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To: Carol Spahn, Director
Allison Blotzer, Chief Financial Officer
Emily Haimowitz, Chief Compliance and Risk Officer

From: Joaquin Ferrao, Inspector General *Joaquin Ferrao*

Date: November 15, 2024

Subject: Audit of the Peace Corps' Fiscal Year 2024 Financial Statements

I am pleased to submit to you the Peace Corps' Fiscal Year 2024 Financial Statements audit report.¹ Williams Adley & Company, LLP, an independent certified public accounting firm was contracted by the Office of Inspector General to audit² the Peace Corps' financial statements for the fiscal years ending on September 30, 2024, and September 30, 2023.

This year, the audit concluded that the Peace Corps' financial statements were fairly presented, in all material respects, in accordance with Generally Accepted Accounting Principles (GAAP), and noted three significant deficiencies in the agency's internal control over financial reporting as well as one instance of reportable noncompliance related to provisions of applicable laws, regulations, contracts, and grant agreements.

The Peace Corps' agency leaders have demonstrated a longstanding commitment to financial management, as evidenced by more than 15 consecutive years of clean financial statement audit opinions. However, we note that two significant deficiencies reported in this year's audit are repeat findings from prior years that have been highlighted for the agency's attention and action but have yet to be fully realized.

Specifically, the repeat finding for improper internal controls over Property, Plant, and Equipment (PP&E) contains new and concerning factors that present notable risk to the agency if the finding is not addressed in a timely manner. As described in this audit report, the Peace Corps decommissioned its existing Property Management System in June 2024, without having an operational replacement system. Instead, the agency relied on manual reporting mechanisms that resulted in a variety of challenges, including untimely, inconsistent, and incomplete PP&E data. At the time of this report, the Peace Corps still does not have an operational Property

¹ This audit was conducted in accordance with the U.S. Generally Accepted Government Auditing Standards (GAGAS); the applicable financial audit standards in GAAP, as issued by the Comptroller General of the U.S.; and Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared its financial statements and subjected them to audit in accordance with OMB Circular No. A-136, Financial Reporting Requirements.

² In accordance with applicable standards, OIG reviews independent audits to ensure that the work performed by non-Federal auditors complies with the government auditing standards.

Management System replacement or a projected date for when one will be completed and functional. Generating timely, reliable, and useful PP&E data is essential to ensuring sound agency financial management. However, the current issues with the Property Management System, among the others identified in this audit report, will require focused senior leadership attention to ensure corrective actions are prioritized, potential risks are mitigated, and effective systems are in place.

Independent Auditor's Reports on the Peace Corps' Financial Statements; Internal Control over Financial Reporting; and Compliance with Laws, Regulations, Contracts, and Grant Agreements

In this audit, Williams Adley found the following:

- The financial statements were fairly presented, in all material respects, in accordance with GAAP.
- Three significant deficiencies in the Peace Corps' internal control over financial reporting:
 - 1) *Inadequate internal controls over property, plant, and equipment (PP&E).* Williams Adley cited that the Peace Corps did not have effective internal controls in place to account for PP&E after the prior property system was decommissioned in June 2024. In addition, the team identified discrepancies in reconciliations performed during the year.
 - 2) *The Peace Corps needs to strengthen its processes for implementing the requirements for reporting on leases.* Williams Adley cited that the process utilized by the Peace Corps was manually intensive, changed throughout the audit, and was not easily repeatable in the future. In addition, the highly manual process of collecting lease data and calculating the right-to-use asset and lease liability balances increases the risk of human error. Further, inaccurate and incomplete policies and procedures could result in an erroneous calculation of the right-to-use asset and lease liability balances, resulting in a misstatement.
 - 3) *Lack of effective information technology security.* Williams Adley cited a lack of compliance with IT security requirements, including, risk management; identity, credential, and access management strategy; training; lessons learned; and the agency-level Business Impact Assessment.
- One instance of reportable noncompliance related to provisions of applicable laws, regulations, contracts, and grant agreements, which are required to be reported under GAGAS or OMB guidance. The Peace Corps did not fully comply with the Federal Information Security Modernization Act of 2014 by not meeting the Department of Homeland Security's required maturity level of Managed and Measurable.

Williams Adley made 10 recommendations to address the significant deficiencies in internal control over financial reporting and 1 recommendation related to information technology security. The Peace Corps concurred with the conditions, criteria, and level of control deficiency identified in the report and concurred with the recommendations. The agency committed to implementing corrective actions in fiscal year 2025 to resolve the root causes of the significant deficiencies.

OIG Evaluation of Williams Adley's Audit Performance

In connection with the contract, OIG reviewed Williams Adley's report and related documentation and conducted follow-up meetings with its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to express, and we do not express, opinions on the Peace Corps' financial statements or conclusions about the effectiveness of internal control or compliance with laws, regulations, contracts, and grant agreements. Williams Adley is responsible for the attached auditor's report dated November 14, 2024, and the auditor's conclusions expressed in the report. However, our review disclosed no instances where Williams Adley did not comply in all material respects with GAGAS.

We appreciate the cooperation and assistance of the Peace Corps' senior leaders and staff and Williams Adley representatives. If you or a member of the Peace Corps staff has any questions about Williams Adley's audit or our oversight of it, please contact Assistant Inspector General for Audit David Haney at 202.692.2958 or ghaney@peacecorpsig.gov.

Attachment

cc:

David White, Deputy Director
Lauren Stephens, Chief of Staff
Ruchi Jain, General Counsel
Mia Mayberry, Chief of Operations and Administration
Karoun Tcholakian, White House Liaison
Michael Terry, Chief Information Officer
Francisco Reinoso, Associate Director for Management
Julie Nelson, Compliance Officer Audit Liaison



*The Peace Corps Office of
Inspector General
contracted accounting and
management consulting firm
Williams, Adley & Company-
DC LLP to perform the audit
of the Peace Corps' financial
statements.*



Peace Corps Office of **Inspector General**

Summary of Internal Control Issues Over the Peace Corps' Financial Reporting

FISCAL YEAR 2024

Background

We contracted with Williams, Adley & Company-DC LLP (Williams Adley), an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 2024. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements.

As part of their review, Williams Adley considered the Peace Corps' internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

However, Williams Adley does not provide assurance on internal control over financial reporting or on compliance. Accordingly, they do not express an opinion on the effectiveness of the Peace Corps' internal control over financial reporting or on its compliance.

Results

The results of Williams Adley's review of internal controls identified three significant deficiencies and one instance of reportable non-compliance.

Furthermore, Williams Adley noted an additional concern regarding internal controls that does not rise to the level of material weakness or significant deficiency. This concern is reported in the following attached reports.

Summary of Recommendations

The 11 recommendations made in Williams Adley's reports are intended to assist in improving the Peace Corps' internal control or other operating efficiencies.

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Independent Auditor's Report

Ms. Carol Spahn
Director
United States Peace Corps

Mr. Joaquin Ferrao
Inspector General
United States Peace Corps

In our audits of the fiscal years 2024 and 2023 financial statements of the Peace Corps, we found:

- the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2024, and 2023, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles (GAAP);
- there were no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- one reportable instance of noncompliance for fiscal year 2024 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections detail (1) our report on the financial statements, which includes the required supplementary information (RSI)² and other information included with the financial statements³; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

Report on the Financial Statements

Opinion

In accordance with the U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements, we have audited the Peace Corps' financial statements. The Peace Corps' financial statements include the balance sheets as of September 30, 2024, and 2023; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements (hereinafter referred to as the "financial statements"). In our opinion, the Peace Corps' financial statements present fairly, in all material respects, the Peace Corps' financial

¹ A material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

² The RSI consists of "Management's Discussion and Analysis", which is included with the financial statements.

³ Other information includes the financial statements, other than the RSI, and the auditor's report.

WILLIAMS, ADLEY & COMPANY-DC, LLP

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position as of September 30, 2024 and 2023, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with GAAP.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the U.S. GAGAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Peace Corps and meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Peace Corps management is responsible for:

- preparing and fairly presenting these financial statements in accordance with U.S. GAAP;
- preparing, measuring, and presenting the RSI in accordance with U.S. GAAP;
- preparing and presenting other information included in Peace Corps' Agency Financial Report, and ensuring that information is consistent with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives were to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in aggregate, they would influence reasonable user based on the financial statements.

In performing this audit in accordance with U.S. GAGAS, we:

- Exercised professional judgment and maintained professional skepticism throughout the audit.
- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures listed in the financial statements in order to obtain audit evidence that provided a sufficient and appropriate basis for our opinion.
- Obtained an understanding of internal controls relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of Peace Corps' internal control over financial reporting. Accordingly, no such opinion is expressed.

- Evaluated the appropriateness of the accounting policies used, the reasonableness of significant accounting estimates made by management, and the overall presentation of the financial statements.
- Performed other procedures we considered necessary under the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

Required Supplementary Information

The U.S. GAAP, issued by the Federal Accounting Standards Advisory Board (FASAB), require the RSI to be presented as a supplement to the financial statements. Peace Corps management is responsible for such information and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. GAGAS. These procedures consisted of (1) inquiring of Peace Corps management about their methods for preparing the RSI and (2) comparing the RSI for consistency with Peace Corps management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The Peace Corps' other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for the purposes of additional analysis and is not a required part of the financial statements or the RSI. Peace Corps management is responsible for the other information included in the Peace Corps' Agency Financial Report. The other information consists of information included within the financial statements that are not RSI and our report. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of the Peace Corps' financial statements, we considered the Peace Corps' internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in the Peace Corps' internal control that might be material weaknesses or significant deficiencies,⁴ or to express an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Given these limitations, during our fiscal year 2024 audit, we did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

As discussed in *Appendix I*, our audit identified three significant deficiencies in the Peace Corps' internal control over financial reporting pertaining to (1) property, plant, and equipment (PP&E), (2) leases, and (3) information security.

Although the significant deficiencies in internal control did not affect our opinion on the Peace Corps' fiscal year 2024 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Peace Corps because of these deficiencies.

Our assessment of the current status of the prior year significant deficiencies and noncompliance matter is presented in *Appendix III*.

In addition to the significant deficiencies, we also identified a deficiency in the Peace Corps' internal control over financial reporting that we do not consider to be a material weakness or significant deficiency. However, this deficiency warrants Peace Corps management's attention. We have communicated this matter to the Peace Corps in a separate management letter.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to the Peace Corps' internal control over financial reporting in accordance with U.S. GAGAS and OMB audit guidance⁵.

Responsibilities of Management for Internal Control over Financial Reporting

Peace Corps management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of the Peace Corps' financial statements as of and for the fiscal year ended September 30, 2024, in accordance with U.S. GAGAS, we considered the Peace Corps' internal control relevant to the financial statement audit in order to design audit procedures

⁴ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

⁵ OMB Bulletin No. 24-02, Audit Requirements for Federal Financial Statements, issued on July 29, 2024. According to the guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude on whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the Peace Corps' internal control over financial reporting. We are required to report all deficiencies that are considered significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that:

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the Peace Corps' internal control over financial reporting and the results of our procedures. This report is not intended to provide an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. GAGAS in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the Peace Corps' financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance for fiscal year 2024 that would be reportable under U.S. GAGAS. As discussed in *Appendix II*, this instance of noncompliance is related to the Federal Information Security Modernization Act of 2014 (FISMA). However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Peace Corps. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. GAGAS.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Peace Corps management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Peace Corps.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to the Peace Corps that have a direct effect on the determination of material amounts and disclosures in the Peace Corps' financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to the Peace Corps. We caution that noncompliance may have occurred and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. GAGAS in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, Peace Corps' management provided a written response which is presented in *Appendix IV*. We did not audit the Peace Corps' response and, accordingly, we express no opinion on the response.

Williams, Adley & Company-DC, LLP
Washington, District of Columbia
November 14, 2024

A. Improper Internal Controls over Property, Plant, and Equipment (Updated, Repeat Finding)

Peace Corps management is responsible for the design and operation of its PP&E internal control framework. The PP&E control framework should include policies, procedures, reviews, and approvals to ensure that assets are properly identified, and all acquisition costs are accurately captured. A comprehensive internal control framework is critical for preventing errors in the financial statements, theft, lack of accountability, waste, fraud, abuse, and lack of responsiveness to changing risk and threats.

The Peace Corps Office of Management maintains several inventory tracking systems for various PP&E categories. For vehicles, the Peace Corps maintains a detailed vehicle tracking system (called the Vehicle Management Information System). The Peace Corps' information technology hardware, equipment, and furniture is maintained in the Property Management System (called Sunflower). Every month, the data from each of these property systems is reconciled with data in the asset management system, the Odyssey Fixed Asset module, specifically for assets that meet the capitalization threshold. However, in June 2024, the Peace Corps decommissioned Sunflower with plans to replace it with a new system, Maximo, in August 2024. As of the date of our draft report, this transition has not occurred.

Although the Peace Corps improved its internal controls over PP&E related to recording, capitalizing, and tracking property using Sunflower and Odyssey, it did not have effective internal controls in place to account for PP&E after Sunflower was decommissioned in June 2024. In addition, several discrepancies were noted in the Peace Corps' June 2024 Sunflower to Odyssey reconciliation. Both issues are described below.

Lack of Internal Controls After Decommissioning Sunflower

The Peace Corps did not have proper internal controls in place to accurately record property information after decommissioning Sunflower. To obtain property information, the Peace Corps Office of Management created property tracking spreadsheets. Headquarters departments and posts (herein referred to as "offices") were instructed to manually input data related to additions, disposals, transfers or other modifications to their respective properties into these spreadsheets. The Office of the Chief Financial Officer (OCFO) planned to use these spreadsheets to enter the property data into Odyssey. However, when we requested completed property tracking spreadsheets for a sample of 45 offices as of September 30, 2024, we were informed they were not being maintained or updated.

In response to our audit request, the Peace Corps instructed the sampled offices to complete the property tracking spreadsheets immediately. While we did receive the requested spreadsheets for review, much of the data was incomplete. Of the 35 offices⁶ reporting addition or disposal activity, we noted the following issues:

- 24 offices did not provide placed-in-service dates for additions,
- 7 offices did not provide asset cost information, and

⁶ Ten offices sampled reported no addition or disposal activity during the quarter.

Appendix I – Significant Deficiencies

- 2 offices provided an inventory report, rather than the property tracking spreadsheet.

Due to incomplete data, OCFO could not use the spreadsheets to record capital assets at year-end and we could not rely on them to determine the accuracy of the 4th quarter additions and disposals. Therefore, to get comfort with the year-end balances, the Peace Corps estimated property additions by running a list of payables from Odyssey charged to certain object classes that were likely to contain property and then compared this total to an average of 4th quarter additions in previous years to determine reasonableness and likely impact to the PP&E, Net line item on the Balance Sheet. This method yielded an estimated \$395,633 of property that was added to PP&E that was not being monitored or recorded as assets during the 4th quarter.

This condition occurred because the Peace Corps did not properly plan for a timely transition from Sunflower to Maximo or assess the risks of the transition. As a result, the Peace Corps has been operating without a property tracking system in place for an extended period of time. Furthermore, the manual property tracking process the Peace Corps developed during the transition period was not properly monitored to ensure the offices were making the requested updates.

Sunflower to Fixed Asset Listing Reconciliation Discrepancies

Until the retirement of Sunflower in June 2024, OCFO conducted monthly reconciliations between the Fixed Asset Listing and Sunflower. However, we identified instances in which the monthly reconciliations did not identify all the discrepancies. Specifically, our reconciliation as of June 27, 2024, of the Fixed Asset Listing and Sunflower identified the following discrepancies:

- Two capital assets, with a net book value of \$743 as of June 27, 2024,⁷ were recorded in Sunflower but never recorded in Odyssey. As these assets were not recorded in Odyssey, the PP&E line item on the Balance Sheet is understated.
- For one of the two assets identified in the previous bullet, the Peace Corps incorrectly recorded the acquisition cost of the asset as \$26,720, rather than the actual acquisition cost of \$33,502.
- Two assets had incorrect status classifications between Odyssey and Sunflower. Specifically, one asset related to information technology hardware had an inaccurate asset status of “retired” in Odyssey. This asset is still in use and was appropriately classified as “active” in Sunflower. A different asset related to equipment was inaccurately classified as “active” in Sunflower, despite being disposed of in fiscal year 2012. Since the dollar value of the two assets had been accurately recorded in Odyssey, there is no impact to the financial statements.

The Peace Corps has a de-centralized process over capitalized assets and lacks compliance with existing policies and procedures, which has led to a repeat significant deficiency in fiscal years 2019 through 2021 and fiscal year 2023 and a material weakness in fiscal year 2022.

There are many offices involved with managing property. The Office of Management, Administrative Services and Office of the Chief Information Officer are responsible for recording

⁷ Although the net book value as of September 30, 2024, is below the capitalization threshold, the initial value of these two assets totaled \$83,489.

and managing the physical property, while the OCFO is responsible for the financial implications of these assets.

A lack of complete and accurate financial information regarding PP&E could result in the following:

- Loss of asset accountability, which introduces operational risk related to the ability to execute the Peace Corps' mission.
- Decrease in the uniformity and standardization of procedures, resulting in inconsistent treatment of assets and increasing the difficulty in completing consolidated reports.
- Increased risk of misstatement to the financial statements due to the Peace Corps' lack of an inventory tracking system and lack of controls around recording, capitalizing, and tracking property.

The Peace Corps' Domestic Financial Management Handbook, Chapter 22, published July 27, 2023, sets the following criteria for property management.

22.5.C Tracking and Reporting of Capital Assets

The corresponding office that has custody of the capital assets must track the PP&E in all phases of its useful life, from the time the asset is delivered and accepted, until disposal when the asset is finally retired from service. All actions associated with capital assets must be monitored, tracked and recorded (including transfer between offices and Post/HQ).

22.5.E Retention of Supporting Documentation

Although OCFO/AFR shall be the official record keeper of all PP&E or capital asset transactions, the Property Officer responsible for the asset should maintain supporting documentation for asset purchases, transfers, and disposals. All supporting documentation must be filed and organized for any possible future audits or verification purposes.

22.5.F Internal Controls

The management controls for the PP&E process include the following:

1. Recordation of capital asset and changes to capital assets are verified by OCFO/AFR against acceptable backup documentation, such as copy of approved invoice, proceed of sales information, Leasehold Tracking Spreadsheet, Labor Hours Tracking Spreadsheet, or disposal record.

Recommendations: Although the Peace Corps did not remediate Recommendation 1 from the prior year's findings,⁸ we have closed the recommendation because it is no longer applicable to

⁸ Recommendation 1 from the fiscal year 2023 financial statements audit report recommended that the Peace Corps: "Enhance the reconciliations of Sunflower (the source system) and Fixed Asset module to ensure the reconciliations take into consideration the asset status in the source system (retired assets and assets with no purchase order number should be removed from Sunflower). When differences are identified, they should be investigated and resolved within a timely manner."

the current Peace Corps environment after the Sunflower system was decommissioned during fiscal year 2024.

We recommend that the Peace Corps Office of Management:

1. Establishes a process and procedure for all Peace Corps offices to record property on tracking spreadsheets and provide those spreadsheets to the Office of Management on a monthly basis, until Maximo is fully operational. Follow-up with any offices that are not adequately submitting the information.
2. Establishes a plan with milestones and timelines to fully implement Maximo as soon as possible and work with OCFO and the offices to ensure all applicable property data is transferred into the system.

We recommend that the Peace Corps OCFO:

3. Perform monthly reconciliations of information entered on the property tracking spreadsheets with payable data in Odyssey and research any discrepancies to ensure the completeness and accuracy of the property tracking spreadsheets.
4. Once Maximo is operational, perform monthly reconciliations between Maximo and Odyssey and investigate any differences. Coordinate with the Compliance and Risk Office to review the initial reconciliations to ensure it is designed and operating effectively.

B. The Peace Corps Needs to Strengthen its Process for Implementation of Statement of Federal Financial Accounting Standard 54 (Lease Reporting)

Peace Corps' management is responsible for the design and operation of its PP&E internal control framework for leases. The PP&E control framework should include policies, procedures, reviews, and approvals to ensure that data related to these leases is accurately captured, reported and disclosed. A comprehensive internal control framework is critical for preventing errors in the financial statements, lack of accountability, and lack of responsiveness to changing standards and guidance.

To meet programmatic and administrative objectives, the Peace Corps enters into long-term and short-term leases and rental agreements. The lease agreements are for both domestic and overseas operations and are primarily for occupancy of commercial and residential space. Most Peace Corps leases are awarded by Overseas Contracting Officers (OCO) at Peace Corps Posts overseas, and the lease records are held as part of the OCO's contract files.

The Peace Corps was able to create a materially complete listing of all leases and record and disclose materially accurate right-to-use lease asset and lease liability balances in accordance with the Statement of Federal Financial Accounting Standard (SFFAS) 54⁹ and OMB A-136. However, the process used by the Peace Corps was manually intensive, changed throughout the audit based

⁹ SFFAS 54 was issued on April 17, 2018, and was effective for periods beginning after September 30, 2023. This standard revised the financial reporting standards for Federal lease accounting. SFFAS 54 requires that Federal lessees (which includes the Peace Corps) recognize a lease liability and a lease asset at the commencement of the lease term, unless it meets the scope exclusions or the definition/criteria of a non-intragovernmental short-term lease, contract or agreement that transfers ownership, or intragovernmental lease.

on feedback from the auditors, and not designed in a manner to be easily repeatable in future years. Specifically, we noted the following:

- Incomplete Policies and Procedures.

The Peace Corps provided a documented overview of the nature of their leases, their process for creating a complete lease listing, and their process for updating the Present Value (PV) Lease Template (the template created by the Peace Corps to calculate lease balances). While the Peace Corps did define the data element fields used in the PV Lease Template, many of the significant accounting judgements made universally for valuing the leases' liability and associated right-to-use asset amounts were not documented.

Specifically, we noted the following policy decisions were either not documented or were documented but lacked a reasoning for the policy decision:

- Probability of exercising extension period;
- Probability of exercising purchase options;
- Probability of exercising termination options & termination penalties;
- Date for which the 5-year Treasury rate is applied;
- Foreign currency exchange rate;
- Rounding assumptions for lease terms and payment periods;
- Lease start and end date; and
- Payment escalations.

- Inaccurate Methodology for Calculating the Right-to-Use Asset and Lease Liability Balances.

After review of the Peace Corps' property process narrative and PV Lease Template, we determined that the Peace Corps elected to use the average payment of the base year when calculating the present value of future payments. As SFFAS 54 requires the lease liability be calculated using fixed payment amounts, we determined that the Peace Corps' methodology for calculating the right-to-use asset and lease liability balances with leases with escalating payments¹⁰ was not in accordance with SFFAS 54.

While the Peace Corps ultimately created a separate methodology to calculate the right-to-use asset and lease liability balances for leases with escalating payments, had we not identified this issue, the balance would have been materially misstated. Regardless, the property process narrative has not been updated to reflect the new methodology related to leases with escalating payments.

- Methodology Failed to Calculate all Required Balances for Reporting.

SFFAS 54 and OMB A-136 requires agencies to not only report the right-to-use asset and lease liability balances on their balance sheet, but also to disclose the principal and interest information about future lease payments. While the Peace Corps calculated the principal

¹⁰ For the purposes of this finding, the term "escalating payments" involves situations in which the rent payments in the lease varies over the course of the lease term.

payments made during fiscal year 2024 in the aggregate, the PV Lease Template did not calculate the principal payments or interest at the individual lease¹¹ or lease grouping¹² levels to disclose the information in accordance with A-136 in the footnotes.

While the Peace Corps ultimately created two additional methodologies to calculate the principal and interest payment information for non-escalating and escalating leases, the methodologies were refined based on our feedback and were not finalized until October 28, 2024. In addition, the property process narrative has not been updated to reflect the new methodologies related to calculating the principal and interest information about future lease payments.

- Manual Process for Lease Listing Verification.

Due to the lack of specific lease reference information on disbursement transactions and the lack of a central repository for collecting and retaining lease documents or lease data, the Peace Corps performed a time-intensive, manual process to create a lease population of all active leases as of August 31, 2024.

In June 2024, the Office of Management worked with the three regions' Chief Administrative Officers to conduct a data call to all overseas Posts, asking each Post to provide a digital copy of all current lease documents. Concurrently, OCFO conducted a similar data call with the Peace Corps headquarters offices to identify any pertinent domestic lease agreements in place. OCFO also consulted with the Acquisition and Contract Management team to identify any lease agreements awarded by their department's Contracting Officers, who are responsible for the Peace Corps' contracting within the United States.

To validate the accuracy of the data call results, OCFO identified and reviewed three separate reports that provided more comprehensive visibility into the lease transactions recorded in the financial system. All variances identified during this review were investigated. OCFO identified more than 40 additional leases for inclusion on the lease listing.

To update the lease listing as of September 30, 2024, OCFO reviewed the three reports to monitor new obligations and/or lease payments to identify any new leases established in the remaining reporting period. The OCFO also used the lease dates recorded in the lease listing as of August 31, 2024, to investigate any leases scheduled to end before September 30, 2024, to ensure any renewal or replacement lease was also captured.

¹¹ The Peace Corps current methodology involves calculating the right-to-use asset and lease liability balances for leases with no escalating clause at the individual lease level.

¹² The Peace Corps current methodology involves calculating the right-to use asset and lease liability balances for leases with an escalating clause by group similar leases together and calculating the balances for each group, which is allowable per section II.3.2.4. Liabilities – Lease Liabilities of OMB A-136.

Appendix I – Significant Deficiencies

While the Peace Corps ultimately conducted procedures that created a complete lease listing as of September 30, 2024, this process is not sustainable, efficient, nor easily repeatable.

These conditions occurred because the Peace Corps had not established sufficient or repeatable policies, procedures, or an overall strategy for recording its leases in accordance with SFFAS 54 or for disclosing its leases in compliance with OMB A-136. As a result, the Peace Corps did not have sufficient resources, systems, or process in place. For example:

- Although policies related to the implementation of SFFAS 54 were established, those policies were insufficient and incomplete to ensure leases were recorded and disclosed in accordance with SFFAS 54.
- A central repository of leases or a process by which to collect and maintain lease data does not exist.
- There are no systems to ensure lease data is captured in a way that allows the Peace Corps to automatically determine a complete lease population or calculate the various lease balances required to be reported and disclosed.

Further, several offices are involved with managing leases, which creates a decentralized recording and disclosure process. The OCO is responsible for awarding and maintaining overseas leases, the Office of Management is responsible for awarding and maintaining domestic leases, and the OCFO is responsible for the financial implications of leases.

While the Peace Corps' right-to-use asset and lease liability balances were materially accurate in their financial statements, the Peace Corps was not able to disclose all required lease information in accordance with OMB A-136. In addition, the highly manual process of collecting lease data and calculating the right-to-use asset and lease liability balances increases the risk of human error and creates barriers for effective and efficient reperformance in future years. Further, inaccurate and incomplete policies and procedures could result in erroneous calculation of the right-to-use asset and lease liability balances, resulting in misstatement.

The criteria for accounting for and reporting on leases are the following:

Statement of Federal Financial Accounting Standard 54, paragraph 40 states:

A lessee initially should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include the following, if required by a lease: a. Fixed payments.

OMB Circular No. A-136, *Management's Responsibility for Internal Control*, II.3.2.3 *Assets – General Categories* states:

Other Liabilities – Lease Liabilities. Regardless of how the lease liability was derived, management should adequately document how they concluded that the reported amount is reasonable and in conformity with GAAP [Generally accepted accounting principles] in all material respects.

Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G), states:

Section 10.3. *Appropriate documentation of transactions and internal control.* Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. [...]

Section 16.05. Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions. [...]

Section 16.08. Management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Management uses ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization’s internal controls over the assigned process. Monitoring activities related to service organizations may include the use of work performed by external parties, such as service auditors, and reviewed by management.

Recommendations:

We recommend that the Peace Corps OCFO:

1. Develops and document a process for adopting and implementing new accounting standards and guidance going forward, including, but not limited to, the implementation of the embedded leases¹³ portion of SFFAS 54.
2. Update its policy to include all assumptions used and the reasoning behind those assumptions.
3. Determines what information needs to be captured at a transaction level to allow for the identification of the lease and the type of lease (escalating vs. non-escalating) at the disbursement transaction level.
4. Updates its current lease calculation methodologies to better align with SFFAS 54 and to calculate the interest expense and interest payments.

¹³ Embedded leases is a common industry term that generally describes contracts or agreements that contain lease components and non-lease components, such as service components, and serve a primary purpose attributable to the non-lease components. The Peace Corps has not developed a process to identify and analyze contracts or agreements to determine if they are classified as an “embedded leases” under SFFAS 54, and thus subject to the same lease reporting requirements. SFFAS 62: Transitional Amendment to SFFAS 54 allows agencies to defer the application of SFFAS 54 requirements to embedded leases.

We recommend that the Peace Corps Office of Management:

5. Develops and implement a process to capture the information needed to identify a lease, to allow for automation of calculating, reporting, and disclosing required lease balances.
6. Ensures the new processes developed to identify and record leases are adequately communicated to impacted personnel, both in writing and through trainings.

C. Information Technology Security (Modified, Repeat Finding)

The Peace Corps was not in compliance with FISMA. All five FISMA functions, inclusive of nine domains did not meet the Department of Homeland Security's required maturity level, managed and measurable. Specifically, the design and operational weaknesses associated with key FISMA domains are summarized below for fiscal year 2024:

- The Peace Corps has not fully implemented an agency-wide risk management program to manage risks across the organization at all three levels (entity, business process, system). Specifically, the Peace Corps has not fully incorporated cybersecurity risks into their enterprise risk management program and has not identified and defined requirements for an automated solution that provides a centralized, enterprise-wide view of cybersecurity risks across the organization.
- The Peace Corps is still in the early stages of establishing its supply chain risk management program.
- The Peace Corps has recently finalized its Information Security Continuous Monitoring strategy processes and activities to address prior year recommendations and is still in early stages of implementing this new strategy.
- The Peace Corps has not finalized a strategy to guide the organization's Identity, Credential, and Access Management program. In addition, the policies and procedures to support this strategy have not been fully developed to include the roles and responsibilities of its stakeholders.
- The Peace Corps did not fully implement its Data Loss Prevention tool and the Peace Corps did not consistently implement privacy awareness training requirements (basic privacy awareness training and role-based privacy training).
- The Peace Corps did not consistently capture and share lessons learned to demonstrate the effectiveness of its incident handling activities and post-incident analysis.
- The Peace Corps has not fully developed an agency-level Business Impact Analysis and did not integrate the results into strategy and other plan development efforts.

Peace Corps management has not implemented a complete and effective information security program throughout the Peace Corps at the organization, business, and information system levels.

Without implementing an effective information security program, the Peace Corps may be unable to manage information security risks which could ultimately result in potential damage, including system downtime, unauthorized access, changes to data, data loss, or operational failure.

The criteria related to Information Technology Security is as follows:

Appendix I – Significant Deficiencies

GAO Federal Information System Controls Audit Manual (FISCAM) 1.2 states:

Without effective general controls, business process application controls can generally be rendered ineffective by circumvention or modification.

GAO FISCAM 2.3 states:

If one or more of the nine control categories are not effectively achieved, IS [Information System] controls are ineffective, unless other factors sufficiently reduce the risk.

GAO FISCAM Security Management (SM)-2 states:

According to FISMA, federal agencies must periodically assess the risk and magnitude of the harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support their operations and assets. Policies and procedures are based on risk, and the rigor of management testing and evaluation of information security should also be based on risk.

GAO FISCAM SM-5 states:

An important element of risk management is ensuring that policies and controls intended to reduce risk are effective on an ongoing basis. Effective monitoring involves the entity performing tests of IS controls to evaluate or determine whether they are appropriately designed and operating effectively to achieve the entity's control objectives.

FISMA directs agency heads to ensure that:

- (1) information security management processes are integrated with budgetary planning;
- (2) senior agency officials, including chief information officers, carry out their information security responsibilities; and
- (3) all personnel are held accountable for complying with the agency-wide information security program.

Recommendation:

We recommend that the Peace Corps:

1. Implements the provided FISMA recommendations from the Peace Corps OIG Report on FISMA (IG-25-01-SR) to mature and improve its information security program.

D. Noncompliance with Laws, Regulations, Contracts, and Grant Agreements – FISMA (Updated, Repeat Finding)

FISMA requires agencies to provide the appropriate information security controls corresponding with the risk and potential harm of not having those controls in place. The heads of agencies and OIGs are required to annually report on the effectiveness of the agencies' security programs. As noted in its Assurance Statement included in its Agency Financial Report, the Peace Corps disclosed an instance of noncompliance with FISMA that is required to be reported under GAGAS and OMB Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. By not complying with FISMA, the Peace Corps has potentially weakened security controls which could adversely affect the confidentiality, integrity, and availability of information and information systems.

The OIG has provided the Peace Corps' management with a separate report that further details the status of compliance with FISMA requirements in the Peace Corps' systems and provides recommendations for improvement. Please refer to Finding C regarding Information Technology Security (Updated, Repeat Finding) for high-level details.

Appendix III - Status of Prior Year Findings and Recommendations

Our assessment of the current status of the prior year findings is presented below.

Prior Year Finding	Current Status
2019-06: Improper Internal Controls over Property, Plan, and Equipment (Significant Deficiency)	Open. Finding has been updated and repeated as Finding A in <i>Appendix I</i> .
2018-05: Information Technology Security (Significant Deficiency)	Open. Finding has been updated and repeated as Finding C in <i>Appendix I</i> .
FISMA (Non-Compliance)	Open. Finding has been updated and repeated as Finding D in <i>Appendix II</i> .



November 12, 2024

Mr. Kola A Isiaq, CPA
Managing Partner
Williams Adley & Company, LLP
1016 16th Street, NW, Unit 400
Washington, DC 20036

Dear Mr. Isiaq,

This letter represents the response of the Peace Corps to your draft Independent Auditor's Report, received November 6, 2024. We are pleased with your issuance of an unmodified (clean) audit opinion. The Peace Corps management reviewed the Notice of Findings and Recommendations for three significant deficiencies issued by Williams Adley, in connection with the audit of our financial statements for fiscal year (FY) 2024. We concur with the conditions, criteria, and levels of control deficiency identified. We have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2025, as we continuously strive to improve our internal control environment.

Improper Internal Controls over Property, Plant, and Equipment (Modified Repeat Finding)
Response: Concur

In FY 2024, the Peace Corps updated policies and procedures governing Bulk Assets. The Peace Corps revised its policies to provide clear guidelines on the determination of vehicle in-service dates and the corresponding timing for recording such information in VMIS. In FY 2025, the Peace Corps will establish a process for ensuring all Peace Corps offices record property on the tracking spreadsheets and provide those spreadsheets to the Office of Management monthly, until Maximo is fully operational. The Peace Corps will monitor compliance and take appropriate action with offices that fail to submit timely or adequate property tracking spreadsheets. The Peace Corps will establish a plan, with milestones and timelines, to fully implement Maximo as soon as possible and ensure all applicable property data is transferred into the system. The Peace Corps will perform monthly reconciliations of information on the property tracking spreadsheets with payable data in the financial system and will identify and resolve any discrepancies to ensure the completeness and accuracy of the property tracking spreadsheets. The Peace Corps will perform monthly reconciliations between inventory management systems and the financial system, investigate any differences, and coordinate with the agency's Compliance and Risk Office to ensure initial reconciliations with Maximo are designed and operating effectively.

Estimated Completion Date: September 2025

The Peace Corps Needs to Strengthen its Process for Implementation of Statement of Federal Financial Accounting Standard 54 (Lease Reporting) (New Finding)
Agency Response: Concur

Paul D. Coverdell Peace Corps Headquarters

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In FY 2025, the Peace Corps will document a process for adopting and implementing new accounting standards and guidance. The Peace Corps will update its Lease Reporting policy to include all assumptions used and the reasoning behind those assumptions. The Peace Corps will determine the specific transaction data required to accurately identify and categorize leases. The Peace Corps will develop a process to capture lease transaction information to allow for automation of calculating, reporting, and disclosing required lease balances. The Peace Corps will update its current lease calculation methodologies to ensure better alignment with SFFAS 54. The Peace Corps will ensure new lease reporting processes are adequately communicated, both in writing and via trainings, to impacted personnel.

Estimated Completion Date: September 2025

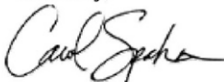
Information Technology Security (Modified, Repeat Finding)
Agency Response: Concur

In FY 2024, the Peace Corps Enterprise Risk Management (ERM) program continued to operate as planned based on progress made in FY 2023, and consistent with the program goals outlined in the integrated ERM Program Plan. Notable ERM updates in FY 2024 included updates to the agency Risk Appetite Statement, office-level Risk Registers, the agency Risk Profile and closer integration of Cybersecurity into the ERM program activities. The Peace Corps dramatically improved its cyber incident detection and response capabilities, providing 24/7 monitoring, more highly trained staff, and improved toolsets. In addition to this improved capability, the organization updated its breach and cybersecurity incident response frameworks to provide better accountability, alignment, and consistent processing. The Peace Corps improved its vulnerability management procedures providing better oversight and performance. These enhanced procedures improve responsiveness to identified vulnerabilities and ensure disciplined risk evaluation and mitigation processes are followed. In FY 2025, the Peace Corps will continue to leverage successes noted in FY 2024 related to the integration of Cybersecurity into ERM. Having now identified the National Institute of Standards and Technology Interagency or Internal Report (NISTIR) 8286 requirements, and having clarified Cybersecurity vs. ERM roles, incremental work can continue during FY 2025 to continue maturing integration efforts. The Peace Corps will continue to implement its Information Security Continuous Monitoring (ISCM) strategy, to include the definition of roles and responsibilities and development of security metrics to measure effectiveness. The ISCM will be updated to ensure that it addresses risk management at the organization, mission, and information system levels. The Peace Corps will continue implementation activity as defined in the 2024-2026 ERM Program Plan. This will include better integration of current risk management information into agency decision making.

Estimated Completion Date: September 2025

Thank you and we appreciate the opportunity to respond to the draft Independent Auditor's Report pertaining to the FY 2024 Financial Statements Audit.

Sincerely,



Carol Spahn
Director

Paul D. Coverdell Peace Corps Headquarters

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Management Letter

Ms. Carol Spahn
Director
Peace Corps

We have completed our audits of the financial statements of the Peace Corps as of and for the fiscal years ended September 30, 2024 (fiscal year 2024), and 2023 (fiscal year 2023) and have issued our Independent Auditor's Report thereon dated November 14, 2024.

In planning and performing our audits of the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2024, and September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered the Peace Corps' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the Peace Corps' internal control over financial reporting.

In our fiscal year 2024 audit, we identified two internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrant management's attention, which is provided in *Appendix I*. We have discussed these comments and recommendations with the Peace Corps personnel, and we will be pleased to discuss them in further detail at your convenience.

This Management Letter is intended for the information and use of the Peace Corps' management, and those charged with governance and is not intended to be, and should not be, used by anyone other than these specified parties. In commenting on a draft of this letter, the Peace Corps management provided a written response which is presented in *Appendix II*. We did not audit the Peace Corps' response and accordingly, we express no opinion.

Williams, Adley & Company - DC, LLP

Washington, District of Columbia
November 15, 2024

CC: Joaquin Ferrao, Inspector General, the Peace Corps Office of Inspector General

2020-01: Inadequate Controls Surrounding Processing of Personnel Actions (Repeat, Modified Finding)

The Peace Corps management is responsible for the design and operation of the Personnel and Payroll internal control framework. This control framework should include policies, procedures, reviews, and approvals to ensure that personnel actions are properly and timely recorded. Absence of a comprehensive internal control framework may result in theft, lack of accountability, waste, fraud, abuse, and lack of responsiveness to changing risk and threats.

The Peace Corps uses the document entry, processing, inquiry and correction (EPIC) an application designed, developed, and maintained by the National Finance Center (NFC) that allows the Peace Corps to enter payroll/personnel transactions for processing in the payroll system. Data from this system is used as the official personnel information for the Peace Corps.

Documentation of personnel actions for newly hired and separated employees was not consistently maintained, completed, and/or approved in a timely manner. As part of our internal control testing in fiscal year 2024, we selected 45 out of 143 newly hired individuals and 45 out of 107 separated individuals during the first three quarters of fiscal year 2024. Based on our testing, we determined that the Peace Corps did not follow their own policies and procedures related to the processing of the Standard Form 52, *Request for Personnel Action*, (SF-52). Specifically, we noted the following issues:

- For 6 newly hired employees and 8 separated employees, the SF-52, was missing the signature by an appointed Human Resources Officer on line 2 of Part C.
- For 4 newly hired employees, the SF-52, was missing required personal identifiable information, such as Name, Social Security Number, and Date of Birth.
- For 12 newly hired and 2 separated employees, the Peace Corps could not provide us with their SF-52.

Cause: The Peace Corps lacks proper controls over document retention and access. Specifically, for the missing SF-52s, the Peace Corps Office of Human Resources (HR) indicated that due to limited team members and hasty processing, a lack of HR oversight occurred. As a result, the HR personnel were unable to produce SF-52s as they no longer had access to the documents due to the retained SF-52s still residing on the employee's personal drive. Consequently, when the staff members separated from the agency, they no longer had access to those records.

Additionally, the Peace Corps HR has not developed any internal guidance or procedures on how to process newly hired employees and the separation of employees that current HR personnel can follow when HR employee turnover occurs. The employee turnover of HR staff roles and the lack of guidance has led to certain HR functions not being processed or fulfilled in a timely manner, further resulting in SF-52s not being properly completed in their entirety.

Effect: Failure to (1) consistently process personnel action forms in a timely manner, (2) review these forms for accuracy, and/or (3) maintain documentation, could result in erroneous compensation payments and/or the employee not receiving their final salary or leave payout. In addition, the Peace Corps is not complying with personnel actions criteria set forth by the Office of Personnel Management (OPM).

Appendix I – Deficiencies in Internal Control over Financial Reporting

Criteria: The Guide to Processing Personnel Actions by OPM, Chapter 4 Requesting and Documenting Personnel Actions, Section 4(a) Completing the Standard Form 50 states:

“The general rule on use of a name on an employee's records is consistency: show the employee's name in the same way on all Government records.”

The Guide to Processing Personnel Actions by OPM, Chapter 4 Requesting and Documenting Personnel Actions, Section 4(b) Completing the Standard Form 50 states:

“No personnel action can be made effective prior to the date on which the appointing officer approved the action. That approval is documented by the appointing officer's pen and ink signature or by an authentication, approved by the Office of Personnel Management, in block 50 of the Standard Form 50, or in Part C-2 of the Standard Form 52.”

The GAO-14-704G, Standards for Internal Control in the Federal Government states:

“Appropriate documentation of transactions and internal control Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

Recommendations: We recommend the Peace Corps Office of Human Resources:

1. Provide more effective training to HR staff on policies and procedures related to the entry of employee data into EPIC.
2. Continue to utilize the electronic SF52 Tracker in order to retain and retrieve all past, present and future completed SF-52s.
3. Develop guidance and instructions for current HR employees to follow for the newly hired employees and separation of employees in the event of HR employee turnover.

2024-01: Access Control Process (New)

The Peace Corps utilizes access control measures to strengthen security, mitigate risks, and enhance overall operational efficiency. According to established policies and processes, users must have the appropriate access necessary to perform their roles, and management is responsible for granting the appropriate access to ensure effective job performance for in-scope Financial Services systems, including Odyssey and OdyWeb. The Office of the Chief Financial Officer (OCFO) owns and manages the Financial Services systems. OdyWeb which is a set of custom applications used primarily by Posts, with overseas users authenticated at Posts via FORPost. OdyWeb provides Posts with web-enabled applications to view, enter, and approve data related to Post staffing, volunteer records, volunteer and Personnel Service Contractors (payrolls, and vendor record overseas users authenticated at Posts via FORPost.

We identified deficiencies related to documenting authorized access and timely removal of access from the Financial Services systems (e.g. Odyssey and OdyWeb). Specifically:

Appendix I – Deficiencies in Internal Control over Financial Reporting

- A temporary user was authorized to have access to the Odyssey system at Peace Corps HQ from January 10, 2024, through May 17, 2024. However, the account was not disabled until July 27, 2024.
- A separated user's OdyWeb user account at the Senegal Post may not have been deactivated timely. The user separated from the agency on October 21, 2023, however documentation was not available to evidence timely separation.

Cause: According to the Peace Corps OCFO personnel, the temporary account was still authorized to have access through July 2024 in order to support operations. However, the Peace Corps was not able to provide documentation to indicate that the account had been modified to extended access beyond the original time frame.

Further, the Peace Corps OCFO personnel noted that the users Active Directory account was deactivated timely based on automated scripts run from HQ. However, documentation was not available to confirm access was removed timely.

Effect: Delayed account deactivation could increase the likelihood of unauthorized access and the potential occurrence of a cybersecurity breach, which could result in a data leak and/or compromise of sensitive and confidential information.

Criteria: Per the System Security Plan (SSP) for Financial Services, AC-02 Account Management, "if the user account was requested as a Temporary account, the end-date would have been put on the Oracle eBusiness Suite record at that time. The account will automatically disable on the end-date entered."

Per the Account Management Procedures for OdyWeb, FORPost, under section Supplemental Procedure: "Automated process runs weekly and inactivates user accounts in FORHQ that have been inactivated in Active Directory."

The SSP states "AC-02(1) Automated System Account Management states that in...OdyWeb, the user access is tied to Active Directory accounts (username and password are the same for access to these systems). Upon termination of the AD accounts when a user leaves Peace Corps, the system accounts are automatically disabled."

Recommendations: We recommend the Peace Corps Office of the Chief Financial Officer:

1. Document temporary access modifications, including extensions, using the required modification form that is established under Peace Corps policies and procedures.
2. Implement account deactivation processes to ensure account deactivation is completed and documented in a timely manner at Posts.



November 15, 2024

Mr. Kola A Isiaq, CPA
Managing Partner
Williams Adley & Company, LLP
1016 16th Street, NW, Unit 400
Washington, DC 20036

Dear Mr. Isiaq,

This letter represents the response of the Peace Corps to your draft Management Letter, received November 13, 2024. The Peace Corps management reviewed the Notice of Findings and Recommendations for the deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2024. We concur with the conditions, criteria, and levels of control deficiency identified. We have established corrective action plans to address the root causes of these findings. We are dedicated to resolving these issues in FY 2025, as we continuously strive to improve our internal control environment.

Inadequate Controls Surrounding Processing of Personnel Actions (Modified Repeat Finding)

Response: Concur

During FY 2024, the Office of Human Resource (OHR) conducted multiple trainings to expand staff expertise in several HR information systems and in processing interagency transfers. OHR also implemented the eSF-52 SharePoint solution to strengthen personnel action processing and document retention. In FY 2025, OHR will continue to train staff on policies and procedures for entering employee data in EPIC. OHR will expand its use of the eSF-52 tracker and will develop procedure documents to retain knowledge through HR employee turnover. Estimated Completion Date: September 2025

Access Control Process Deficiencies (New Finding)

Response: Concur

In FY 2025, the Peace Corps will review current account deactivation processes to identify and implement stronger oversight to strengthen guidance and procedures surrounding timeliness and retaining required documentation. Estimated Completion Date: September 2025

Thank you and we appreciate the opportunity to respond to the (draft) Management Letter pertaining to the FY 2024 Financial Statements Audit.

Sincerely,

Carol Spahn
Director

Help Promote the Integrity, Efficiency, and Effectiveness of the Peace Corps

Anyone knowing of wasteful practices, abuse, mismanagement, fraud, or unlawful activity involving Peace Corps programs or personnel should call or write the Office of Inspector General. Reports or complaints can also be made anonymously.

Contact OIG

Reporting Hotline:

U.S./International: 202.692.2915
Toll-Free (U.S. only): 800.233.5874

Email: OIG@peacecorpsoig.gov

Online Reporting Tool: peacecorps.gov/oig/contactoig

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