



# Office of Inspector General

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**To:** Jody Olsen, Peace Corps Director

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

**Date:** November 10, 2020

**Subject:** Audit of the Peace Corps' Fiscal Year 2020 Financial Statements

This letter transmits the reports of Williams, Adley & Company – DC, LLP (Williams Adley) on its audit of the Peace Corps' Fiscal Year (FY) 2020 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

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

We contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 2020 and 2019. 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* (GAGAS), issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

Williams Adley's report for FY 2020 includes: an opinion on the financial statements, conclusions on internal control over financial reporting, and compliance with laws, regulations, contracts, and grant agreements. In its audit of the Peace Corps, Williams Adley found:

- The financial statements were fairly presented, in all material respects, in conformity with GAGAS principles.
- There were no material weaknesses in internal control.<sup>1</sup>
- Two significant deficiencies related to internal control were disclosed by Williams Adley:<sup>2</sup>
  - *Lack of effective information technology security.* Williams Adley cited a lack of a comprehensive risk management program.
  - *Inadequate internal controls over property, plant, and equipment.* Williams Adley cited gaps in the internal control framework in the areas of recording and tracking property and performing necessary reconciliations of property data.

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<sup>1</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control 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.

<sup>2</sup> A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- One instance of reportable noncompliance was found relating to compliance with applicable provisions of laws, regulations, contracts, and grant agreements which are required to be reported under GAGAS or OMB guidance. Williams Adley found that the Peace Corps did not fully comply with:
  - The Federal Information Security Modernization Act of 2014 by not fully implementing information security continuous monitoring and the agency's risk management program.

#### OIG Evaluation of Williams Adley's Audit Performance

In connection with the contract, we reviewed Williams Adley's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us 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 10, 2020, 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.

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 Judy Leonhardt at 202-692-2914.

#### Attachment

**cc:** Michelle Brooks, Chief of Staff  
Richard Swartz, Chief Financial Officer  
Scott Knell, Chief Information Officer  
Angela Kissel, Chief Compliance Officer  
Colin Jones, Compliance Officer



*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 2020

### 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, 2020. 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. 19-03, 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 in order 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 no material weaknesses, two significant deficiencies, and one instance of reportable non-compliance. Furthermore, Williams Adley noted three additional concerns regarding internal controls that do not rise to the level of material weakness or significant deficiency. These concerns are reported in the following attached reports.

## Summary of Recommendations

The 12 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

Director  
United States Peace Corps

Inspector General  
United States Peace Corps

In our audits of the fiscal years 2020 and 2019 financial statements of the Peace Corps, we found

- the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;<sup>1</sup> and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>2</sup> and other information included with the financial statements;<sup>3</sup> (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

In accordance with 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. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the Peace Corps' financial statements. The Peace Corps' financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in

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<sup>1</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control 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.

<sup>2</sup>The RSI consists of Management's Discussion and Analysis section which is included with the financial statements.

<sup>3</sup>Other information consists of Message from the Director, Message from the Chief Financial Officer, Other Information section, and appendices.

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

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net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Management's Responsibility

The Peace Corps' management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

#### Opinion on Financial Statements

In our opinion, the Peace Corps' financial statements present fairly, in all material respects, the Peace Corps' financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information 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. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with 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 purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the Peace Corps' financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

## **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 responsibility discussed below. We performed our procedures related to the Peace Corps' internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

### Management's Responsibility

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

### Auditor's Responsibility

In planning and performing our audit of the Peace Corps' financial statements as of and for the year ended September 30, 2020, 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. We are required to report all deficiencies that are considered to be significant deficiencies<sup>4</sup> 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 (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) 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.

#### Results of Our Consideration of Internal Control over Financial Reporting

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

As discussed in **Appendix I** in more detail, our 2020 audit identified two deficiencies in the Peace Corps' controls over information security and property, plant, and equipment that represent significant deficiencies in the Peace Corps' internal control over financial reporting. We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on the Peace Corps' fiscal year 2020 financial statements.

Although the significant deficiencies in internal control did not affect our opinion on the Peace Corps' fiscal year 2020 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Peace Corps because of these significant deficiencies.

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

In addition to the significant deficiencies, we also identified other control deficiencies in the Peace Corps' internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant the Peace Corps'

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<sup>4</sup>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.



management's attention. We have communicated these matters to the Peace Corps' management in a separate letter.

#### 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, and not 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. generally accepted government auditing standards 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 responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

#### Management's Responsibility

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

#### Auditor's Responsibility

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

#### 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 2020 that would be reportable under U.S. generally accepted government auditing standards. 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.

#### 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. generally accepted government auditing standards 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, the 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, DC

November 10, 2020

## Significant Deficiencies

### A. Information Technology Security (Updated Repeat Finding)

The Peace Corps financial system resides within the Peace Corps IT network and inherits general controls defined at the infrastructure level. Therefore, the confidentiality, availability, and integrity of financial data is dependent on the overall IT security posture at the Peace Corps.

The Peace Corps was not in compliance with the Federal Information Security Modernization Act of 2014 (FISMA). All five FISMA functions including eight domains did not meet Department of Homeland Security's required maturity level, managed and measurable. Specifically, design and operation weaknesses associated with key FISMA domains including Risk Management and Information Security Continuous Monitoring (ISCM) are summarized below:

- Although an ISCM strategy was developed in FY 2019, it was not fully defined in FY 2020. In addition, the Office of the Chief Information Officer (OCIO) did not finalize policies and procedures to support the ISCM strategy.
- The Peace Corps does not have a robust agency-wide Risk Management Program to manage information security risks.
- The new General Support System (GSS), with a significantly expanded system boundary, was operating in the production environment in FY 2020 without completing the full assessment and authorization process.

The Peace Corps' Leadership has not implemented an Enterprise Risk Management process throughout the Peace Corps at the entity, business, and information system level. Specifically, the OCIO was not prioritized for developing a risk register and risk appetite to help identify and mitigate information security risks across the agency. Additionally, OCIO did not have the resources required to complete the strategy and supporting documentation needed to transition to a defined information security continuous monitoring process.

Without a fully implemented Continuous Monitoring Program, agency systems could incur potential damage, including system downtime, unauthorized access, changes to data, data loss, or operational failure.

Also, without effectively implementing a comprehensive risk management process at the agency level, the Peace Corps may be unable to address the root causes associated with existing information security risks.

Government Accounting Office (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 controls are ineffective, unless other factors sufficiently reduce the risk."

GAO FISCAM 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.”

S.2521 - Federal Information Security Modernization Act of 2014: 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.

**Recommendations:** We recommend the following:

1. The OCIO fully implement an ISCM strategy that includes policies and procedures, defined roles and responsibilities, and security metrics to measure effectiveness.
2. The Peace Corps Director and Agency Risk Executive, in coordination with the Peace Corps senior leadership, identify the agency’s information security risk profile and define the agency’s risk appetite and risk tolerance.
3. The Agency Risk Executive, in coordination with the Peace Corps senior leadership, develop and implement an enterprise-wide risk management strategy to address how to identify, assess, respond to, and monitor information security related risks in a holistic approach across the organization, business process, and information system levels.
4. The OCIO perform all components of the Security Assessment and Authorization on all FISMA-reportable systems in accordance with the risk management strategy.
5. The OCIO develop an information security architecture that is integrated with the risk management strategy.

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

The Peace Corps' management is responsible for the design and operation of its Property, Plant, and Equipment (PP&E) internal control framework. The PP&E control framework should include policies, procedures, reviews, and approvals to ensure that long-lived assets are properly identified, and all acquisition costs are accurately captured. The absence of a comprehensive internal control framework may result in errors in the financial statements, theft, lack of accountability, waste, fraud, abuse, and lack of responsiveness to changing risk and threats.

The Peace Corps maintains several inventory tracking systems for various categories of PP&E. For example, the Peace Corps maintains a detailed vehicle tracking system (Vehicle Management Information System [VMIS]), and IT hardware, equipment, and furniture is maintained in the Property Management Software System (PMSS or Sunflower). Data from each of these property systems are reconciled with data in the asset management system (Odyssey Fixed Assets Module) on a monthly basis, specifically for assets that meet the capitalization threshold.

The Peace Corps' internal controls over PP&E need improvement. We noted the following:

**Untimely Recording of Assets in Odyssey:**

For FY20, a total of 13 additions were made as of June 30, 2020. Twelve of those 13 additions, with a total cost of \$2.2 million, were entered into Odyssey between 66 and 205 days after their placed-in-service date (average of 135 days). The Peace Corps policy requires assets to be recorded in the system within 60 days from the original transaction date.

In addition, we tested four capital assets added in the fourth quarter. Of these four additions, three of them, totaling \$7.9 million, were recorded in Odyssey outside the 60-day timeframe required by Peace Corps policy. The delay in recording these entries ranged from 271 to 321 days.

**Vehicles recorded in VMIS but not in Odyssey:**

We reconciled the vehicle listing from VMIS to Odyssey as of June 30, 2020. Our reconciliation found ten vehicles listed as "active" in VMIS that were not included in the Odyssey Fixed Asset Module, despite meeting the threshold for capitalized assets. Out of these ten vehicles:

- One was properly disposed in Odyssey, but was not retired in VMIS.
- The Peace Corps was unable to explain the reason the remaining nine vehicles (with a net value of \$133,374) were not included in Odyssey. Management stated that three of these assets were included in a clearing account and included in the financial statements; however, management was unable to provide support for this representation.

**Assets recorded in Sunflower but not in Odyssey:**

Our reconciliation of Sunflower and the Odyssey Fixed Asset Listing resulted in 25 assets which met the capitalization threshold reported in Sunflower, but were not reported in the Fixed Asset Listing. Our findings relating to these 25 assets are as follows:

- Four assets were appropriately retired in Odyssey but were not retired in Sunflower.
- Fourteen assets were active and were appropriately listed as active in Sunflower but

## Appendix I – Significant Deficiencies

were missing from Odyssey. These items were over ten years old and are therefore presumably fully depreciated. Management could not determine whether these items existed due to the lack of a purchase order number to link the asset in the two systems.

- Six assets where the amounts in Sunflower did not match amounts in Odyssey. In these cases, the amount in Sunflower was above the capitalization threshold, but the purchase order in Odyssey showed it as being below the capitalization threshold resulting in the item not being capitalized. The net value of the items not capitalized was \$66,330.
- One asset tag in Sunflower did not match Odyssey.

Regarding the timely recording of assets in Odyssey, the Peace Corps stated that there were variances between the amounts recorded in Sunflower and that noted on the related invoice. AFR had to resolve these differences before they were able to record the asset in Odyssey.

As it relates to the proper recording of vehicles, the Peace Corps does not have an adequate reconciliation process in place to ensure vehicle acquisitions and retirements are properly captured in Odyssey.

Individuals entering information into Sunflower do not have the appropriate knowledge to accurately and consistently enter information into Sunflower. In addition, AFR's Sunflower to Odyssey reconciliation process is not sufficient to detect assets missing from Odyssey.

A lack of complete and accurate financial information regarding PP&E resulted 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.
- Understatement in PP&E of \$133,374 for vehicles and \$66,330 for other fixed assets as of June 30, 2020.
- Understatement of FY 2019 PP&E balance of \$1,020,012.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government requires that *management perform 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.*

In addition, Peace Corps' Domestic Financial Management Handbook, Chapter 22 requires:

- 22.5.4 Accounting for PP&E – *“The accounting for PP&E is the responsibility of CFO/AFR. Transaction posting and the proper, complete, and accurate accounting of capital assets are done in accordance with Federal accounting standards. Posting of additions, transfers, and deletions of capital assets must be recorded within 60 days from the original transaction date.”*
- 22.5 Tracking and Reporting of Capital Assets — *“The office having custody must*

## Appendix I – Significant Deficiencies

*track a capitalized asset 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 transfers between offices)."*

- 22.5.3 IT Hardware and General PP&E – *"When new assets, such as IT Hardware and General PP&E, are acquired or received, the asset must be added and sighted in PMSS, within two (2) weeks from date of receipt."*

**Recommendations:** Williams Adley recommends that the Peace Corps enhance its overall control environment in relation to PP&E by performing the following:

1. Update the reconciliation process to require two-way verification between all source systems and the Odyssey's Fixed Asset Module. This process should include documentation of steps taken to resolve all identified discrepancies.
2. Require training for all staff responsible for in the acquiring and recording assets.
3. Perform a reconciliation of source systems and Odyssey Fixed Assets and record any capital assets that are missing from the Odyssey Fixed Asset Module.

**Noncompliance with Laws, Regulations, Contracts, and Grant Agreements**

**C. FISMA (Updated Repeat Finding)**

Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies and Offices of Inspectors General (OIG) 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 Government Auditing Standards and Office of Management and Budget (OMB) Bulletin No. 19-03, 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 limited distribution report that further details the vulnerabilities in the Peace Corps' systems and provides recommendations for improvement. Due to the sensitivity of the matters noted, we have not discussed those matters in this report.



### Appendix III - Status of Prior Year Findings and Recommendations

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

Prior Year Finding	Current Year Status
Information Technology Security (Significant Deficiency)	Open and repeated as finding A in the Audit Report.
Inadequate Internal Controls over Property, Plant, and Equipment	Open. Finding was updated and repeated as finding B in the Audit Report.
FISMA (Noncompliance)	Open. Finding was updated and repeated as finding C in the Audit Report.



November 10, 2020

Mr. Kola A Isiaq, CPA  
Managing Partner  
Williams Adley & Company, LLP  
1030 15<sup>th</sup> Street, NW, Suite 350 West  
Washington, DC 20005

Dear Mr. Isiaq,

This letter represents the agency's response to your draft Independent Auditor's Report, received November 4, 2020. We are pleased with your issuance of an unmodified (clean) opinion. The Peace Corps management has reviewed the Notice of Findings for the two significant deficiencies issued by Williams Adley for the financial statement audit for fiscal year (FY) 2020. We concur with the condition, criteria, and level of 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 2021 and into FY 2022, as we strive for an effective and efficient internal control environment.

**Information Technology Security**

Agency Response: Concur. In FY 2020, the Peace Corps Office of Chief Information Officer (OCIO) implemented phase 2 of the Continuous Diagnostic Monitoring (CMD). Moving into FY 2021, OCIO plans to implement Identify Credential and Access Management, cybersecurity workforce, complete phase 2 of CMD, and integrate security architecture into the agency's enterprise risk management. Estimated Completion Date: December 2021

**Inadequate Internal Controls over Property, Plant, and Equipment**

Agency Response: Concur. The Peace Corps Office of Management and Office of Chief Financial Officer will work collaboratively to strengthen the process to ensure that accountable assets are recorded timely and accurately, by the responsible office, within the agency's personal property management, and financial system. Additionally, each responsible office will assist in ensuring that a two-way reconciliation process is performed between the source systems and the financial system application. Estimated Completion Date: September 2021

Thank you and we appreciate the opportunity to respond to the draft Independent Auditor's Report.

Sincerely,

*Michelle K. Brooks*

Michelle K. Brooks  
Chief of Staff

Paul D. Coverdell Peace Corps Headquarters

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## MANAGEMENT LETTER

Director  
United States Peace Corps

Inspector General  
United States Peace Corps

We have completed our audit of the financial statements of the Peace Corps as of and for the year then ended September 30, 2020 and have issued our Independent Auditor's Report thereon dated November 10, 2020.

In planning and performing our audit of the Peace Corps' financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered 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 2020 audit, we identified two significant deficiencies, and one matter of noncompliance with laws, regulations, contracts, and grant agreements (noncompliance). We also identified three internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrant management's attention, which are provided in **Appendix A** and **B**. This Management Letter also includes the status of prior year Management Letter control deficiency in **Appendix C**. We have discussed these comments and recommendations with Peace Corps personnel, and we will be pleased to discuss them in further detail at your convenience.

The Peace Corps has provided an official response to this Management Letter which we have included in **Appendix D**. We did not audit the Peace Corps' response, and, accordingly, we express no opinion on the response.

This management letter is intended solely for the information and use of Peace Corps management and the Peace Corps Office of Inspector General, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Williams, Adley & Company-DC, LLP*  
Washington, DC  
November 10, 2020

WILLIAMS, ADLEY & COMPANY-DC, LLP

*Certified Public Accountants / Management Consultants*

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## Appendix A Deficiencies Noted in FY 2020

The following are deficiencies noted during our audit of the Peace Corps' FY 2020 financial statements.

### I. Inadequate Controls Surrounding Processing of Personnel Actions

Agency 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 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, Entry Processing Inquiry and Correction System (EPIC). Data from this system is used as the official personnel information for the Peace Corps.

We found that personnel actions for employee separations were not consistently approved in a timely manner. As part of our internal control testing, we selected 45 out of 109 individuals separated during the first three quarters of Fiscal Year 2020. For two of the individuals selected, we noted that the SF-50s, *Notification of Personnel Action*, were approved after their effective date of separation. See the table below for more details.

Sample	Effective Date of Separation per the SF-50	SF-50 Director of HR Approval Date
Employee 1	10/19/2019	10/25/2019
Employee 2	3/31/2020	4/1/2020

For two additional individuals selected, Employees #3 and 4, we noted that the Standard Form-52, *Request for Personnel Action*, were missing signatures by an appointed Human Resources officer on line 2 of Part C.

For Employees # 1 and 2 the Peace Corps stated these samples are both retirements, which according to management *“are processed slightly different than a transfer or other separation action. The “approval” date is the date the action is actually entered, and in NFC, that is equivalent to the “auth date”. Retirement actions are not processed until the employee actually retires – this can differ from the SF-52 which may be submitted in advance, because employees will often change their initial retirement date based on multiple factors. The employee record also has to be prepared for closure, so that the retirement package can be sent to NFC and then OPM for processing. Payroll and Benefits will NOT back date the “auth” date in NFC, we consistently use the actual entry date.”*

For Employees #3 and 4 the Peace Corps stated *“After reviewing both actions, it appears that due to the volume of work at the time, these two actions were overlooked for signature prior to being processed. The Financial Policy and Compliance Expert indicated that they will look closer on all actions to be processed to ensure that the signature is present.”*

Although no compensation errors resulted from the late approvals, failure to consistently process personnel action forms in a timely manner and/or review these forms for accuracy could result in

erroneous compensation payments. In addition, PC is not complying with personnel actions criteria set forth by the Office of Personnel Management (OPM).

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.”*

**Recommendation:** We recommend that the Peace Corps:

1. Develop a quality assurance process that will ensure accurate and timely processing of personnel actions.
2. Provide training to human resources staff on policies and procedures related to the entry of employee data into EPIC.

## **II. Plan of Action and Milestones Deficiencies**

Traditional systems of internal control rely on a plan of action and milestones for the information system to document Peace Corp's planned remedial actions to correct weaknesses or deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system.

The Peace Corps identified 79 critical weaknesses, 156 high weaknesses, 50 control weaknesses, and 29 control enhancement weaknesses in the FY 2020 Financial System Security Assessment Report (SAR), issued on May 25, 2020. The system owner and information system security officer (ISSO) began to address weaknesses that could be immediately resolved. Any issues that required a more extensive resolution, were documented in a Weakness Evaluation Report and corrective action plans and estimated completion dates were considered. However, weaknesses identified in the FY 2020 SAR were not documented as a Plan of Action and Milestone (POA&M) within 30 days, as required by policy, until September 29, 2020, thus 97 days late.

Peace Corps is in the process of transitioning to new policies and procedures for documenting POA&Ms but were unable to finalize and fully implement the new process during FY 2020.

Without updated policies and procedures that reflect current operations, agency systems could be exposed to critical undocumented security weaknesses that could put the confidentiality, integrity and availability of information contained in the agency system at risk.

As defined in the Plan of Action and Milestones Guide, a draft POA&M should be created in Cyber Security Asset Management (CSAM) for identified security weakness within 30 days of discovery unless the weakness can be remediated within that 30-day period. In that draft POA&M, the weakness must be assessed and captured within CSAM. Although the ISSO is tasked with drafting the POA&M, it should be undertaken in collaboration with the Information System Security Manager, system owner, and other system stakeholders.

**Appendix A**  
**Deficiencies Noted in FY 2020**

**Recommendation:** We recommend that Peace Corps finalize and implement updated policies and procedures regarding the POA&M process to reflect current operations.

### **III. Inadequate Maintenance and Testing of the Financial System Contingency Plan**

Not having an adequate and updated contingency plan that reflects current operations, may impact the Peace Corps' ability to efficiently recover operations after a disaster or disruption.

The application contingency planning was not designed and operating effectively. Specifically, the Information Technology Contingency Plan (ITCP) for Financial Systems had not been updated since FY 2017 and did not reflect current network/infrastructure capabilities.

The Contingency Plan was last conducted in FY 2017 and had not periodically tested and reviewed since then.

The Peace Corps OCIO began the process in FY 2019 of building and setting up a new disaster recovery environment in the Azure cloud in which the Financial System is dependent on. However, without the disaster recovery environment, the Office of the Chief Financial Officer was unable to fully develop a disaster recovery program.

Without an updated contingency plan that reflects current operations, the ability for the Peace Corps to efficiently recover operations may be impacted. For example, without the financial system, vendors may not be paid on time and invoices may not be processed in the required 30-day timeframe which would result in late fees.

Section 10.1 IT Contingency Plan Maintenance Team of the Odyssey Financial System ITCP states:

*“This “team” will usually consist of the [Computer Security Coordinator] CSC for Odyssey, who will review the Odyssey IT Contingency Plan at least once a year and update it as necessary. The Maintenance Team will read the entire Odyssey IT Contingency Plan annually to make sure that everything in it is current and correct. If new hardware or software is added to Odyssey, the Maintenance Team will determine whether any new recovery processes are needed and add those to the IT Contingency Plan. The Odyssey IT Contingency Plan must also be updated after each test or exercise of the plan, which should also occur annually. Since tests or exercises almost always uncover weaknesses in a plan, post-test updates are usually required. This can be combined with the annual review.”*

**Recommendation:** We recommend that Peace Corps management dedicate resources to build and set up a disaster recovery environment and develop, test, review, and update an ITCP for the Financial System that reflects the current operating environment including the use of cloud-based backups.

**Appendix C**  
**Status of Prior Year Findings**

**Status of Prior Year Findings:**

The following is the status of the prior year findings noted in the FY 2019 management letter.

<b>Prior Year Finding</b>	<b>Current Year Status</b>
Least Privilege Deficiencies at Overseas Posts	Closed
Inadequate Maintenance and Testing of the Financial System Contingency Plan	Open (Finding III)
Separation of Duty Conflict	Closed
Untimely De-Obligation of Unliquidated Obligations	Closed
Inadequate Controls for Financial Statement Presentation and Disclosure	Closed
Improper Creation of Obligations	Closed



## Appendix D Official Management Response to Findings



December 21, 2020

Mr. Kola A Isiaq, CPA  
Managing Partner  
Williams Adley & Company, LLP  
1030 15<sup>th</sup> Street, NW, Suite 350 West  
Washington, DC 20005

Dear Mr. Isiaq,

This is the response of the Peace Corps to your draft Management Letter, received December 14, 2020. The Peace Corps management has reviewed the Notice of Findings and Recommendations for the three deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2020. We concur with the condition, criteria, and level 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 2020, as we strive for an effective and efficient internal control environment.

### **Inadequate Controls Surrounding Processing of Personnel Actions**

Agency Response: Concur

The Office of Human Resource (OHR) will train human resource staff on policies and procedures for the accurate and timely processing of personnel actions and recordation in the personnel system. Additionally, OHR will implement a quality assurance process to ensure personnel actions are processed accurately and within policy and procedural guidelines.

Estimated Completion Date: September 2021

### **Plan of Action and Milestones Deficiencies Agency**

Response: Concur

The Office of Chief Information Officer (OCIO) will finalize and implement the procedures for documenting Plan of Action and Milestones (POA&M), based on current process, to address and document weaknesses identified from the agency's Security Assessment Report. The Office of the Chief Financial Officer (OCFO) shall follow the procedures per the published POA&M, if and when weaknesses are identified for the financial system.

Estimated Completion Date: September 2021

### **Inadequate Maintenance and Testing of the Financial System Contingency Plan**

Agency Response: Concur.

OCIO will dedicate resources to build and establish a disaster recovery environment for the agency. Upon establishment, OCFO will work with OCIO to develop, test, review and update the Information Technology Contingency Plan for Financial Systems.

Estimated Completion Date: September 2021

Thank you and we appreciate the opportunity to respond to the draft Management Letter.

Sincerely,

*Michelle K. Brooks*

Michelle K. Brooks  
Chief of Staff

Paul D. Coverdell Peace Corps Headquarters

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