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To: Jody Olsen, Director
Angela Kissel, Chief Compliance Officer

From: Kathy A. Buller, Inspector General 

Date: March 31, 2020

Subject: Management Advisory Report: Peace Corps PEPFAR Financial Guidance (IG-20-01-SR)

The purpose of this report is to bring to your attention needed improvements that the Office of Inspector General (OIG) identified while reviewing the implementation of Peace Corps PEPFAR Financial Guidance.¹ For this review, we assessed how overseas posts followed the Peace Corps' guidance when using the President's Emergency Plan for AIDS Relief (PEPFAR) funding for payments. Our review found that the Peace Corps does not have adequate policy, procedures, and guidance to ensure that PEPFAR funds received by the Peace Corps are appropriately managed. Further, we found that the Peace Corps is not adequately complying with the limited PEPFAR guidance it has promulgated.

To perform this review, we utilized Peace Corps PEPFAR Financial Guidance, the principle guidance document available within the Peace Corps for the management of PEPFAR funds. In addition to interviewing Peace Corps headquarters officials responsible for financial oversight of PEPFAR funds, we reviewed 70 vouchers from 13 overseas posts to assess how posts were implementing this guidance (See Appendix A: Details of Sample Selected). These vouchers were paid between October 1, 2016 and February 28, 2019. Our report makes 6 recommendations to help enhance the administration of PEPFAR funds. The agency has 45 days from the issuance of the report to provide its response to these recommendations. Once we receive the response, the report will be updated to include it in Appendix B.

BACKGROUND

In May 2003, Congress enacted "U.S. Leadership Against AIDS, Tuberculosis and Malaria Act of 2003" which authorized the Department of State's Office of the Global AIDS Coordinator (OGAC) for the management and coordination of U.S. Government PEPFAR spending in HIV/AIDS programs.² PEPFAR is managed through an interagency structure that is facilitated

¹ Appendix A: Peace Corps PEPFAR Financial Guidance. In FY 2017, there was no title for this document; in FY 2018, it was titled "Peace Corps PEPFAR Guidance;" and in FY 2019, the title of the document was "Peace Corps Financial Guidance 2019." In this report, we refer to the guidance collectively as "Peace Corps PEPFAR Financial Guidance."

² Pub. L. No. 108-25, 117 Stat. 711 (May 27, 2003).

by OGAC. Since 2003, the Peace Corps has been an integral part of PEPFAR. In efforts to encourage the adoption of healthier behaviors and to mitigate the impact of HIV/AIDS, Peace Corps Volunteers around the world work in partnership with host country and local governments to enhance the capacity of organizations from the community to the national level. The Peace

Peace Corps Posts Receiving PEPFAR Funding in FY 2019

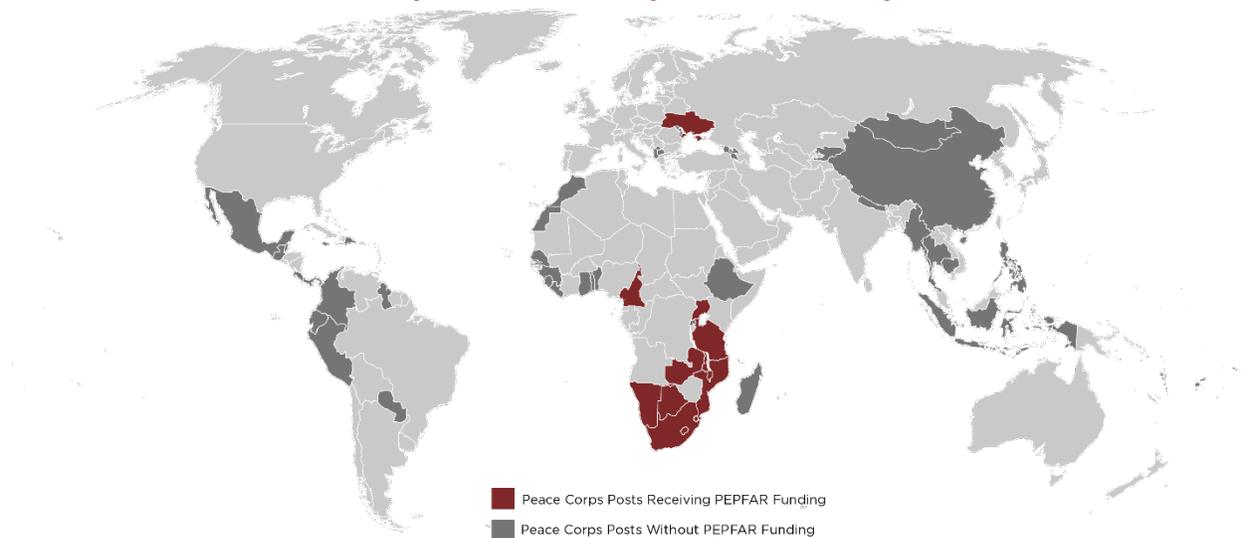


Figure 1: Peace Corps Posts Receiving PEPFAR Funding in FY 2019: Botswana, Cameroon, eSwatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Uganda, Ukraine, and Zambia

Corps has leveraged PEPFAR funding to support: programming and training enhancements, additional 2-year Volunteers, Peace Corps Response Volunteers, 3rd-year extensions of Volunteers, staff, and activities benefiting community members such as capacity building and community-initiated activities.

At the Peace Corps, the Office of Global Health and HIV is the technical and managerial focal point for PEPFAR programming and funding. At the country level, there is typically a U.S. Government interagency team, led by an interagency PEPFAR Coordinator employed by the State Department, with whom Peace Corps posts engage to determine programming priorities, negotiate funding levels, and document these decisions in the annual Country Operational Plan (COP).

The COP outlines the goals, objectives, indicators, activities, and budgets that form the agencies' HIV response. The agencies in each country work as a team under the leadership of the Ambassador. They submit and agree to high level descriptions of their proposed activities for the COP. Once the COP is approved, the Peace Corps post initiates the PEPFAR Implementation Plan (IP). The IP is completed in conjunction with the Peace Corps post's operating plan, and includes the details of the proposed use of funds assigned in the approved COP. The Peace Corps also updates the Peace Corps PEPFAR Financial Guidance to reflect changes from the approved COP.

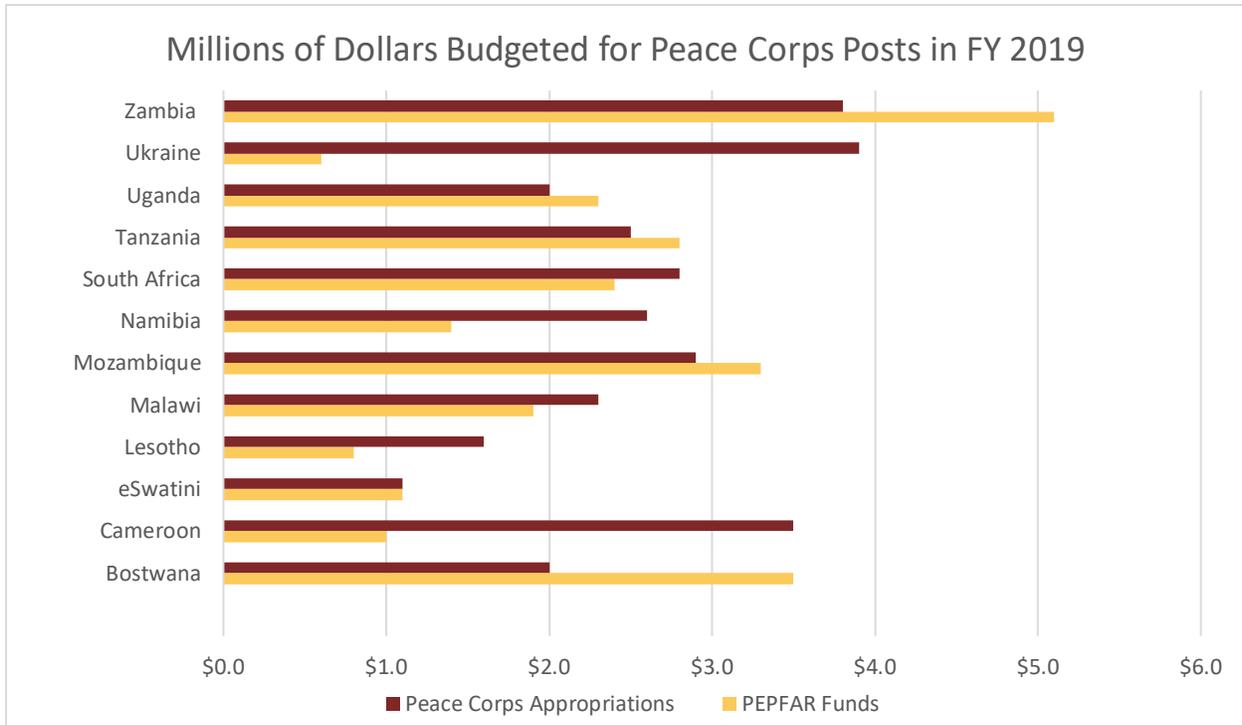


Figure 2: Millions of Dollars Budgeted for Peace Corps Posts in FY 2019: PEPFAR funding amounts in comparison with Peace Corps appropriation amounts budgeted per post receiving PEPFAR funding in FY 2019

PEACE CORPS PEPFAR FINANCIAL GUIDANCE

Our review found that the Peace Corps budgets PEPFAR funding mainly as indirect support costs³ and direct PEPFAR program costs.⁴ Peace Corps PEPFAR Financial Guidance does not define the difference between indirect and direct costs, but rather describes how staff are to allocate various PEPFAR funding. The following is additional background relevant to our analysis.

Indirect Support Costs

PEPFAR Volunteer indirect support costs (ISCs) are allocated utilizing a percentage that is calculated in proportion to the number of PEPFAR funded Volunteer Years⁵ over total Volunteer

³ The Peace Corps uses the term support costs, however this report uses the more commonly used term ‘indirect support costs,’ which are expenses of doing business that are not readily identified with a particular program or activity, but are necessary for the general operation of the organization.

⁴ A direct cost is a cost that could be traced to a specific cost objective. A cost object is something for which a cost is compiled, in this case a PEPFAR funded Volunteer, PEPFAR funded staff, and a PEPFAR project or activity.

⁵ A Volunteer-Year (V-Year) is a calculation of the average number of Volunteers and trainees expected to be present in a country program for a given fiscal year period. The calculation is based on a monthly tally of the likely number of Volunteers and trainees on-board, departing, or arriving in the V-Year Chart, which is a tool used in the operations planning process. V-Years are the basis for calculating cost factors when developing budgets.

Years. However, the guidance states that applying the calculated ISC percentage to every transaction is administratively burdensome for posts.

The Peace Corps allows posts to identify their own methodology for splitting funding for ISCs between Peace Corps general appropriations and PEPFAR appropriated funding. The majority of the PEPFAR posts that we reviewed switched between funding sources when making payments on the reviewed vouchers. They alternated between funding sources by week or by month according to their calculated ISC percentage. For example, if a post has a calculated PEPFAR ISC percentage of 50%, then they will use PEPFAR funds to pay for support costs for six months out of the year and use appropriated funds for the other six months. The expected result is that at the end of the year, the executed budget will show that the ISCs paid were equal or lower than the calculated ISC percentage.

The Office of the Chief Financial Officer (OCFO) uses the budget execution report to monthly track PEPFAR actual ISCs. These ISCs are identified by specific budget and purpose codes^{6 7} in the financial system.

Direct Costs

Peace Corps PEPFAR Financial Guidance does not define direct costs.⁸ Depending on the expense, the Peace Corps uses two methods to determine what proportion of direct costs can be paid with PEPFAR funding. For one method, the Peace Corps' calculation of PEPFAR funding for a direct cost corresponds with the proportion of PEPFAR funded Volunteers and staff who benefited from the expense. For the other method, the Peace Corps can use PEPFAR funding based on the extent of PEPFAR related content and/or activity. Peace Corps PEPFAR Financial Guidance outlines the proportion of direct costs that can be paid with PEPFAR funds as follows:

- **Volunteer trainings:**
 - Proportional to PEPFAR funded Volunteers
 - or**
 - 100 percent of costs if content is 50 percent or more HIV relevant
- **Volunteer specific costs:**
 - Supplies, allowances, medical costs including supplies, and travel costs
 - 100 percent of costs for PEPFAR funded Volunteers

⁶ The following budget lines are applicable: 25710-Equipment Maintenance; 26010-Supplies; 31010-Equipment and Furnishings; 23310-Communications; 23320-Postage and Courier Services; 23340-Utilities; 24010-Printing and Reproduction; 25410-Facilities Ops and Maintenance.

⁷ The purpose codes are used to identify the function for which funds are available and are used under an allotment. These purposes codes are 11-Overseas Program Support; 21-Medical Expenses; and 25-Safety and Security.

⁸ Peace Corps PEPFAR financial guidance describes the costs that are direct in nature under section 1.7 "What can PEPFAR pay for?"

- **Management and operations:**
 - Staff development
 - Proportional to PEPFAR funded staff
 - or**
 - 100 percent of costs if content is 50 percent or more HIV relevant
 - Staff retreats
 - Proportional to PEPFAR-funded Volunteers
 - or**
 - 100 percent of costs if content is 50 percent or more HIV relevant
 - Staff salary, in-country travel, seat,⁹ and communication costs
 - Proportional to the staff required to support the PEPFAR program
 - Project reviews
 - Proportional to HIV effort of sector or intention of individual project review
 - Vehicles (purchase, fuel, insurance)
 - Proportional to PEPFAR-funded Volunteers
 - Office rent
 - None for Peace Corps main office
 - 100 percent of costs for satellite offices when approved by Region **and** where 50 percent or more of Volunteers in the satellite area are PEPFAR funded and/or have HIV-related primary projects
- **Programming Areas:**¹⁰
 - Neglected tropical diseases
 - None
 - Reproductive Health Activities
 - 100 percent of costs where HIV is appropriately integrated
 - Water, Sanitation, and Hygiene (WASH) activities
 - 100 percent of costs in generalized epidemics and where HIV is appropriately integrated
 - Malaria assignments
 - 100 percent of costs where HIV is appropriately integrated
 - Tuberculosis
 - 100 percent of costs where HIV is appropriately integrated
 - Nutrition activities
 - 100 percent of costs in countries with generalized epidemics
 - Sexually transmitted infections trainings
 - Proportional to PEPFAR-funded Volunteers
 - Camps
 - 100 percent of costs where the content and/or beneficiaries of the camp are HIV relevant

⁹ Seat costs were defined by the Director of the Office of Global Health and HIV as the cost of PEPFAR funded staff's office desks.

¹⁰ The PEPFAR programming areas listed establish the content that is necessary for PEPFAR funding to be used for training, VAST grants, and Volunteer HIV work in the country that is allowable for the use of PEPFAR funds.

WHAT WE FOUND

The allocation of PEPFAR funds was inconsistent.

“Peace Corps’ PEPFAR Financial Guidance,” section 1.7.1, states that PEPFAR funds can be used to pay program driven costs of PEPFAR funded Volunteers, which includes supplies directly connected to a PEPFAR funded Volunteer and/or PEPFAR program area. Our review included supply costs that were allocated with purpose codes 16 (pre-service training), 12 (direct Volunteer support), and 14 (in-service training). The use of these purpose codes indicates that the cost is direct, so PEPFAR funding must be allocated based on the number of PEPFAR funded Volunteers or allocated according to the guidance for approved PEPFAR programming areas. However, we found that some of the vouchers reviewed used the calculated ISC percentage to determine the allocation of funds but did not include information about PEPFAR funded Volunteers or approved PEPFAR programming areas. Additionally, some of the vouchers reviewed were 100 percent paid with PEPFAR funds, but the Volunteer and/or program area information was not included in the support provided. Finally, one of the vouchers included the program information; however, the program area was not part of the approved PEPFAR COP. The inconsistencies we observed are described in Table 1.

Table 1: Summary of Inconsistencies of Supply Cost Payments

Country	Vouchers	Issues	Amount
Botswana	2	The post’s payment of beds was coded with purpose code 16. The PEPFAR payment was based on the indirect support cost percentage, but this was a direct cost that should have been allocated per Volunteer.	\$59,965
		The post’s payment of food baskets for Peace Corps trainees was coded with purpose code 16. The PEPFAR payment covered 100 percent of the cost. Although this was a direct cost that should have been allocated per Volunteer, the voucher did not include any Volunteer information.	
eSwatini	1	The post’s payment of stationary supplies for Peace Corps Trainees was coded with purpose code 16. The PEPFAR payment covered 100 percent of the cost. Although this was a direct cost that should have been allocated per Volunteer, the voucher did not include any Volunteer information.	\$1,428
Zambia	4	A payment for the purchase of bike parts for a literacy program and a PEPFAR program were both entirely paid with PEPFAR funds. The payment was coded with purpose code 12. This literacy program was not part of the approved PEPFAR COP.	\$91,311
		The post’s payment of printing books for Volunteers was coded with purpose code 14. The PEPFAR payment covered 100 percent of the cost. Although this was a direct cost that should have been allocated per Volunteer, the voucher did not include any Volunteer information.	
		Two payments for the purchase of bikes were coded with purpose code 12. The voucher did not include any Volunteer or program information.	

The Peace Corps’ “Overseas Financial Management Handbook” (OFMH), section 66, requires adequate support for expenditures. It is important for posts to maintain relevant information, such as the Volunteers’ names and program information, as part of the support when supply costs are directly charged for PEPFAR Volunteers or PEPFAR approved programming areas. Such information is critical in determining whether, and to what extent, it is appropriate to apply PEPFAR funding to direct costs. Inadequate support prevents the agency from ensuring that the use of PEPFAR funds was allowable for the payment of these supplies.

PEPFAR funds paid for non-PEPFAR related medical supplies.

Peace Corps PEPFAR Financial Guidance, section 1.7.1, states that PEPFAR funding can be used to pay medical supplies for PEPFAR funded Volunteers. However, when posts acquire bulk medical supplies, they do not know yet which Volunteers will be getting the supplies. Furthermore, few of the supplies listed in the vouchers reviewed were HIV, tuberculosis, and/or Malaria related, a situation that could have justified the use of PEPFAR funds. Non PEPFAR related medical costs we sampled were as follows:

Table 2: Summary of Non PEPFAR Medical Supplies Paid with PEPFAR Funds

Country	Vouchers	Non PEPFAR Amount
Uganda	1	\$6,538
Malawi	2	\$45,893

Without identifying PEPFAR Volunteers as part of the support, there is not a feasible way to determine whether these posts followed the Peace Corps PEPFAR Financial Guidance. This missing information could indicate that posts utilized PEPFAR funds for Volunteer medical supplies that should have been paid for using the Peace Corps’ appropriated funds.

PEPFAR funds paid for the costs of conferences that were not primarily PEPFAR related.

Peace Corps PEPFAR Financial Guidance allows for payments for PEPFAR funded Volunteers and PEPFAR funded staff¹¹ to attend any type of conference. It also allows the use of PEPFAR funds for the entire conference when the content of the conference is 50 percent PEPFAR related or greater. Section 1.7.2 states in part:

For posts that fund Volunteers with PEPFAR, PEPFAR funds can be used to pay for the costs associated with the PEPFAR-funded Volunteers’ participation (e.g. travel, hotel, materials, etc.) in any training. This includes PEPFAR-funded Volunteers’ participation in PST, COS, MST, and any IST.

¹¹ Staff conference attendance is described in the PEPFAR decision wheel that is part of the PEPFAR financial guidance: *Yes, 100 percent for PEPFAR-funded staff and for non-PEPFAR funded staff when content is more than 50% HIV related.*

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PEPFAR can also pay for trainings in which the content is focused on HIV/AIDS, i.e. when the portion of a training’s HIV/AIDS content is 50% or more of the total training content. In these cases, PEPFAR funds may pay all training costs, regardless of who the participants are.

We reviewed 32 vouchers from 13 posts, and found insufficient documentation for 8 vouchers at 5 posts. Particularly, these vouchers did not have adequate support to show that PEPFAR funded conferences were mostly PEPFAR related in content. For conferences that were 100 percent PEPFAR funded, we noted that the agendas included as part of the support contained little or no PEPFAR related material. Furthermore, PEPFAR funded Volunteers were only a small percentage of the attendants at these conferences. Table 3 shows our calculations of non-PEPFAR related conference costs for those posts with inadequate support according to the support provided.

Table 3: Summary of PEPFAR and Non PEPFAR Conference Costs

Country	Vouchers Reviewed	Vouchers with Exception	Conference Cost	Portion Paid with PEPFAR	Non PEPFAR Cost Paid with PEPFAR Funds ¹²
Botswana	2	1	\$6,662	\$4,388	\$3,817
eSwatini	1	1	\$4,974	\$2,584	\$1,653
South Africa	2	2	\$163,780	\$163,780	\$78,832
Uganda	3	3	\$71,288	\$71,288	\$51,400
Ukraine	1	1	\$10,594	\$10,594	\$10,483
Total	9	8	\$257,298	\$252,634	\$146,185

OFMH 66.6.4 requires that conference related payments must include a list of participants, and the agenda. Peace Corps PEPFAR Financial Guidance states that in order to pay for 100 percent of the conference, the topics should be at least 50 percent PEPFAR related. While the agency guidance fails to explicitly link the two requirements, both could be met with detailed agendas of the conferences that reflected PEPFAR payment requirements. Likewise, if a conference does not meet the 50 percent PEPFAR content threshold, the list of participants if used alone should reflect sufficient information to support the individual payments of PEPFAR funded Volunteers and PEPFAR funded staff who participate in the conference. Because the agendas and/or participant lists failed to show a clear connection to PEPFAR, payments for all the conference participants were not adequately supported.

¹² The Non PEPFAR cost column shows our calculations of what portion of the training should not have been paid with PEPFAR funding. These calculations were based on the proportion of PEPFAR funded Volunteers and/or PEPFAR funded staff vs. total number of participants. Additionally, these calculations were based on the PEPFAR content observed in the agendas provided.

PEPFAR funds paid for the costs of non PEPFAR Volunteers and non PEPFAR staff.

PEPFAR funds can only be used for payments directly associated with PEPFAR funded staff and Volunteers. “Peace Corps’ PEPFAR Financial Guidance,” section 1.7.1, states in part:

When paying for any Volunteer, PEPFAR funds pay for the same itemized costs as appropriated funds. These include program factor driven costs (e.g. living allowance, settling-in allowance, in-country travel, medical care, etc.), tutoring, equipment, and medical supplies.

Additionally, section 3.2.4 states in part:

PEPFAR funds can be used to pay for PSCs. The number of PEPFAR-funded staff should be proportional to the additional effort needed to support the PEPFAR program. Staff should not be split funded and will either be 100% or 0% PEPFAR-funded.

Vouchers containing the name of the person for whom the payment was made indicated that PEPFAR funds in three countries were used to pay for individual expenses of Volunteers and personal services contractors (PSC) who were not PEPFAR funded. (See Table 4)

Table 4: Summary of Non PEPFAR Volunteers and Staff Costs

Country	Amount	Non PEPFAR cost	Purpose
Mozambique	\$6,592	\$302	In-country travel payment
Tanzania	\$4,651	\$4,439	PSC medical care
Zambia	\$14,288	\$1,692	Volunteer staging lodging
Zambia	\$8,176	\$4,368	Volunteer dental services
Total	\$33,707	\$10,801	

By using PEPFAR funds for payments associated with staff and Volunteers who were funded with appropriated funds, posts did not follow PEPFAR guidance. This is an indicator that these posts may not have a thorough understanding of how to manage their various sources of funding.

The agency did not apply Peace Corps PEPFAR Financial Guidance to vouchers examined by headquarters staff.

Standards for Internal Control in the Federal Government describes monitoring as an essential component in helping ensure that activities remain aligned with changing objectives, environment, laws, resources, and risks. The Peace Corps’ memorandum of agreement (MOA) with the Department of State states that the Peace Corps shall:

Ensure funds transferred pursuant to this MOA are utilized with the precise approved activities and targets in the COP.

In interviews with the director of the Office of Global Health and HIV (OGHH) and a budget analyst from the Office of the Chief Financial Officer (OCFO) who works closely with posts in the implementation of PEPFAR budget, we discussed how the voucher examiners review vouchers that were paid with PEPFAR. Most of the payments reviewed were \$2,500 or higher, and OCFO/GAP's internal monitoring process, as described in the FY 2019 agency financial report, is to perform a thorough review of these vouchers prior to payment. However, we were informed that OCFO does not make a final determination on whether the payment was made following PEPFAR guidance. The director of OGHH told OIG that it is the director of management and operation's (DMO) responsibility at post to ensure that, when a PEPFAR payment is approved, the financial guidance was followed. However, the DMO's approval for use of PEPFAR funds is never monitored by headquarters.

Our review found that the agency does not properly monitor the payments with PEPFAR funding to ensure compliance with the MOA with the Department of State. Effective stewardship and monitoring of taxpayer funds are the Peace Corps' responsibility. The lack of such review by OCFO removes an important internal control component of monitoring that would give reasonable assurance that these payments followed the MOA.

The agency handled PEPFAR value added tax refunds inappropriately.

The MOA¹³ between the Department of State and the Peace Corps requires that the PEPFAR funds be allocated in accordance with all applicable law and policy, which includes a condition providing that goods acquired with U.S assistance not be subject to value added tax (VAT) unless refunded. Further, the MOA specifies that the Peace Corps must ensure that the funds received from the PEPFAR program are not co-mingled with funds from other sources. While the MOA does allow the Peace Corps to seek written authority to deviate from the terms of the agreement, the MOA does not exempt the Peace Corps from the prohibition on co-mingling funds based on materiality.

The Department of State requires its financial management officers (FMOs)¹⁴ to account and manage value added taxes as follows:

Value-added and other taxes that are paid to a host government are accounted for as expenditure refunds when refunded by the host government. Amounts collected should be associated with the actual disbursement transaction and associated accounts receivable. At a minimum, the FMO or designated financial management staff member must ensure that the refund is credited to the same appropriation and allotment used to make the original tax payment.

¹³ The MOA is renewed when new PEPFAR funds are allocated. The MOA remains in effect until funds that are subject of this MOA are expended, subject to statutory limits, and may be modified or cancelled upon mutual written consent of both parties.

¹⁴ Section B of 4 FAH-3 H-329.1 The FAH is the Foreign Affairs handbook that is part of the Foreign Affairs Manual (FAM). This guidance outlines all procedures for the Department of State, the Foreign Service and, when applicable, other agencies.

Peace Corps posts in Botswana, Lesotho, Uganda, Namibia, and South Africa paid approximately \$1,058,165 in VAT,¹⁵ of which approximately \$364,351 was paid using PEPFAR funds. Those governments refunded approximately \$566,685 of the VAT payments. The total estimated amount refunded from payments using PEPFAR funds was \$196,456. The agency did not credit VAT refunds of PEPFAR funds to a PEPFAR related account.

The Peace Corps co-mingled appropriated and PEPFAR funds.

OFMH 7.6.4 advises posts not to separate out funds in the VAT refund requests submitted to the local governments. According to OCFO, the process of transferring the money back to PEPFAR funds presents a challenge. The agency has explained that there is a high administrative burden of keeping PEPFAR VAT in a separate account, and they consider the amounts involved in VAT refunds small. Accordingly, the agency credits VAT refunds received to a general fund associated with current year appropriated funds. We confirmed this process by reviewing VAT reimbursements from the aforementioned five countries. All of the reimbursements were coded to the current year appropriated account with the agency general sponsor code “0001”. Sponsor code “0001” is the code for activities not related to a specific program or support area.

The Peace Corps potentially violated the Purpose Statute.

Also known as the “Purpose Statute,” section 1301(a) of Title 31, United States Code, states that “[a]ppropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.” As noted by the Government Accountability Office, the Purpose Statute says in essence that appropriated funds “may be used only for the purpose or purposes for which they were appropriated.”¹⁶ If the agency received funds limited to a particular purpose, expending those funds on another purpose would violate the Purpose Statute absent some other authority providing for one or more additional purpose.

The purpose for the PEPFAR funding can be found in the transfer agreement between OGAC and the Peace Corps. The agreement is made pursuant to the broad transfer authority available under Section 632(a) of the Foreign Assistance Act of 1961, as amended. However, the agreement limits the use of the funds to the “terms and conditions” of the agreement, and consistent with the laws providing the authority and funding for the agreement.¹⁷ The agreement specifies that the Peace Corps will use funds allocated under the MOA to support PEPFAR efforts. Additionally, the agreement specifies that the Peace Corps must receive OGAC

¹⁵ The country agreements of Botswana, Namibia, and South Africa state that the Peace Corps should be exempt of VAT for the purchase of equipment and supplies. The country agreements of Uganda and Lesotho state that the Peace Corps should be exempt of VAT in the purchase of equipment, supplies, and services.

¹⁶ *Principles of Federal Appropriation Law*, Fourth Edition, 2017 Revision at 3-10.

¹⁷ For example, the 2018 agreement generally authorizes the allocation of funding in accordance with the Foreign Assistance Act of 1961, as amended; the Continuing Appropriations Act, 2018 (Div. D, Pub. L. 115-56), as amended; and the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act, 2003 (Pub. L. 108-25).

permission in writing to implement a program other than that outlined in the agreement. As previously noted, the agreement specifically states that PEPFAR funding cannot be co-mingled with other funding sources.

As described above, the agency determines both direct and indirect costs that are associated with PEPFAR and uses PEPFAR funding to pay for those costs. By doing so it delineates the extent of the agency's PEPFAR program and tracks PEPFAR related expenses accordingly. However, the agency did not track PEPFAR VAT refunds to ensure that they are used for PEPFAR related expenses. By co-mingling the VAT refunds received from PEPFAR expenditures with the Peace Corps general appropriation and applying them towards any purpose deemed necessary, the agency may have used PEPFAR VAT refunds on non-PEPFAR purposes. Because PEPFAR funding, as provided through the MOA, must be used towards PEPFAR purposes, the Peace Corps may have violated the Purpose Statute by using PEPFAR VAT refunds towards non-PEPFAR Peace Corps programs.¹⁸

CONCLUSIONS AND RECOMMENDATIONS

Based on our testing of vouchers paid with PEPFAR funds, as well as our interview with OGHH and OCFO staff regarding the implementation of the Peace Corps PEPFAR Financial Guidance for the payment of these vouchers, we found that the financial management of PEPFAR funds needs improvement. A quality financial monitoring program provides a path for proper fiscal review that ensures that the Peace Corps maintains proper accountability between its various sources of funding.

We recommend:

- 1. That the Office of the Chief Financial Officer, in collaboration with the Office of Global Health and HIV, develop comprehensive guidance that fully defines:**
 - a. the roles and responsibilities of post and headquarters staff for the financial management of PEPFAR funds; and**
 - b. the documentation required to support PEPFAR payments.**
- 2. That the Office of Global Health and HIV train voucher examiners on the requirements of the use of PEPFAR funds to ensure proper oversight of PEPFAR payments.**

¹⁸ A violation of the Purpose Statute can, but does not necessarily, implicate the Anti-deficiency Act (31 U.S.C. Section 1341). See Principles of Federal Appropriation Law, Fourth Edition, 2017 Revision at 3-9.

- 3. That the Office of Global Health and HIV train post financial staff in the documentation required to support PEPFAR payments for the full range of costs and expenses payable with PEPFAR funds.**
- 4. That the Office of the Chief Financial Officer identify any other authority allowing for the use of VAT refunds of PEPFAR funding towards non-PEPFAR programs, and, should no other authority be available, review past practices regarding the crediting and use of VAT refunds of PEPFAR funding to identify related Purpose Statute or Anti-deficiency Act violations and make any required reporting.**
- 5. That the Office of the Chief Financial Officer ensure that PEPFAR funds are not co-mingled with other sources of funds, or, if an authority is identified pursuant to recommendation 4, seek written permission to co-mingle funds pursuant to the Memorandum of Agreement.**
- 6. That the Office of the Chief Financial Officer ensure that the PEPFAR value added tax that was incorrectly refunded to the general fund be transferred back to the PEPFAR account.**

QUESTIONED COSTS

We identified the following questioned costs during the review.

Table 5: Questioned Costs

Recommendation Number	Description	Amount
3	Volunteers' supplies	\$152,704
3	Medical supplies	\$52,431
3	Conference costs	\$146,185
3	Non PEPFAR Volunteers and Staff costs	\$10,801
4, 5, and 6	PEPFAR VAT	\$364,351

Consistent with the Inspector General Act of 1978,¹⁹ as amended, **questioned costs** and **funds to be put to better use** are defined as follows:

- **Questioned costs** are “cost[s] that [is] questioned by the office because of –
 - (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing expenditure of funds;
 - (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or
 - (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.”
- **Funds to be put to better use** are “funds that could be used more efficiently if management took actions to implement and complete the recommendation.”

¹⁹ Inspector General Act of 1978, § 5(f) (1)-(4), 5 U.S.C App.3

APPENDIX A: DETAILS OF SAMPLE SELECTED

Cost Type	Transactions	Countries
Support Costs (Direct and Indirect)	20	Botswana, Cameroon, eSwatini, Malawi, Namibia, South Africa, Tanzania, Uganda, Zambia
Medical Costs	5	Botswana, Namibia, Tanzania, Zambia
Conference and Training Costs	32	Botswana, Cameroon, eSwatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Uganda, Ukraine, Zambia, Kenya
Travel Costs	1	Mozambique
Office Rent	2	Mozambique, Zambia
Grants	4	Mozambique, Uganda, Ukraine, Zambia
Vehicles	2	Mozambique, Zambia
Living Allowances	1	Ukraine
Other Services	2	Zambia
Staff Salary	1	Kenya

APPENDIX B: AGENCY RESPONSE TO THE REPORT



MEMORANDUM

To: Kathy Buller, Inspector General

Through: Angela Kissel, Chief Compliance Officer *Angela Kissel*

From: Jody Olsen, Director *Jody Olsen*

Date: May 1, 2020

CC: Michelle K. Brooks, Chief of Staff
Matthew McKinney, Deputy Chief of Staff/White House Liaison
Timothy Noelker, General Counsel
Patrick Young, Associate Director, Office of Global Operations
Carl Sosebee, Senior Advisor to the Director
Richard Swartz, Chief Financial Officer
Shelley Smith, Acting Director, Office of Global Health and HIV

Subject: Management Advisory Report: Peace Corps PEPFAR Financial Guidance (IG-20-01-SR)

Enclosed please find the agency's response to the recommendations made by the Inspector General as outlined in the Management Advisory Report: Peace Corps PEPFAR Financial Guidance (IG-20-01-SR) sent to the agency on March 31, 2020.

The agency concurred with four of the six recommendations provided by the OIG in its Management Advisory Report: Peace Corps PEPFAR Financial Guidance, and will work to address the recommendations by the set target dates.

The Peace Corps has been in partnership with the President's Emergency Plan for AIDS Relief (PEPFAR) program since its inception in 2003. The agency's implementation of the PEPFAR program and the longstanding relationships with PEPFAR partner agencies remain successful and strong. The Peace Corps is a part of a multi-agency team implementing PEPFAR programs and that team effort approach ensures that each participating Peace Corps post manages PEPFAR-allocated funding consistent with both the overall country operational plan and within the spending limits of the accompanying implementation plan. While the PEPFAR financial guidance at Peace Corps could be reasonably improved, the agency affirms that it has implemented the PEPFAR program successfully and within budget. The Office of Inspector General's (OIG) assertion that Peace Corps does not have adequate policy, procedures, and guidance to ensure that PEPFAR funds received by the Peace Corps are properly managed ignores fundamental safeguards employed by the agency to ensure the proper use of PEPFAR funding.

The PEPFAR programmatic goals and budget are both closely monitored during the formulation and execution phases. The Peace Corps has never spent greater than the allotted amount for PEPFAR nor has the agency used PEPFAR funds for goods or services that are not in support of the PEPFAR program. In addition, post execution reviews of the Peace Corps PEPFAR implementation activities have never indicated that partner agencies have concern about Peace Corps inadequately or inappropriately using PEPFAR funding.

The OIG also asserts that the Peace Corps may have violated the purpose statute in its use of PEPFAR funds. However, the Peace Corps has not violated the purpose statute and firmly denies this assertion. The PEPFAR funds given to the Peace Corps represent an available appropriation to enact the PEPFAR program and the purpose statute requires an agency to use its appropriated dollars to support and carry out the overall purpose for which the appropriation was given. The Peace Corps has not used PEPFAR funding on activities, goods, or services that were not in support of PEPFAR; therefore, the Peace Corps has not violated the purpose statute. The Office of the Chief Financial Officer and Peace Corps posts have available documentation to support that PEPFAR transactions made were in support of PEPFAR initiatives and in alignment with the Stewardship and Oversight Act of 2013 and the PEPFAR Extension Act of 2018.

The PEPFAR program is strong, viable and longstanding partnership for the Peace Corps. The agency looks forward to continuing the partnership by bringing both HIV prevention activities and PEPFAR-funded Volunteers to Peace Corps posts. As the agency is consistently looking to improve processes, the Peace Corps leadership will give serious consideration to the recommendations enclosed in the PEPFAR Management Advisory Report and appreciates the efforts of the OIG in bringing these items to the agency's attention.

Recommendation 1

That the Office of the Chief Financial Officer, in collaboration with the Office of Global Health and HIV, develop comprehensive guidance that fully defines:

- a. the roles and responsibilities of post and headquarters staff for the financial management of PEPFAR funds; and**
- b. the documentation required to support PEPFAR payments.**

Concur

Response: The Office of Global Health and HIV and the Office of the Chief Financial Officer will work in collaboration to update the PEPFAR Financial Guidance to outline roles, responsibilities, and documentation requirements for PEPFAR funding.

Documents to be Submitted:

- Updated PEPFAR Financial Guidance
- Proof of updated guidance distribution to staff

Status and Timeline for Completion: March 2021

Recommendation 2

That the Office of Global Health and HIV train voucher examiners on the requirements of the use of PEPFAR funds to ensure proper oversight of PEPFAR payments.

Do Not Concur

Response: It is not the role of The Office of Global Health and HIV to train OCFO voucher examiners on the requirements of the use of PEPFAR funds. Additionally, the agency cannot concur to a specific training recommendation at this time as the OCFO and OGHH are reviewing the overall administration process of PEPFAR funding. Should the agency make training updates regarding the PEPFAR program after the internal review, the OIG will be notified.

Documents to be Submitted: N/A

Status and Timeline for Completion: N/A

Recommendation 3

That the Office of Global Health and HIV train post financial staff in the documentation required to support PEPFAR payments for the full range of costs and expenses payable with PEPFAR funds.

Do Not Concur

Response: The updated PEPFAR Financial Guidance will outline roles, responsibilities, and documentation requirements for PEPFAR funding. However, the agency cannot concur to a specific training recommendation at this time as the OCFO and OGHH are reviewing the overall administration process of PEPFAR funding. Should the agency make training updates regarding the PEPFAR program after the internal review, post financial staff, not the Office of Global Health and HIV, will administer the training and the OIG will be notified.

Documents to be Submitted: N/A

Status and Timeline for Completion: N/A

Recommendation 4

That the Office of the Chief Financial Officer identify any other authority allowing for the use of VAT refunds of PEPFAR funding towards non-PEPFAR programs, and, should no other authority be available, review past practices regarding the crediting and use of VAT refunds of PEPFAR funding to identify related Purpose Statute or Anti-deficiency Act violations and make any required reporting.

Concur

Response: The agency will work with the Office of the U.S. Global AIDS Coordinator and Health Diplomacy (OGAC) for the authority to recognize value added tax (VAT) refunds as a part of the agency's burden rate. In addition, the Office of the Chief Financial Officer will work with the Office of General Counsel (OGC) on proper treatment of VAT refunds.

Documents to be Submitted:

- Email correspondence with OGAC and OGC
- Decision memorandum concerning the disposition of VAT refunds

Status and Timeline for Completion: December 2020

Recommendation 5

That the Office of the Chief Financial Officer ensure that PEPFAR funds are not co-mingled with other sources of funds, or, if an authority is identified pursuant to recommendation 4, seek written permission to co-mingle funds pursuant to the Memorandum of Agreement.

Concur

Response: The agency will work with the Office of the U.S. Global AIDS Coordinator and Health Diplomacy (OGAC) for the authority to recognize value added tax (VAT) refunds as a part of the agency's burden rate. In addition, the Office of the Chief Financial Officer will work with the Office of General Counsel (OGC) on proper treatment of VAT refunds.

Documents to be Submitted:

- Email correspondence with OGAC and OGC
- Decision memorandum concerning the disposition of VAT refunds

Status and Timeline for Completion: December 2020

Recommendation 6

That the Office of the Chief Financial Officer ensure that the PEPFAR value added tax that was incorrectly refunded to the general fund be transferred back to the PEPFAR account.

Concur

Response: Predicated on the outcome of communications and decision memorandum described in recommendations four and five, the agency will either retain the VAT refunds in the current agency appropriation, move funding to PEPFAR appropriations, or return the funding to the Treasury General fund.

Documents to be Submitted:

- Email correspondence with OGAC and OGC
- Decision memorandum concerning VAT refunds

Status and Timeline for Completion: December 2020

APPENDIX C: OIG COMMENTS

Management concurred with four of the six recommendations. They did not concur with two recommendations related to training requirements.

The agency stated that they cannot concur with a specific training recommendation because they are in the process of reviewing the overall administration process of the PEPFAR funding. Management also stated that it is not the role of OGHH to train OCFO voucher examiners on the requirements for the use of PEPFAR funds. We disagree that OGHH should not be involved in the financial management training of individuals reviewing PEPFAR vouchers, as they are the experts in PEPFAR management. OGHH will need to ensure that anyone examining or submitting PEPFAR vouchers understands the appropriate detail and documentation required in these vouchers so that proper payments can be made. Training in this area is essential to good stewardship of PEPFAR funds. We note that the agency also stated that OIG will be notified of any future updates in PEPFAR financial training.

The agency also asserts that the Peace Corps has not violated the Purpose Statute. However, when asked during our review, the agency said it did not track the use of PEPFAR refunds after comingling the refund with the general appropriation, which is not limited to PEPFAR programs. Given that it did not track the PEPFAR refunds, and that the agency will not complete its analysis of the issue until December 2020, OIG questions whether the agency can assert at this time that VAT refunds of PEPFAR funding were used for PEPFAR purposes.

All six recommendations remain open. OIG will review and consider closing the recommendations when we receive documentation reflecting that the agency's corrective actions have been fully implemented. 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. 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.