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To: Jody Olsen, Peace Corps Director

From: Kathy A. Buller, Inspector General

Date: November 15, 2019

Subject: Audit of the Peace Corps' Fiscal Year 2019 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) 2019 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

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

We contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 2019 and 2018. 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 Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

Williams Adley's report for FY 2019 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.[1]
- Two significant deficiencies related to internal control were disclosed by Williams Adley:[2]

[1] 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.
[2] 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.

   - *Lack of effective information technology security*. Williams Adley cited a lack of a comprehensive risk management program. Additionally, there are weaknesses in the IT control environment related to the design and operations.
   - *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, assigning the proper useful life of assets, and performing necessary reconciliations of property data.

- 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 pertaining to continuous monitoring and the agency's risk management program.

<u>OIG Evaluation of Williams Adley's Audit Performance</u>

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 15, 2019 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 please contact me, or Assistant Inspector General for Audit Judy Leonhardt at 202-692-2914.

Attachment

cc: Michelle Brooks, Chief of Staff
Richard Swarttz, Chief Financial Officer
Scott Knell, Chief Information Officer
Anne Hughes, Chief Compliance Officer

Peace Corps
Office of
Inspector General

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

WILLIAMS ADLEY

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

FISCAL YEAR 2019

Background

We contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 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, 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 six 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 22 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 2019 and 2018 financial statements of the United States Peace Corps (the Peace Corps), we found:

- the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2019, and 2018, 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; [1] and
- a reportable instance of noncompliance for fiscal year 2019 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, required supplementary information (RSI)[2] and other information included with the financial statements; [3] (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 with auditor evaluation.

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 the 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 sheet as of September 30, 2019 and 2018; the related statements of net cost,

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[1]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.

[2]The RSI consists of Management's Discussion and Analysis section which is included with the financial statements.

[3]Other information consists of Message from the Chief Financial Officer, and Other Information section and appendices.

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

We conducted our audit in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 audit. U.S. generally accepted government auditing standards and OMB Bulletin No. 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 audit 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, 2019 and 2018, 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 audit 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, 2019, 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[4] 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 2019 audit identified two deficiencies in the Peace Corps' controls over information security and property, plant, and equipment tracking 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 2019 financial statements.

Although the significant deficiencies in internal control did not affect our opinion on the Peace Corps' fiscal year 2019 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 II.

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

[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.

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 audit 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 the 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 related to the Federal Information Security Modernization Act for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. The noncompliance is explained in Appendix I. 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 and Auditor Evaluation

In commenting on a draft of this report, the Peace Corps' management provided a written response which is presented in Appendix III. 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 15, 2019

Significant Deficiencies

I. Information Technology Security (Repeat Condition)

The United States Peace Corps (the Peace Corps) information technology (IT) internal control structure did not include a comprehensive risk analysis, proof of effective monitoring of design and performance, or evidence of the ability to identify and respond to changing risk profiles. The Peace Corps' IT control environment included design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below:

- During fiscal year 2019, the Office of the Chief Information Officer (OCIO) developed an Information Security Continuous Monitoring (ISCM) strategy. However, the OCIO was not able to fully implement the program at the information system level in accordance with the ISCM strategy. The Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Team identified the following control deficiencies:
  - The Peace Corps has not implemented its ISCM strategy
  - The Peace Corps has not developed ISCM policies and procedures to support the ISCM strategy
  - The Peace Corps has not defined roles and responsibilities of ISCM stakeholders
  - The Peace Corps has not defined metrics specifically to measure the effectiveness of its ISCM Program
- The Peace Corps does not have a robust agency-wide Risk Management Program to manage information security risks. While the Peace Corps established a Risk Management Committee Charter in 2018, the FISMA Evaluation Team found no evidence demonstrating that the agency was able to identify, assess, respond to, and monitor information security risk at the enterprise, business process, and system levels. Furthermore, the Peace Corps' risk management program did not define the agency's information security risk profile, risk appetite, risk tolerance, and the process for communicating risks to all necessary internal and external stakeholders. Specifically, the FISMA Evaluation Team identified the following control deficiencies:
  - The Peace Corps has not identified and defined its requirements for an automated solution to provide a centralized, enterprise-wide (portfolio) view of risks across the organization, including risk control and remediation activities, dependencies, risk scores/levels, and management dashboards
  - The Peace Corps did not define an information security architecture that is integrated with the risk management strategy

The lack of a comprehensive Continuous Monitoring Program prevents the Peace Corps from clearly understanding the security state of all of its systems over time. This also prevents the agency from effectively monitoring a dynamic IT environment with changing threats, vulnerabilities, technologies, business processes/functions, and critical missions. 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.

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. In addition, appropriate resources may not be effectively assigned to make the correct risk decisions to ensure the results align with the agency's business priorities.

As defined in U.S. generally accepted government auditing standards, information system controls consist of those internal controls that are dependent on information systems processing and include general and application controls. General and application controls, while effective, may not be sufficient to address and minimize the risks due to weaknesses in the Peace Corps' Information Security Program. Information Security Program policies and procedures apply to most, if not all, of the Peace Corps' information systems. The effectiveness of these procedures is a significant factor in determining the confidentiality, integrity, and availability of the information contained in the applications.

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 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.

II. Inadequate Internal Controls over Property, Plant, and Equipment

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 vehicles, the agency 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), also called Sunflower. Data from each of these property systems are reconciled with data in the asset management system (Odyssey Fixed Assets Module) on a quarterly basis.

As described below, the Peace Corps' PP&E internal control framework contains gaps in the areas of recording and tracking property, determining the proper useful life of assets, and performing necessary reconciliations of PP&E data:

Equipment Not Recorded in Sunflower

In October and November of 2017, the Peace Corps purchased IT equipment for its data center valued at $6.2 million. Approximately $4.8 million of the IT equipment should have been recorded and tracked in Sunflower but instead it was tagged with a unique asset identifier and tracked in a locally-maintained spreadsheet. Additionally, during our completeness testing of 57 tagged items at the data center, we noted that five pieces of IT equipment had not been recorded on the spreadsheet or in Sunflower. Consequently, the Accounting and Financial Reporting department had to enter an amount in an asset clearing account based on invoices paid for the equipment, $5.2 million, so that the PP&E balance would be fairly stated.

Separately, an asset at Peace Corps headquarters that was appropriately assigned a unique identifier was not recorded in Sunflower because the financial documents to support the purchase were missing. The asset was tracked on a locally-maintained spreadsheet with 29 other capital and non-capital assets which were also missing proper supporting documentation required to enter the assets into Sunflower.

Incorrect Useful Life Assignment

During our depreciation testing, we determined that the correct useful life was not assigned to two out of 579 vehicles. The incorrect useful life caused an overstatement of $6,072 of accumulated depreciation, including $1,719 accumulated depreciation and depreciation expense for the current fiscal year.

Lack of Asset Reconciliation Follow-up

We reviewed the agency's PP&E reconciliations for 3rd quarter of fiscal year 2019 and determined that the Peace Corps did not fully reconcile source systems with the Odyssey Fixed Assets Module. There was no evidence that the reconciling items were followed up on or resolved.

- *Reconciliation between VMIS and Odyssey:* The Peace Corps reviewed VMIS to ensure assets are appropriately recorded in the Odyssey Fixed Assets Module.

However, during the reconciliation the agency noted seven vehicles with a cost above the capitalization threshold that were recorded in VMIS but not Odyssey. The vehicles had a total acquisition cost of $250,349.

- *Reconciliation between Sunflower and Odyssey:* The Peace Corps conducted a reconciliation between Accounts Payable and Fixed Assets modules to identify unrecorded fixed assets. The agency, however, does not review Sunflower to ensure that all items in the system that meet the capitalization threshold are listed in the Odyssey Fixed Assets Module. The Peace Corps' reconciliation resulted in 121 items in Odyssey Fixed Asset Module but not in Sunflower, with 32 of those having a total net book value of approximately $700,000. The remaining items were fully depreciated.

Regarding recording assets in Sunflower, Peace Corps stated that there were variances between what was ordered, received, and invoiced. Therefore, they noted that the equipment was not added to Sunflower because of the existing variances between the assets and source documents. The Peace Corps did not resolve the unreconciled items because they considered the total net book value of the items immaterial.

The Peace Corps cannot ensure complete and accurate financial information regarding PP&E. The inability to address these weaknesses resulted in the following:

- Depreciation expense and accumulated depreciation are understated and we are unable to calculate the correct amount given the complexity of the assets ordered and the lack of cost details maintained in the locally-maintained spreadsheet.
- 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 difficulty in completing consolidated reports.
- Increase in the likelihood of financial reporting misstatements due to an employee's ability to alter the useful life of capitalized assets.

GAO Standards for Internal Control in the Federal Government requires that "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."

Additionally, the Peace Corps' Domestic Financial Management Handbook, Chapter 22 states:

> 22.5 Tracking and Reporting of Capital Assets — "The office having custody must 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 weeks from date of receipt.

Recommendations: We recommend 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 Fixed Assets Module. The reconciliation process should include documentation of steps taken to resolve identified discrepancies.
2. Implement a procedure to verify whether the useful life of the capitalized asset is correctly assigned based on the equipment type as stated in the Peace Corps' policy.
3. Require staff with a role in acquiring and recording assets to take annual training.
4. Implement a process to ensure that once assets are acquired they are added to Sunflower.
5. Perform a reconciliation to ensure all assets purchased for the data center have been received, accounted for, and properly recorded.

Appendix I
Significant Deficiencies and Non-compliance Matter

Noncompliance with Laws, Regulations, Contracts, and Grant Agreements

III. FISMA (Repeat Condition)

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, the Peace Corps disclosed an instance of noncompliance with FISMA that is required to be reported under *Government Auditing Standards* and 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 II
Status of Prior Year Control Deficiencies and Noncompliance Instance

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 # I in Audit Report.
Improper and Untimely Processing of Personnel Actions (Significant Deficiency)	Closed.
FISMA (Noncompliance)	Open and repeated as finding # III in Audit Report.

Appendix III
Management Official Response

Peace Corps

November 14, 2019

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

Dear Mr. Isiaq,

This letter represents the response of the agency to your draft Independent Auditor's Report, received November 7, 2019. 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) 2019. 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 2020 and into FY 2021, as we strive for an effective and efficient internal control environment.

Information Technology Security
Agency Response: Concur. In FY 2019, the Peace Corps Office of Chief Information Officer (OCIO) implemented Phase 1 of the Continuous Diagnostic Monitoring (CDM) and conducted Enterprise Risk Management training to ensure that an organization-wide, holistic-risk management program for security architecture is applied in the FY 2020. In FY 2020, OCIO will begin with the Phase 2 of the CDM, along with Identity, Credential, and Access Management implementation. *Estimated Completion Date:* December 2021

Inadequate Internal Controls over Property, Plant, and Equipment
Agency Response: Concur. The Peace Corps Office of Management, Office of Chief Financial Officer, and OCIO will work collaboratively to establish guidelines to ensure that accountable assets are recorded timely and accurately, by the responsible office, within the agency's personal property management system of the agency. In addition, each responsible office will assist in ensuring that a reconciliation process is performed between the source systems and the financial system application. *Estimated Completion Date:* September 2020

We thank you and your team and appreciate the opportunity to respond to the draft Independent Auditor's Report.

Sincerely,

Michelle K. Brooks

Michelle K. Brooks
Chief of Staff

MANAGEMENT LETTER

United States Peace Corps
Director
Inspector General

We have completed our audit of the financial statements of the Peace Corps as of September 30, 2019, and have issued our Independent Auditor's Report dated November 15, 2019.

We planned and performed our audit of the Peace Corps' Fiscal Year (FY) 2019 financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. In doing so, we considered the Peace Corps' internal control over financial reporting (internal control) in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our FY 2019 Independent Auditor's Report identified two significant deficiencies, and one matter of noncompliance with laws, regulations, contracts, and grant agreements (noncompliance). We also noted six matters that we consider internal control deficiencies that did not rise to the level of a significant deficiency or material weakness. We believe that these additional control deficiencies, discussed in Appendix A to this letter, warrant management attention. Additionally, we have provided the status of prior year management letter comments in Appendix B. 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 C. 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, District of Columbia
November 15, 2019

Appendix A
Internal Control Deficiencies

The following are deficiencies noted during our audit of the Peace Corps' FY 2019 financial statements.

I. Least Privilege Deficiencies at Overseas Posts

Traditional systems of internal control rely on assigning certain responsibilities to different individuals in order to separate incompatible functions. For computer processing, user access privileges must be structured to enforce the segregation of key duties that users perform within each application. A user's access should allow for processing capabilities that are consistent with the employee's position description.

The logical access controls at overseas posts were not designed and operating effectively. Specifically:

- The Director of Management and Operations (DMO) and backup DMOs were able to create and approve obligations in FORPost at overseas posts.
- OdyWeb users, including the DMO, backup DMO, and Country Director at the overseas posts, had consistent access to their backup duties instead of on an as-needed basis. Segregation of duties conflicts were identified within the following financial modules:
  - Volunteer In-Country Allowances
  - Personal Services Contractor Payments
  - Vendor Maintenance

Although the systems allow for conflicting roles over obligations, the Peace Corps has compensating controls in place to prevent funds from being incorrectly disbursed on those obligations. For example, all disbursements are sent to headquarters prior to payments being made. If the disbursement is for more than $2,500, the supporting paperwork will be reviewed by a staff member at headquarters prior to payment. For disbursements under $2,500, a sample of payments is audited daily to ensure that proper support exists. The audit, however, is conducted after the payments have been made.

The FORPost system was not configured to restrict the same individual from creating and approving obligations within FORPost. Also, DMOs who grant system access were not aware of the existence of the segregation of duties matrix which was available for OdyWeb. Within OdyWeb, DMOs allowed users to have full-time access to their backup roles for convenience and to ensure financial transactions could occur while staff were out of the office.

Each overseas post is required to review user access in FORPost annually, however, DMOs focus on ensuring users have the correct access rather than restricting roles based on the segregation of duties matrix.

Without proper segregation of duties, the risk of management override and fraud increases. With conflicting duties, DMOs can increase obligations to vendors, Volunteers, and contractors. Furthermore, goods or services may be acquired and/or received prior to an authorized obligation certifying the availability of funds, or prior to an authorized contract or purchase order being established. Without proper compensating controls, the risk of the U.S. Government being overcharged and the opportunity for waste, fraud, and abuse of government funds is increased.

Information Security Control Catalog, AC-6 Least Privilege, states: the Peace Corps' information systems must employ the concept of least privilege, allowing only authorized access for users (and processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with the Peace Corps' mission and business functions.

Recommendations: We recommend that the Peace Corps:

1. Configure the systems to enforce segregation of duties for FORPost.
2. Configure the systems to enforce segregation of duties for OdyWeb.
3. Provide guidance and training on the use of the segregation of duties matrix at the overseas posts.

II. Untimely De-obligation of Unliquidated Obligations (Repeat Condition)

Federal financial management guidance states that unliquidated obligations (ULO) represent binding agreements for goods and services that have not yet been delivered or received and will require future outlays. The guidance also indicates that agencies should maintain policies, procedures, and information systems to ensure that ULOs represent current required Federal outlays. Failure to maintain an effective ULO control environment may result in difficulties in managing funds, improper payments, inaccurate budgetary reports, and violations of Federal regulations.

The Peace Corps did not maintain effective controls to close unneeded ULOs and de-obligate unnecessary funds in a timely manner. On June 30, 2019, we tested ULOs to determine whether the Peace Corps had adequate controls in place to identify and de-obligate unneeded funds from open obligations. We tested 45 ULOs totaling $30,373,118. Of the ULOs tested, three (3) did not have activity in over 2 years and had not been closed out or funds de-obligated. See table below for more details:

Contract #	Dollar Value	Last Activity Date	Period of Performance Dates
PC-13-7-009	$142,977.68	6/12/2017	5/1/2016 - 4/30/2017
PC-14-1-009	$46,542.33	5/10/2017	3/23/2014 - 3/21/2015
PC-13-7-001	$28,644.28	2/1/2017	5/1/2015 - 4/30/2016

Despite having policies and procedures in place to require de-obligation of funds after the delivery of goods or services is complete, the Peace Corps' determination as to whether funds are invalid or no longer needed did not occur in a timely manner.

Failure to maintain effective controls over the timely de-obligation of ULOs increases the risk of the Peace Corps not managing its funds properly, incurring improper payments for expired obligations, and inaccurate budgetary reporting. In addition, delays in performing de-obligations could hinder the Peace Corps' ability to reallocate those funds for use on other activities that could further the agency's mission.

According to MS-701 *The Budget Process*: 7.7.3 *Review of Unliquidated Obligations*:

> Unliquidated (outstanding) obligations should be periodically reviewed to determine whether:
>
> > (a) payments have been completed and, therefore, any outstanding balance should be downwardly adjusted;
> >
> > (b) in the case where payments have not been completed, an adjustment in the obligation should be made on the basis of previous payments plus payments expected to be made;
> >
> > (c) other information indicates that the recorded obligation should be adjusted by amending documentation in the case of contracts, purchase orders, etc.; and
> >
> > (d) they are appropriately recorded.

Recommendations: We recommend that the Peace Corps:

1. Develop a process to ensure de-obligations are made in a timely manner and determine a required timeframe for such action to be taken.
2. Update the Peace Corps' policies and procedures to memorialize the new process for timely de-obligation of funds.

III. Inadequate Maintenance and Testing of the Financial System Contingency Plan (Repeat Condition)

The National Institute of Standards and Technology (NIST) Special Publication 800-34 Revision 1, Chapter 2.2.7, states that an Information System Contingency Plan (ISCP) should provide established procedures for the assessment and recovery of a system following a system disruption. The ISCP should be updated to reflect current operations to ensure that the agency can recover operations in a timely manner after a disaster or disruption.

In FY 2019, the Peace Corps did not review, update, and test the Odyssey Financial System Contingency Plan as required by the Odyssey Financial System Information Technology Contingency Plan. The ISCP for Financial Systems was outdated and did not reflect current network/infrastructure capabilities.

The Peace Corps was in the process of relocating its data centers and made a decision to postpone updating and testing the contingency plan until its infrastructure change was complete. Also, the OCIO postponed creation of the Disaster Recovery Plan to allow all system owners to implement the recovery strategy for their respective systems.

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

Appendix A
Internal Control Deficiencies

Section 10.1 IT Contingency Plan Maintenance Team of the Odyssey Financial System Information Technology (IT) Contingency Plan 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 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.

Also, the Odyssey IT Contingency Plan must be updated annually after each test or exercise of the plan. Since tests or exercises almost always uncover weaknesses in a plan, post-test updates are usually required. This requirement can be combined with the annual review.

Recommendations: We recommend that the Peace Corps dedicate resources to develop, test, review, and update an Information System Contingency Plan (ISCP) for the Financial System that reflects the current operating environment including the use of cloud-based backups.

IV. Separation of Duty Conflict

Traditional systems of internal control rely on assigning certain responsibilities to different individuals in order to separate incompatible functions. For computer processing, user access privileges must be structured to enforce the segregation of key duties that users perform within each application. A user's access should allow for processing capabilities that are consistent with the employee's position description.

The Peace Corps did not consistently implement controls to provide reasonable assurance that incompatible duties were effectively segregated within the Odyssey system. Specifically, one (1) user had been granted the following roles within the Odyssey system:

- Application Developer
- Migrator
- Accounts Payable System Administrator
- General Ledger Systems Administrator
- General Ledger Systems Accountant
- Human Resource Payroll System Administrator
- Purchasing System Administrator
- Receivable Administrator

The combination of these system roles allows the user to migrate any system changes into the production environment and create fictitious users with additional access to any of the modules of the Odyssey System.

In FY 2017, the previous external auditor reported a similar finding. As a result, the Peace Corps developed a compensating control to conduct monthly reviews of this user's activity. However, there is no evidence that the agency conducted a formalized risk assessment and assessed all of the potential risks. Without ongoing risk assessments and documentation of these risks, it is impossible to determine if compensating controls are adequate or need to be modified, such as transferring responsibilities to a different system user.

Failure to limit user access and processing capabilities may result in waste, fraud, and abuse of government funds, and potential for errors in accounting records.

The Peace Corps' Information Security Control Catalog, AC-5 Segregation of Duties, states:

All Peace Corps information systems must:
- Separate duties of individuals to prevent the potential for abuse of authorized privileges and help to reduce the risk of malevolent activity without collusion;
- Document separation of duties; and
- Define information system access authorizations to support separation of duties.

Recommendations: We recommend that the Peace Corps:
1. Perform a risk assessment for the Odyssey system privileged users with incompatible system access and capture the results to follow the formal risk acceptance process.
2. Remove backup responsibilities for system administrators.

V. Inadequate Controls for Financial Statement Presentation and Disclosure

The Peace Corps' quality control review process for the June 30, 2019, financial statements did not identify material errors in the lease disclosures. Specifically, in Note 10, the agency incorrectly reported three out of the six lines. Accounting and Financial Reporting (AFR) did not ensure that all leases were accurately presented in the Future Lease Payments' note resulting in a significant variance of $11M. The following table presents the future operating lease payments calculation for domestic leases:

Auditor's Calculation vs. Footnotes (in thousands)			
Fiscal Year (FY)	Auditor's Calculation	Reflected in Q3 Footnotes	Variance
FY20	11,499	4,369	7,130
FY21	10,512	6,858	3,654
FY22	10,349	9,931	418
FY23	10,447	6,832	3,615
FY24	10,585	559	10,026
FY25+	94,402	107,881	(13,479)
Total	**147,794**	**136,430***	**11,364**

*The $136,430 is the auditor's calculation of the total. The Peace Corps reflects Note 10 as $149,621 in the Q3 Annual Financial Report.

Appendix A
Internal Control Deficiencies

The Peace Corps has policies and procedures to ensure that the information included in their financial statements and accompanying notes are reviewed by the Director of AFR for reasonableness, accuracy, and presentation; however, the Future Lease Payments note was not reviewed by the personnel assigned to verify that the Future Lease Payments calculation was accurate before presentation. Additionally, Note 10 was not reviewed to ensure that the presented information was accurate. The six lines as presented totaled approximately $13 million less than what was listed in Note 10 as the total future operating lease payments. The incorrect information would have been identified had the required review been performed.

Inaccuracy in the information included in the notes diminishes the reliability of the information provided to users and may cause the Peace Corps' management to make decisions based on erroneous information.

GAO's Standards for Internal Control in the Federal Government states "Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved…"

OMB 19-03, Reliability of financial reporting states "Transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Financial Statements in accordance with U.S. GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition."

Recommendations: We recommend that when conducting the review of financial reports to ensure reasonableness, accuracy, and presentation, the Peace Corps:

1. Confer with subject matter experts as to the accuracy of the information in the footnotes.
2. Perform calculations to ensure that data presented in footnote tables is accurate and sums correctly.
3. Review original source documentation to ensure information is adequately supported and presented in the footnotes.

VI. Improper Creation of Obligations

United States Code, Appropriation Accounting, 31 U.S.C. 1501 prescribes that all obligations must be supported by documentary evidence of transactions authorized by law, such as: a binding agreement in writing, a valid loan agreement, certain orders placed with government agencies, a grant or subsidy, a liability resulting from pending litigation, employment of persons, expenses of travel, or other legal liabilities of the United States.

At June 30, 2019, we tested 45 obligations totaling $30,373,118. Of those obligations, we noted three obligations in the amount of $76,230 that were created in FORPost prior to an approved obligating document as shown in the table below:

Appendix A
Internal Control Deficiencies

No.	Obligation Entered into FORPost	Date Obligating Document Signed	Days
1	15-May-19	29-May-19	14
2	4-Feb-19	1-Mar-19	25
3	1-Feb-19	11-Mar-19	38

We did not identify any payments made during the lapse of time between the obligating document being signed and the obligation being entered into FORPost.

Obligations that are not recorded in a timely manner in the financial information system preclude the effective operation of automated controls and may increase the risk that goods or services may be acquired and/or received prior to an authorized obligation certifying the availability of funds or prior to an authorized contract or purchase order being established. The process of authorizing the obligation and certifying fund availability ensures the completeness of the recorded obligation balances.

Although we did not note any Anti-deficiency Act violations, obligating funds prior to approval increases the risk that a violation could occur in the future.

31 United States Code § 1501. *Documentary evidence requirement for Government obligations* states that:

a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of— (1) a binding agreement between an agency and another person (including an agency) that is— (A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided…

Recommendations: We recommend that the Peace Corps' management reinforce policies and procedures and provide training to individuals entering information into FORPost to ensure that only valid obligations are recorded in financial systems.

Appendix B
Status of Prior Year Findings

Status of Prior Year Findings:

The following is the status of the prior year findings noted in the FY 2018 management letter.

Prior Year Finding	Current Year Status
Inadequate Record Retention and Tracking for Property, Plant, and Equipment (PP&E)	Closed
Untimely De-Obligation of Unliquidated Obligations (ULO)	Open and repeated as Finding 2019 II
Inadequate Maintenance and Testing of the Financial System Contingency Plan	Open and repeated as Finding 2019 III

Appendix C
Official Management Response to Findings

Peace Corps

January 10, 2020

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

Dear Mr. Isiaq,

This letter represents the response of the Peace Corps to your Management Letter, received December 20, 2019. The Peace Corps management has reviewed the Notice of Findings and Recommendations for the six deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2019. 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.

Least Privilege Deficiencies at Overseas Posts
Agency Response: Concur. The Office of the Chief Financial Officer (OCFO) will review the feasibility of enforcing segregation of duties in FOR Post and OdyWeb, and perform risk assessment on related financial system controls. The OCFO will also provide guidance and training to ensure understanding and use of the segregation of duties matrix is utilized by overseas posts.

Estimated Completion Date: September 2020

Untimely De-Obligation of Unliquidated Obligations
Agency Response: Concur. The OCFO will develop a process to ensure de-obligations are tracked and completed in a timely manner, in addition to updating the policies and procedures for the de-obligation of funds.

Estimated Completion Date: September 2020

Inadequate Maintenance and Testing of the Financial System Contingency Plan
Agency Response: Concur. The OCFO will work with the Office of the Chief Information Officer (OCIO) in updating the financial system contingency plan to align with the OCIO's FY 2020 planned upgrade of the agency's information technology infrastructure and disaster recovery solutions for hosted systems. In addition, Peace Corps management will ensure that testing and updates to the contingency plan occur annually moving forward.

Estimated Completion Date: September 2020

Separation of Duties Conflict
Agency Response: Concur. The OCFO will perform a risk assessment and document its risk acceptance for privileged users with incompatible system access within the Odyssey financial system. Additionally, the OCFO will review and reduce the backup responsibilities for system administrators.

Estimated Completion Date: September 2020

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Appendix C
Official Management Response to Findings

Inadequate Controls for Financial Statement Presentation and Disclosure
Agency Response: Concur. The OCFO will coordinate with subject matter experts or offices to ensure that valid information is utilized in the preparation of financial statement footnotes. The OCFO will validate source documents and perform calculation to ensure that financial statement footnotes are disclosed accurately.

Estimated Completion Date: September 2020

Improper Creation of Obligations
Agency Response: Concur. The OCFO will provide the necessary guidance and effectively communicate to overseas posts the acceptable timing for posing obligations in FOR Post for contract agreements.

Estimated Completion Date: September 2020

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

Sincerely,

Michelle K. Brooks
Chief of Staff