




# Office of Inspector General

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

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

---

**To:** Carrie Hessler-Radelet, Acting Director

**From:** Kathy A. Buller, Inspector General 

**Subject:** Management Advisory Report: Cost Savings Opportunity on Value Added Tax

**Date:** February 13, 2013

The purpose of this memorandum is to bring to your attention the cost savings opportunity available to the agency by strengthening controls over the management of Value Added Tax (VAT) exemptions provided by most countries. Our recent audits and evaluations have noted that posts are not always claiming exemption from VAT or consistently requesting reimbursement for VAT paid to vendors. We estimate approximately \$450,000 in costs savings based on our recent reports.<sup>1</sup> By claiming all legitimate tax exemptions, the agency can save taxpayer money and make more resources available to Peace Corps programs.

## Background

VAT is a multistage tax on goods and services that involves collecting increments of tax numerous times before selling goods and services to consumers. Many countries where the Peace Corps serves charge VAT on the purchase of goods and services. Generally, country agreements specifically exempt the Peace Corps from all personal or real, national, regional or municipal dues and taxes. Tax rates vary from country to country and can total to significant amounts when aggregated for all the countries served.

This benefit is available either at the time of purchase through a point of sale exemption (POS), or by filing a periodic claim with the local tax authority. When posts do the latter they must monitor the collection of the reimbursements and conduct follow-up as necessary.

## VAT Processes Lacking at Posts

At posts, we review whether posts properly claim the POS exemption or apply for VAT reimbursements. Our reports have indicated that posts have their own informal processes for identifying invoices with VAT, submitting VAT reimbursement claims, and monitoring the collection.

We first reported VAT related issues in our 2011 Audit of PC/Ukraine<sup>2</sup>. The report stated, “That Peace Corps management had not developed an effective standard procedure for tracking, recording, and maintaining controls over VAT payments and refunds.” At that time posts had a separate budgetary code for VAT reimbursements but were not consistently using it to track and monitor VAT collections. In addition, prior to 2010, estimated reimbursements were included in

---

<sup>1</sup> See the subsequent list of audits and evaluations for examples of reported cost savings.

<sup>2</sup> IG-11-06-A

posts' operating budgets, which caused some issues when posts were unable to obtain reimbursement from host countries in a timely manner.

Because of these issues, the Office of the Chief Financial Officer (OCFO) issued CFO Bulletin 11-03, "Value Added Tax (VAT) Refund Processing," which instructed posts not to use VAT refunds in budget planning, instead the funds would be returned to a centrally managed account. Posts were "to continue to track, via receipts/invoices, the amount to be billed for periodic collection" and request refunds at least quarterly. The bulletin continued to state that, "Whenever feasible, Posts should revisit the VAT issue with the Host Government to see if it can be eliminated at the point of sale, so refunds would not need to be processed."

However, our FY 2012 audits and evaluations continued to report that posts did not have adequate processes to either claim the VAT exemption or apply and collect VAT reimbursements.

- Limited Scope Audit of PC/China. The post paid 17 percent VAT on most goods and services, but did not request a refund because it is not registered as a diplomatic agency with the tax authority.
- Evaluation of PC/Fiji. The post did not have an amended country agreement. Without a specific exemption from taxes and duties and exchange of letters by the country director, the post may not have claimed a refund of approximately \$238,000 for FYs 2008 to 2010.
- Audit of PC/Malawi. The post was not requesting refund for VAT paid on utilities.
- Audit of PC/Lesotho. The post did not claim reimbursement for all VAT. We estimated approximately \$65,000 of potential reimbursements unclaimed from FYs 2007 to 2011.
- Audit of PC/Tonga. The post had not determined if it could submit additional support after the tax authority rejected several reimbursement requests.
- Audit of PC/Zambia. The post paid approximately \$145,000 in VAT from FYs 2010 to 2012 without requesting POS exemption or reimbursement.

### **Inadequate Oversight by Headquarters**

OCFO has not established formal procedures for posts to claim VAT exemptions, track their progress, or to verify the collection of the full amount claimed from the host government. Instead, posts are responsible for developing their own procedures with limited guidance or oversight from headquarters

OCFO and the regions should identify the status of each post in terms of VAT exemption and reimbursement and maintain a comprehensive list of countries including the nature of their exemption. Estimated VAT reimbursements should be considered in budget preparation and compared to bills of collections to ensure posts are requesting exemption or claiming a reasonable amount of refund. In addition, OCFO should closely review payments to identify VAT charges on invoices and consistently request that posts resubmit payment requests that inappropriately contain VAT charges when VAT POS exemption is possible.

Our audits also found that post staff was not adequately trained on how to claim the benefit. In many instances the staff was either not fully aware of all the exemptions from taxes available to the post or did not understand the requirements for claims. For example, staff in PC/Jamaica and

PC/Zambia was not aware that the post could file a refund claim if the post inadvertently paid VAT.

**Recommendation**

We recommend that the Acting Director designate the Office of the Chief Financial Officer to coordinate the development and implementation of a plan to ensure that all Peace Corps posts are claiming exemption from VAT or consistently requesting reimbursement for VAT. An essential element of any plan should include enhanced training, controls, and monitoring of VAT to gain the maximum benefit of the exemption.

cc: Esther Benjamin, Associate Director for Global Operations  
Joseph Hepp, Chief Financial Officer  
Daljit Bains, Chief Compliance Officer  
Bill Rubin, General Counsel  
Carl Sosebee, Senior Advisor to the Acting Director