment of unauthorized medical expenses.</b></p>
<p>5. Vehicle Disposal</p>	<p><b>Reviewed vehicle auction procedures and documentation</b></p>	<p><b>5.1 Possible bid rigging occurred in the sale of used PC vehicle by auction. We identified irregularities in the auction process. PC personal service contractor obtained the vehicle for \$8000 and resold the vehicle for \$20,000.</b></p> <p><b>5.1 Recommendation: Matter was referred to OIG Criminal Investigations Unit for further investigation.</b></p>

		<p>Results of investigation were issued in a separate report. Additionally, headquarters took action to strengthen vehicle auction procedures to disallow the sale of vehicles to PC staff and contractors.</p>
<p>6. Property</p>	<p><b>Reviewed property inventory control procedures</b></p>	<p><b>6.1. No property inventory controls were in place due to the physical move of the post to new office space.</b></p> <p><b>6.1 Recommendation: That the post perform a complete top to bottom physical inventory of property to establish a new baseline of post property inventory.</b></p> <p><b>6.2 Recommendation: That the post implement procedures to ensure that post property inventory records remain accurate.</b></p>
<p>7. International Travel</p>	<p><b>Reviewed travel vouchers for international travel</b></p>	<p><b>7.1 Several travel vouchers lacked receipt from an airline for transportation. Vouchers were processed with invoices from a travel agent. This area was vulnerable to fraud. (See background section).</b></p> <p><b>7.1 Recommendation: None. Country director had already taken action to strengthen control over international travel payments.</b></p>
<p>8. Physical Security</p>	<p><b>Reviewed physical security</b></p>	<p><b>8.1 Observed office space doors unlocked at night increasing the risk of loss</b></p>



		<p>from theft. No onsite security.</p> <p><b>8.1 Recommendation:</b> That the post needs to establish physical security policies and procedures for their new office space to prevent loss of property or damage to the PC office, and to provide safety and security to PC staff and Volunteers.</p>
<p>9. Financial Management</p>	<p><b>Review of administrative unit procedures</b></p>	<p><b>9.1 Post lacked leadership in the Administrative Unit. As a result, internal control was non-existent. For example: We noted payments made without adequate supporting documentation, which Increases risk for fraud, waste, abuse and mismanagement.</b></p> <p><b>9.1 Recommendation: None. Country director took action to replace the administrative officer to improve leadership and strengthen overall administrative management.</b></p>
<p>10. Vehicle Maintenance</p>	<p><b>Reviewed vehicle fuel usage logs and vehicle maintenance records</b></p>	<p><b>10.1 Fuel records were incomplete and fuel usage was not supported by vehicle usage. As a result, fuel was vulnerable to theft and misuse.</b></p> <p><b>10.2 Vehicle maintenance and repairs were not competitively procured.</b></p> <p><b>10.1 Recommendation: None. Country director took action to eliminate post fuel storage and require fuel</b></p>

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to be purchased from a local filling station and require receipts for fuel purchases.

**10.2 Recommendation: That the post obtain multiple vendor estimates for repairs when possible in order to obtain the least cost to repair or maintain PC/Vanuatu vehicles.**

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## **Conclusion**

Overall we found that Peace Corps/Vanuatu'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. The internal control deficiencies occurred in large part because of inadequate oversight by former post management and staff and were an underlying cause for many findings in the report.

## **OIG Post Recognition**

We recognize the superb efforts of the post to identify and report suspected fraud, waste, abuse and mismanagement. The current country director is credited for identifying and taking quick corrective actions on many of the post's deficiencies in this report. Additionally, the country director is credited with the identification of potential fraud, waste, abuse and mismanagement.

## **Management Comments on Advice and Assistance**

This memorandum report is advisory and is provided for management's use and information. The results of our review were communicated to both PC/Vanuatu and regional management in May 2009. Therefore, it is our opinion that adequate timely corrective actions have been taken to remediate most of the issues identified during our audit visit, and no additional formal comments from management are required.

## **Report Distribution**

Country Director, PC/Vanuatu  
Acting Director, Office of Global Accounts Payable  
General Counsel  
Director, Office of Medical Services

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AND MISMANAGEMENT***



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