




Since 1961.

To: Carrie Hessler-Radelet, Deputy Director
Carlos Torres, Regional Director, IAP
Daljit Bains, Chief Compliance Officer

From: Kathy A. Buller, Inspector General 

Date: September 28, 2012

Subject: Final Report on the Audit of Peace Corps/Tonga (IG-12-08-A)

Transmitted for your information is our final report on the Audit of Peace Corps/Tonga.

Management concurred with all 10 recommendations. We closed 4 recommendations (numbers 2, 3, 7, and 9) based on evidence of corrective actions that address the recommendations. The remaining 6 recommendations remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

Our comments, which are in the report as Appendix D, address these matters. Please respond with documentation to close the remaining open recommendation within 90 days of receipt of this memorandum.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Brad Grubb at 202.692.2914 or to Senior Auditor Hal Nanavati at 202.692.2929.

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

Attachment

cc: Elisa Montoya, White House Liaison/Senior Advisor to the Director
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Peace Corps Office of Inspector General



Map of Tonga

Source: *The World Factbook*



Flag of Tonga

Final Audit Report: Peace Corps/Tonga IG-12-08-A

September 2012

EXECUTIVE SUMMARY

Misappropriation of agency funds. In October 2011, the director of management and operations (DMO) of Peace Corps/Tonga (hereafter, “the post”) contacted the Office of the Chief Financial Officer (OCFO) concerning suspicion that the cashier may be using money from the post’s bank account for personal use. OCFO communicated this concern to the Office of the Inspector General (OIG). The country director (CD) and the DMO took immediate action, in consultation with OCFO and OIG, and identified approximately \$7,350 in stolen funds. As a result, the CD terminated the cashier’s employment and recovered the stolen funds.

OIG Audit. The fiscal year (FY) 2012 OIG annual plan included an audit of Peace Corps/Tonga. Following the misappropriation of funds, OIG announced and conducted the audit of Peace Corps/Tonga with additional testing of imprest fund management, bills of collection (BOCs), and disbursements. The auditor conducted the site visit from February 6 to February 29, 2012.

At the time of the audit, the post had a staff of 17 full-time employees: two U.S. direct hires, one U.S. personal services contractor, 12 local hire personal services contractors and two foreign service nationals supporting 21 Volunteers. The post’s FY 2011 budget was approximately \$1.15 million plus an average of \$390,000 in indirect and other costs incurred by the Inter-America Pacific (IAP) region per overseas post.

Results. The post’s financial and administrative operations required improvement to ensure adequate controls are in place and operating effectively. In reviewing the management of the imprest fund, it was determined that the cashier had potentially misappropriated a total of approximately U.S. \$600 and 32,000 Tongan pa‘anga (T\$) (\$20,000 U.S. dollar equivalent [USDE]) by using funds withdrawn from the post’s bank account for personal use, voiding bills of collection for vehicle sales and Volunteer allowances, and misappropriating the proceeds of vehicle sales. The following control weaknesses permitted the irregularities to remain undetected for more than a year:

- The post had not obtained adequate support during imprest fund reconciliations.
- The post did not monitor bills of collection, did not enforce separation of duties, did not retain support for BOCs, and voided collections without adequate support.
- The post did not ensure proper separation of duties over the disposal of property and did not enforce oversight and reconciliation of proceeds of sale with BOCs and receipts.

In addition, we identified further areas of improvement in the value added tax (VAT), disbursements, and property management.

Management concurred with all 10 recommendations. Management took timely action to remediate our findings. As a result, we closed 4 recommendations. The remaining 6 recommendations remain open pending documentation described in Appendixes C and D.

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BACKGROUND

OIG conducted an audit of Peace Corps/Tonga from February 6 to February 29, 2012. We previously performed an audit of Peace Corps/Tonga in 2004 and issued our report (IG-05-06AE) in March 2005.

The post was established in 1967. During our review 19 Volunteers were working in the education sector. The post's FY 2011 budget was approximately \$1.15 million. The IAP region incurred approximately \$8.61 million to support operations at 22 overseas posts, at an average of \$390,000 per post.¹

Our overall objective in auditing overseas posts is to determine whether the financial and administrative operations are functioning effectively and in compliance with Peace Corps policies and federal regulations during the period under audit. We reviewed whether the post's internal control was in place and operating effectively. Our audit included additional testing related to imprest fund management to identify control weaknesses that may have permitted the misappropriation of agency funds. Appendix A provides a full description of our audit objective, scope, and methodology.

AUDIT RESULTS

MISAPPROPRIATION OF AGENCY FUNDS

During the audit OIG determined that the post's cashier had potentially misappropriated a total of approximately U.S. \$600 and T\$32,000 (\$20,000 USDE) by:

- Using amounts withdrawn from the cashier pass-through account for personal use;
- Voiding BOCs for sales of vehicles and Volunteer allowances; and
- Misappropriating proceeds of vehicle sales.

The cashier inappropriately used Peace Corps funds for personal gain. The DMO and the CD were not conducting complete imprest fund reconciliations, permitting the loss to continue undetected for more than a year.

After receiving additional training in imprest fund management, the DMO was able to identify the loss and take appropriate action with support from regional management and the OCFO staff.

Post's Steps to Identify Cash Loss. The IAP regional management and OCFO provided training to cashiers and cashier supervisors in October 2011. This training proved valuable in identifying the misappropriation of Peace Corps funds.

¹ Regional costs include U.S. direct hire salaries and benefits, readjustment allowances, and indirect costs.

During the October 2011 monthly imprest fund reconciliation, the DMO suspected that the T\$6,670 (\$4,100 USDE) reported as un-cashed replenishment electronic funds transfers (EFT) were not in the possession of the cashier. The DMO immediately contacted OCFO and reported his suspicion that the cashier may have withdrawn funds from the USDO bank account, used them for personal reasons, and waited to deposit the money in the cashier's safe for several days after the withdrawal date. This allowed the cashier to use government funds inappropriately, create an unauthorized loan from the government, and eventually to misappropriate cash. On November 2, 2011, the OCFO informed OIG of the possible misuse of Peace Corps funds. OIG provided advice and monitored management actions throughout this process. The following actions were taken by the post, region, and OFCO regarding the cash loss.

OCFO obtained the withdrawal dates from the USDO bank account for the replenishment checks issued to the post for the prior 24 months. The OCFO cashier liaison compared the bank's withdrawal dates with the dates the deposits were recorded in the post's imprest fund by the cashier. Management prepared a schedule of all cash withdrawals from the USDO account and actual replenishment transactions into the Peace Corps imprest funds within the last 12 months.

Based on the review of this schedule it appeared that the cashier initiated these unauthorized withdrawals in May 2011. There were several such instances in which the cashier delayed replenishment of the imprest funds up to 79 days after withdrawing the funds.

The CD and the DMO conducted a surprise cash count on November 8, 2011, and determined that U.S. \$600 and T\$10,900 (\$6,750 USDE) reported as un-cashed replenishment EFT were missing from the imprest fund. The CD and the DMO accompanied the cashier to the bank to verify whether the cashier had already withdrawn the funds. The bank provided documentation showing that the funds were withdrawn, along with the withdrawal dates the funds had been withdrawn.

On November 30, 2011, the agency terminated the cashier's employment contract effective December 31, 2011, and recovered the unauthorized withdrawals from salary and leave allowance due the cashier.

OIG Review of Controls. We reviewed both the agency's and the post's processes and controls to determine whether controls were in place and operating effectively to prevent and detect the misappropriation of funds. We determined that several key controls were not consistently practiced by the post.

Specifically, prior to the training received in October 2011, the DMO was not informed that the "balance on hand" line represented the balance in the USDO bank account and that the DMO was required to obtain confirmation of the balance on hand from the bank. The misappropriation could have been detected if the DMO and/or the certifying official had obtained explanations when the cashier made partial payments for small imprest fund vouchers due to shortages of funds.

In addition, we identified areas where OCFO could strengthen its monitoring processes to detect cash losses and possible thefts in a timely manner. The financial system included the issue dates

of replenishment checks in the “List of Items On Hand and of Transmittals in Transit” report printed when monthly cash counts are conducted. During our review of the post’s cash reconciliation, we noted that at the beginning of November 2011 there were seven cashier replenishment checks amounting to T\$10,900 (\$6,750 USDE) outstanding on the report. These checks were issued by OCFO between September 21, 2011, and November 2, 2011. The cashier liaison in the OCFO did not follow-up on replenishment checks remaining outstanding over 30 days.

We recommend:

1. That the director of management and operations review the aging of all open items in the “List of Items On Hand and of Transmittals in Transit” report prior to performing the monthly cash count and obtain explanation and support for all items remaining open for over 30 days.
2. That the director of management and operations confirm the balance of outstanding cash replenishment checks in the cash reconciliation statement report by verifying that the physical checks are in the cashier’s safe or by obtaining confirmation from the bank to verify that the balance in the bank account equals the total of all in-transit items in the “List of Items On Hand and of Transmittals in Transit” report.

Lack of monitoring and follow-up of overdue bills of collection and lack of adequate controls over voided bills of collection allowed the cashier to potentially misappropriate proceeds from the sale of a Peace Corps vehicle and unpaid volunteer allowances.

The *Peace Corps Manual* section (MS) 777 and the *Overseas Financial Management Handbook* (OFMH) chapter 3 detail the process for billing and collections for the agency. However, these policies and procedures did not provide sufficient guidance over processing voids of BOCs and monitoring cash receipts.

In June 2009, the cashier voided a BOC issued in February 2008 for approximately T\$12,650 (\$7,100 USDE), representing the sale of a vehicle. The description field on the voided BOC stated that the BOC was voided because it was a duplicate. An extensive review of cash receipt transactions with the OCFO failed to locate another BOC recording the sale.

Based on our analysis and discussion with the OCFO it appears the cashier deposited approximately \$7,100 USDE into the USDO account on or about March 6, 2008. However, the cashier did not process the corresponding collection entry for this transaction in the FORPost system. The cashier voided the BOC citing a duplicate entry and the then DMO later authorized the void on June 30, 2009. By depositing the funds and canceling the corresponding collection entry, the cashier’s accountability (the amount of cash on hand with the cashier) decreased and she was able to withdraw the same amount from the cashier’s safe without detection.

We also noted one BOC for approximately T\$3,600 (\$2,300 USDE) related to Volunteer allowances that was voided in March 2009. This amount represented the collection of monthly living allowance payments for four Volunteers who left the post in February 2009. Similar to the

vehicle sale noted above, the amount was deposited into the USDO account. However, there were no collections recorded for these amounts. The administrative staff at the post could not provide an explanation or support for the voided transaction.

We believe these funds were misappropriated, in part, because of a lack of due diligence by the DMO authorizing the void, and because of control weaknesses in systems and processes. The former DMO did not (i) obtain adequate support prior to voiding the BOC to verify that the voided BOC did in fact represent duplicate transactions and (ii) verify that proper system-generated receipts were generated for the BOC related to the sale of a vehicle.

Based on our discussions, in June 2012, the OCFO issued revised guidance for approving voided BOC by the DMOs.

We recommend:

3. That prior to authorizing any voided bills of collection the director of management and operations obtain adequate support prior to voiding the bill of collection to verify that the voided bill of collection does in fact represent duplicate transactions.

The post did not ensure adequate controls over the sale and disposal of Peace Corps vehicles, which may have resulted in the cashier misappropriating the proceeds.

The post auctioned a vehicle in 2005 for T\$5,000 (\$3,000 USDE). At that time, the Peace Corps did not have the capability to enter the initial bills of collection in FORPost. However, it did maintain a file of the collections. We reviewed the collections recorded in FORPost for 2005 and could not identify a transaction for the receipt of T\$5,000 in the system. We confirmed the results of our analysis with OCFO.

Based on the review of disposal of asset transactions for other fiscal years (FY 2009 to FY 2012) we noted that the post did not obtain adequate details from the bidders while conducting the auction, and then failed to summarize and retain required information. In particular, we identified the following control weaknesses:

- The bids were collected on scrap paper slips and were illegible. The paper slips did not include adequate information, such as the name, address, telephone number, and other relevant information about the bidder. It was impossible to ascertain if the bidder was a third party, or associated with the Peace Corps as an employee, contractor or volunteer.
- As the bids were not in a sealed envelope, the bid amounts were clearly visible to the post staff and possibly other potential bidders. There is no record of how and when the bids were collected or if the bid documents were adequately safeguarded to prevent bid rigging.
- In several instances, the post did not prepare a summary of bids received to demonstrate that all the bids were considered and the highest bidder was selected.

- The post did not prepare a reconciliation to verify that a BOC was issued for all accepted bids and the property was released to the bidder only after the bidder produced a receipt from the cashier.

Since 2008 the Peace Corps revised the *Personal Property Management Handbook* and OFMH 43 to disallow auctions at post. However, without a U.S. Embassy or third party auction available, a post may need to obtain authorization to conduct sales. To help prevent fraud, the post must ensure proper separation of duties, handling of bids, issuance of BOCs, and cash collection. The Office of Management provides posts with best practices when sales at posts are necessary.

We recommend:

4. That as there is no U.S. Embassy in Tonga, the post follow Peace Corps policies and obtain permission from the Office of Management and follow the guidelines it provides to ensure adequate controls over the sale process.

BILLS OF COLLECTION

The post did not retain support and implement proper separation of duties over bills of collection.

The BOC process at the post lacked adequate separation of duties, because the person identifying the amount owed is also the person creating the BOCs, without independent review. Three individuals at the post prepare BOCs. The general services assistant is responsible for issuing BOCs for the personal use of telephones, vehicles and disposal of assets. The administrative assistant in the finance department is responsible for issuing BOCs for volunteer allowances and consumption tax refunds. The financial assistant prepares all other BOCs. In addition, all three staff members maintained their own files supporting the BOCs and did not retain adequate supporting documents.

We Recommend:

5. That the director of management and operations ensure that only the billing officer prepare bills of collection and retain adequate supporting documentation.

VALUE ADDED TAX

The post did not have adequate controls over value added tax collections.

OFMH chapter 7.6.4 “VAT Collections” states:

A. Posts receiving VAT refunds via cashiering

It is recognized that VAT BOCs will age and are not usually collectable per the review schedule in 7.2.2 step 1. Posts should monitor VAT BOCs, nonetheless. Any VAT BOCs over 2 years old should be discussed with the local Government, and Cashier-voided, if appropriate. (If voided, include a reference to this guidance and Government's response in the void description.)

During our review we noted that there is no evidence the financial assistant or the DMO reviewed the VAT refund claim prior to submitting it to the tax authorities. Further, we noted the following issues:

- The administrative assistant voided several BOCs, as the original BOCs were issued under an incorrect obligation number.
- The billing officer did not prepare the BOC for VAT refund until the money was collected.
- The post did not follow up with the tax authorities to identify and correct the reason for disallowing a portion of the VAT refund claim.

During our review of the VAT collection process we noted two instances in which the tax authority of Tonga disallowed refunds on some of the invoices (approximately T\$2,400 [\$1,200 USDE]). In one instance the tax authority did not provide an explanation. Other reasons included “un-presented invoice,” “Non CT register,” “undisclosed CT amount.” Per the administrative assistant, the post did not have a process to follow up to determine whether the post could submit additional support to receive the refund. Some of these errors can be avoided by adequate review of the claim and supporting documents prior to filing the claim with tax authorities.

We recommend:

6. That the director of management and operations develop a process to verify the accuracy and completeness of the value added tax refund application to ensure all submitted invoices comply with government guidelines for refunds.
7. That the post prepare the bill of collection for value added tax refunds when the claim is filed with the government of Tonga.

DISBURSEMENTS

The cashier did not always identify payees' names in FORPost for cash transactions.

OFMH section 13.14 “Documentation of Payments” states:

All payments from the imprest fund require a valid receipt, signed by the person actually receiving the funds (not by the staff person who received the interim advance) or a formal receipt issued by a vendor (e.g., grocery receipt from a grocery store). The “Payee” to be entered into FOR Post therefore must also be the vendor, not the staff member taking the interim advance. (The exception is for “claims”, such as medical or taxi. For claims, the Payee is the staff member or Volunteer.)

OFMH section 13.14.3 “Multiple Payments” states:

Posts are permitted to use multiple payment receipts where a number of Volunteers, or Trainees, or trainers are being paid at one time for the same purpose. A multiple payment receipt must fully describe the purpose of the payments, must list the individuals who are being paid, and must provide a space opposite each payee's name for the signature of the payee, the dollar amount, and the date the cash was received. A multiple payment listing should be used only when the cashier knows that all signatures of payees will be obtained at one time because replenishment cannot be requested until the voucher is completed or deletion of the names of unpaid individuals has been made.

During our review of cash disbursements we noted that for several payments amounting to approximately \$152,000 the post recorded variations of “Multiple PCV/Vendors” in the column designated for name of the payee. These payments included the amount debited to several object class codes, including Volunteer training, personal services contractors, living allowances, supplies, conference costs, staff in-country travel, and other services. Approximately \$60,000, or 40 percent, of such payments were made to trainees during their pre-service training period, which qualifies for the exception as noted in *OFMH* section 13.14.3. However, the payments for the remaining \$92,000 should include the name of the vendor or description of the nature of payments.

Amounts disbursed without recording the names of payees and respective invoice numbers and dates in the financial systems can lead to improper payments and fraud. This practice does not allow the post, agency management, or auditors to quantify amounts disbursed to specific vendors or analyze data for duplicate or incorrect payment. Any analysis of payment would require the retrieval of physical vouchers and the manual review of the lists of payees attached to a lump sum payment, which is time consuming, inefficient, and error prone.

We included a similar finding in our [PC/Ukraine report \(IG-11-06-A\)](#) with recommendations to the Office of the Global Accounts Payable to develop vendor tables for payees. Accordingly, we are not issuing a separate recommendation in this report.

TRAVEL AND PURCHASE CARD PAYMENTS

The post did not have adequate review and supporting documents for purchase and travel card transactions.

The amount of credit card payments at the post for FYs 2009, 2010, and 2011 amounted to approximately \$196,000, \$215,000, and \$236,000, respectively (a total of approximately \$647,000).

During our review of travel and purchase card transactions we noted the following:

- In June 2010, a Volunteer traveled by business class for his/her end of service flight. The travel card support did not include a travel authorization or approval for business class travel. There was a note from Air New Zealand that the economy class seats were fully booked; however, this does not automatically authorize the volunteer to travel by business class.

- In February 2010, the post hired a private cruise company to send a boat to pick up a group of Volunteers from Kotu and Matakua islands, as there was no regular ferry service available. This cost the post approximately \$4,800. The relevant correspondence (e-mail, approval memos, etc.) with region about this matter was not retained with the payment.

It is critical to ensure that credit card transactions have adequate supporting documents. Additionally, as the payments are processed at the post, it will not be possible to prevent payment if any error or irregularity is noted.

Current records retention policies (*Guide to Peace Corps Records [Posts]*) require supporting documents to be retained for three years from the payment date. The *Guide to Peace Corps' Records Schedules*, general schedule 6.1 "The Accountable Officers' Files," which states:

Original or ribbon copy of accountable officers' accounts maintained in the agency for site audit by GAO auditors, consisting of statements of transactions, statements of accountability, collection schedules, collection vouchers, disbursement schedules, disbursement vouchers, and all other schedules and vouchers or documents used as schedules or vouchers.... [shall be retained for] 6 years and 3 months after period covered by account.

As the original supporting documentation for credit card transactions is retained at post, headquarters does not have the original supporting document for credit card transactions to meet record retention requirements.

We recommend:

8. That the director of management and operations ensure that travel and purchase card transactions have adequate support and are legal, proper and correct.
9. That the Peace Corps records retention officer revise guidelines for retaining support for credit card transactions by posts.

PERSONAL PROPERTY MANAGEMENT

The BarTracks system property records were not accurate and reliable.

During FY 2011, the agency implemented a new property management system (BarTracks). This system has the capability to scan bar code labels affixed to property, making the annual physical count more accurate and efficient. However, as it was a new system and this was the first attempt by the post to use this system, we noted certain opportunities for improvement.

We reviewed the list of items physically counted and scanned in December 2011 and selected computer server room items as our sample. We then printed the current inventory details for the computer and server room from the BarTracks system. When we compared the items in the server room listed on these two reports, we noted the following:

- Twenty two uninterrupted power supply units counted during the last physical inventory were not listed in the current inventory report. We physically verified that the items included in the December 2011 physical count report were still located in the server room. The IT specialist could not explain why the items did not appear in the system.
- The report printed from the BarTracks system included several items listed twice with different bar code numbers. For example, the same server was listed twice.

In addition, during our physical count of other assets we noted one split-unit air conditioner in the office did not have a barcode label. As we did not perform a complete physical count, we do not know the extent of the issues in the BarTracks system. The DMO and information technology specialist are planning to develop a process to correct the information in the BarTracks system.

We recommend:

10. That the director of management and operations and the information technology specialist conduct a physical count and reconcile discrepancies to ensure data in the BarTracks system is accurate and complete.

OTHER AREAS OF CONCERN

PC/Tonga has a high cost of operations per Volunteer and has been reviewed by regional management for consolidation and cost realignment. During our review we noted that:

- At the time of our visit, the post had 17 full-time staff members serving 19 Volunteers.
- The next input of approximately 15 trainees is expected in September 2012.
- The post had a total of five vehicles and one driver. Some of the local staff members used the vehicles to visit 11 Volunteers located on the main island. The other 8 Volunteers were located on other islands and could not be reached by motor vehicle.
- The average distance driven by each of the posts' five vehicles was approximately 6,200 kilometers (3,800 miles) during FY 2011.

We discussed the high cost of operations with the chief administrative officer of the IAP Region and obtained the following information that reflects the effort to make appropriate changes to enable the agency's continued presence in the Pacific sub-region:

- To save costs and increase management effectiveness, the IAP regional director evaluated the feasibility of managing the operations of Tonga and Samoa from PC/Fiji. The evaluation projected savings of approximately \$600,000 in FY 2012 and subsequent years.
- To achieve these cost savings, the IAP region obtained agency's permission to create a sub-regional CD position in Fiji and then designate the director of programming and training as the country representative in Tonga and Samoa respectively. The country representative will manage the day-to-day operations at post, and supervise local staff in coordination with the sub-regional CD.
- In FY 2012 the region reduced the trainee intake levels in these three countries by approximately 30 percent and anticipated reducing the number of Volunteers to approximately 28 each in Tonga and Samoa and 38 in Fiji. Peace Corps/Tonga has reduced the number of staff by four in the past year.

Even with the reduced staff the current ratio of 17 staff members serving 19 Volunteers, and the projected ratio of 17 staff members serving 28 Volunteers, will make Tonga a post in which each staff member is supporting a very small number of Volunteers. This results in higher per-Volunteer spending. We will continue to monitor the costs of posts in the Pacific sub-region and actions taken by management to create cost efficiencies.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We identified questioned costs, during the course of the audit. They are discussed in the accompanying audit report and noted below.

Questioned Cost(s)

Recommendation number	Description	Amount
3	Lack of Controls over voided Bills of Collection for Sale of Vehicle	\$7,100
3	Lack of Controls over voided Bills of Collection for Volunteer Allowances	\$2,300
5	Inadequate Controls over the sale and disposal of Peace Corps vehicles	\$3,000

LIST OF RECOMMENDATIONS

We recommend:

1. That the director of management and operations review the aging of all open items in the “List of Items On Hand and of Transmittals in Transit” report prior to performing the monthly cash count and obtain explanation and support for all items remaining open for over 30 days.
2. That the director of management and operations confirm the balance of outstanding cash replenishment checks in the cash reconciliation statement report by verifying that the physical checks are in the cashier’s safe or by obtaining confirmation from the bank to verify that the balance in the bank account equals the total of all in-transit items in the “List of Items On Hand and of Transmittals in Transit” report.
3. That prior to authorizing any voided bills of collection the director of management and operations obtain adequate support prior to voiding the bill of collection to verify that the voided bill of collection does in fact represent duplicate transactions.
4. That, as there is no U.S. Embassy in Tonga, the post follow Peace Corps policies and obtain permission from the Office of Management and follow the guidelines it provides to ensure adequate controls over the sale process.
5. That the director of management and operations ensure that only the billing officer prepare bills of collection and retain adequate supporting documentation.
6. That the director of management and operations develop a process to verify the accuracy and completeness of the value added tax refund application to ensure all submitted invoices comply with government guidelines for refunds.
7. That the post prepare the bill of collection for value added tax refunds when the claim is filed with the government of Tonga.
8. That the director of management and operations ensure that travel and purchase card transactions have adequate support and are legal, proper and correct.
9. That the Peace Corps records retention officer revise guidelines for retaining support for credit card transactions by posts.
10. That the director of management and operations and the information technology specialist conduct a physical count and reconcile discrepancies to ensure data in the BarTracks system is accurate and complete.

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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit of Peace Corps/Tonga covered FYs 2009, 2010, 2011 and 2012 through January 31, 2012. As we noted discrepancies in the imprest fund, we reviewed sale of property and other bills of collection transactions from FYs 2005 to 2008. While at the post, we interviewed key staff members including the CD, the DMO, staff responsible for administrative support, and the Peace Corps 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 CD and the DMO. At headquarters, we conducted a general briefing for regional staff.

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

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

LIST OF ACRONYMS

BOC	Bill of Collection
CD	Country Director
DMO	Director of Management and Operations
FY	Fiscal Year
IAP	Inter-America Pacific Region
MS	<i>Peace Corps Manual Section</i>
OCFO	Office of the Chief Financial Officer
OFMH	<i>Overseas Financial Management Handbook</i>
OIG	Office of Inspector General
T\$	Tongan Pa'anga
USDE	U.S. Dollar Equivalent
USDO	U.S. Disbursing Officer
VAT	Value Added Tax

MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

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

From: Carlos J. Torres, Inter-America & Pacific Regional Director
Ruth Larimer, Country Director, Tonga *ACTIVE AD*

Date: September 27, 2012

CC: Carrie Hessler-Radelet, Acting Peace Corps Director
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Bradley Grubb, AIG/Audits
Esther Benjamin, Associate Director for Global Operations
Nina Favor, Chief Administrative Officer, IAP
Kevin Brendle, Director of Management & Operations, Tonga
Joseph Hepp, Chief Financial Officer, OCFO
Garry Stanberry, Deputy Associate Director, Office of Management
Shelley Swendiman, Tonga Country Desk Officer, IAP

Subject: Response to the Preliminary Report on the Audit of Peace Corps/Tonga

Enclosed please find the Inter-America & Pacific Region's response to the recommendations made by the Inspector General as outlined in the Preliminary Report of the IG Audit of Peace Corps/Tonga to the agency in August 2012. The program evaluation was conducted in February 2012 and Post received the Preliminary Evaluation Report on August 15, 2012.

The IAP Region concurs with all 10 recommendations provided by the OIG in its Preliminary Report on the Audit of Peace Corps/Tonga. Post has addressed and provided supporting documentation for 9 of the 10 recommendations.

Response to the OIG Preliminary Report on the February 2012 Audit of Peace Corps/Tonga

As the OIG report states, after attending a sub-regional cashier conference in Fiji, the current Director of Management & Operations in Tonga realized that the cashier was mishandling funds and suspected that she may have been using funds for her own personal use. The DMO contacted the Office of the Chief Financial Officer (OCFO) and, after confirming that wrongdoing had taken place, reported the incident to the Office of the Inspector General (OIG). With guidance from OCFO and the OIG, the Tonga Country Director and DMO took swift action to rectify the situation and recover the stolen funds. It was the sub-regional information sharing and attention to detail that allowed for this situation to be discovered. It was later uncovered that the manipulation of funds by the cashier had been going on well before the current DMO arrived to post.

Due to challenges with transportation, communication, and distance between islands, the Pacific sub-region has a higher cost of operations than many other Peace Corps posts. The FY12 budget mark for Tonga was \$791,999. This number excludes HQ overhead and USDH salaries but is a better cost indicator than the Congressional Budget Justification figure.

The Inter-America & Pacific Region has taken significant steps to address the cost of operations in the Pacific. In February 2011, IAP sent a four person team to the Pacific to conduct an assessment of the possibility of a management realignment of Fiji, Tonga and Samoa. The team issued a report of their assessment in April 2011 supporting a sub-regional realignment resulting in the long-term reduction of US Direct Hire (USDH) staff in these three countries by thirty percent. This change eliminates the Country Director positions in Tonga and Samoa and gives the Country Director in Fiji sub-regional responsibilities for the three countries. In Tonga and Samoa, each country will have a Director of Programming & Training/Country Representative (DPT/CR) and a Director of Management & Operations (DMO).

The Regional Director will delegate to the DPT/CR the limited responsibilities of "Country Representative" within the country of service. The Country Representative's responsibilities will include the oversight of day-to-day operations of the Peace Corps Office, supervision of local staff, and coordination with the Sub-Regional Country Director in Fiji. The Country Representative will also have the responsibility of managing relationships with in-country partners. This realignment will be complete in Tonga when the current Tonga Country Director, Ruth Larimer, finishes her five years in December, 2012. A DPT/CR has already been hired and will arrive in Tonga in November, 2012.

In addition to the reduction of the trainee input number from 24 to 15, Tonga postponed their October 2011 input to September 2012. This will result in a temporary reduction in volunteer numbers for FY13 as the previous group will close their service in December 2012. By the start of FY 2014, the volunteer on-board strength will be at an average of about 30 volunteers. Due to the reduction in PCV numbers, another recommendation of the assessment team was that Tonga reduce their total staff number. Peace Corps/Tonga took a phased approach and over the past year and a half has reduced by five staff members. This brings their full-time staff to 15, including a janitor and driver.

The Agency and the IAP Region remain committed to operations in the Pacific sub-region. This commitment also mirrors the White House's and the Department of State's commitment to the region that has been voiced many times over the last two years. As explained above, the IAP Region has also undertaken a major reorganization of Tonga, Samoa and Fiji's operations to reduce operating costs. The region continues to analyze additional adjustments in the sub-region and will make changes accordingly.

1) That the director of management and operations review the aging of all open items in the "List of Items On Hand and of Transmittals in Transit" report prior to performing the monthly cash count and obtain explanation and support for all items remaining open for over 30 days.

Concur: The Director of Management & Operations (DMO) has carefully reviewed these sections of the 99 report since November 2011 prior to entering the cashier's office to conduct an unannounced cash count. The DMO has also reviewed these sections with the CD. This review of these sections is what led to the DMO discovering the missing funds in November of 2011.

Additionally, this is verified on the verification checklist (question #8) of each monthly unannounced cash count.

Documents Submitted:

- September 2012's cash count verification checklist

Status and Timeline for Completion: Completed November 2011

2) That the director of management and operations confirm the balance of outstanding cash replenishment checks in the cash reconciliation statement report by verifying that the physical checks are in the cashier's safe or by obtaining confirmation from the bank to verify that the balance in the bank account equals the total of all in-transit items in the "List of Items On Hand and of Transmittals in Transit" report.

Concur: Peace Corps/Tonga does not receive physical checks nor do they have access to or ownership over the USDO account at Westpac Bank. This pass through bank account is also used by the embassy when they come to Tonga and conduct visa processing. In order to ensure proper procedures are followed, the DMO has been added to the email notification from FSC Bangkok to the cashier that replenishment funds have been transferred. The cashier responds, copying the DMO, that she has cashed the replenishment and that these funds are now in the safe in her office. The DMO keeps these replenishment emails in case they are needed to assist in verifying balances in future cash counts.

Documents Submitted:

- Email example of this notification from August 2012
- Replenishment Process Standard Operating Procedure (SOP)

Status and Timeline for Completion: Completed August 2012

3) That prior to authorizing any voided bills of collection the director of management and operations obtain adequate support prior to voiding the bill of collection to verify that the voided bill of collection does in fact represent duplicate transactions.

Concur: Post has followed the instructions sent out from the Director of CFO/GAP which issued new agency guidance on Billings and Collections on July 13, 2012. The DMO obtains adequate support prior to approving any voided bills of collection.

Documents Submitted:

- Last cancellation of consumption tax (CT) refund
- Billings and Collections guidance email from OCFO on July 13, 2012
- OFMH section 7.0, located on the intranet:
http://inside.peacecorps.gov/index.cfm?viewDocument&document_id=15290&filetype=htm

Status and Timeline for Completion: Completed June 13, 2012

4) That, as there is no U.S. Embassy in Tonga, the post follow Peace Corps policies and obtain permission from the Office of Management and follow the guidelines it provides to ensure adequate controls over the sale process.

Concur: PC/Tonga obtained permission from the Office of Management on March 15, 2012 to hold their most recent vehicle auction per the new guidelines. The auction was then held on April 15, 2012. Post will follow the same procedure for the next property auction in late 2012.

Document Submitted:

- Vehicle auction documents and approval from the Post Logistics and Support Division's Management & Program Analyst

Status and Timeline for Completion: Completed April 15, 2012

5) That the director of management and operations ensure that only the billing officer prepare bills of collection and retain adequate supporting documentation.

Concur: The Finance Manager at Post is the billing officer and has been keeping all relevant billing documents since the OIG audit in February of 2012. The bills are prepared by either the GSO or Administrative Assistant and verified and entered by the Finance Manager.

Document Submitted:

- Billing and Collection SOP

Status and Timeline for Completion: Completed February 2012

6) That the director of management and operations develop a process to verify the accuracy and completeness of the value added tax refund application to ensure all submitted invoices comply with government guidelines for refunds.

Concur: The DMO meets with Admin Assistant to discuss any disallowed submissions to insure they are accurate. The DMO follows up with Government of Tonga if there are any concerns or items that cannot be explained. Finally, the DMO runs a search of liquidations and disbursements to check that the submission is complete prior to submission.

Document Submitted:

- Value added tax (VAT) return submission process

Status and Timeline for Completion: Completed September 10, 2012

7) That the post prepare the bill of collection for value added tax refunds when the claim is filed with the government of Tonga.

Concur: Post prepared the bill of collection when submitting the most recent (FY12 Q2) value added tax (VAT) refund request to the Government of Tonga and corrected the amount when the payment was received. Post had not prepared the bill of collection for FY12 Q1 because the DMO misinterpreted CFO guidance that the new process started in calendar year 2012, not fiscal year 2012. This process is now in place.

Document Submitted:

- Recent set of documents submitted to the Government of Tonga

Status and Timeline for Completion: Completed June 13, 2012

8) That the director of management and operations ensure that travel and purchase card transactions have adequate support and are legal, proper and correct.

Concur: The most recent travel card transaction is attached. This documentation shows authorization for the most recent travel. The DMO sought authorization from the CAO, RD and Chief of Transportation to purchase this ticket. This authorization is kept with the travel card records.

Document Submitted:

- Supporting documentation for the most recent example as explained above. Includes ticket purchase, receipt, itinerary, travel authorization, CAO approval, transportation memo, and medical cable.

Status and Timeline for Completion: Completed July 5, 2012

9) That the Peace Corps records retention officer revise guidelines for retaining support for credit card transactions by posts.

Concur: The Office of Management concurs with this recommendation and on August 30, 2012, the following language was added to the Post Records Schedule:

Purchase Card Receipts (Disposition Authority: GRS 6.1a)

Purchase card/credit card receipts.

DISPOSITION: Temporary. Destroy after 6 years and 3 months.

Documents Submitted:

- This revision to the *Guide to Peace Corps' Records Schedules (Posts)* can be found on the intranet on page 13 at:

http://inside.peacecorps.gov/index.cfm?viewDocument?viewDocument&document_id=44673&doctype=pdf

Status and Timeline for Completion: Completed August 30, 2012

10) That the director of management and operations and the information technology specialist conduct a physical count and reconcile discrepancies to ensure data in the BarTracks system is accurate and complete.

Concur: Post concurs with this recommendation and will conduct the required annual inventory in October 2012. After conducting the inventory the DMO will send the sync file to HQ for verification and approval from the Inventory Management Specialist.

Documents To Be Submitted:

- Annual inventory sync file and approval from the Inventory Management Specialist

Status and Timeline for Completion: To be completed by October 31, 2012

OIG COMMENTS

Management concurred with all 10 recommendations. We closed 4 recommendations (numbers 2, 3, 7, and 9) based on evidence of corrective actions that address the recommendations. The remaining 6 recommendations remain open pending a copy of documentation listed in the agency's response.

- Recommendation 1. We request a copy of the checklist where the DMO has verified the zero balance in the pass-through bank account.
- Recommendation 4. Remains open pending documentation discussed in the agency's response.
- Recommendation 5. We request the post to formalize the billing process by adding it to the staff handbook.
- Recommendation 6. We request the post to formalize the VAT submission process by adding it to the staff handbook.
- Recommendation 8. We are reviewing the documentation presented and provide feedback to the post when we complete our review.
- Recommendation 10. Remains open pending documentation discussed in the agency's response.

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

AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Lead Auditor Hal Nanavati performed the audit of Peace Corps/Tonga.



Bradley Grubb
Assistant Inspector General for Audit

OIG CONTACT

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

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