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To: Carol Spahn, Peace Corps Director

From: Joaquin Ferrao, Inspector General

Date: November 14, 2023

Subject: Audit of the Peace Corps' Fiscal Year 2023 Financial Statements

This letter transmits the Williams, Adley & Company – DC, LLP (Williams Adley) audit report of the Peace Corps' Fiscal Year (FY) 2023 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared its financial statements and subjected them to audit in accordance with the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

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

OIG contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements for the fiscal years ending on September 30, 2023, and September 30, 2022. This audit was conducted in accordance with the U.S. generally accepted government auditing standards (GAGAS); the applicable financial audit standards in the Generally Accepted Accounting Principles (GAAP), as issued by the Comptroller General of the United States; and OMB Bulletin No. 24-01, Audit Requirements for Federal Financial Statements.

Williams Adley's report for fiscal year 2023 includes an opinion on the financial statements, conclusions on internal controls over financial reporting, and a review of the agency's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. In this audit, Williams Adley found the following:

- The financial statement was fairly presented, in all material respects, in accordance with GAAP
- One significant deficiency related to improper internal controls over financial reporting[1]
    - *Inadequate internal controls over property, plant, and equipment.* Williams Adley cited gaps in the internal control framework for recording, capitalizing, and tracking property.
- One significant deficiency related to information technology as it pertains to internal controls over financial reporting

[1] 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 its governance.

    - *Lack of effective information technology security*. Williams Adley cited a lack of a comprehensive risk management program and a fully defined continuous monitoring strategy.

- One instance of reportable noncompliance related to provisions of applicable laws, regulations, contracts, and grant agreements, which are required to be reported under GAGAS or OMB guidance
    - Williams Adley found that the Peace Crops did not fully comply with the Federal Information Security Modernization Act of 2014 by not meeting the Department of Homeland Security's required maturity level of Managed and Measurable.

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

In connection with the contract, OIG reviewed Williams Adley's report and related documentation and conducted follow up meetings with its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on the Peace Corps' financial statements or conclusions about the effectiveness of internal controls or compliance with laws, regulations, contracts, and grant agreements. Williams Adley is responsible for the attached auditor's report dated November 14, 2023, 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 Acting Assistant Inspector General for Audit Renita Davis at 202-692-2937.

Attachment

cc: Thomas Peng, Chief of Operations and Administration
Lauren Stephens, Chief of Staff
Allison Blotzer, Acting Chief Financial Officer
Michael Terry, Acting Chief Information Officer
Emily Haimowitz, Chief Compliance Officer
Greg Yeich, Compliance Officer
Ruchi Jain, General Counsel

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.

WILLIAMS ADLEY

PEACE CORPS

Office of

INSPECTOR GENERAL

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

FISCAL YEAR 2023

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, 2023. 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 Generally Accepted Accounting Principles, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, 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 two significant deficiencies and one instance of reportable non-compliance. Furthermore, Williams Adley noted two 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 13 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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WILLIAMS ADLEY

Independent Auditor's Report

Ms. Carol Spahn
Director
United States Peace Corps

Mr. Joaquin Ferrao
Inspector General
United States Peace Corps

In our audits of the fiscal years 2023 and 2022 financial statements of Peace Corps, we found:

- Peace Corps' financial statements as of and for the fiscal years ended September 30, 2023, and 2022, 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
- one reportable noncompliance for fiscal year 2023 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)[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.

Report on the Financial Statements

<u>Opinion</u>

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, we have audited Peace Corps' financial statements. Peace Corps' financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost,

[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, which are included with the financial statements.

[3] Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, Peace Corps' financial statements present fairly, in all material respects, Peace Corps' financial position as of September 30, 2023, and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Peace Corps' management is responsible for:

- the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in Peace Corps' Agency Financial Report, and ensuring the consistency of that information with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Peace Corps' internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

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

Required Supplementary Information
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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods of preparing the RSI and (2) 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
Peace Corps' other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for the purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in Peace Corps' Agency Financial Report**.** The other information comprises the Inspector General's Statement on Peace Corps' Management and Performance Challenges, the Summary of Financial Statement Audit and Management Assurances, and the Payment Integrity Information Act of 2019, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Report on Internal Control over Financial Reporting

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

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies[4] or to express an opinion on the effectiveness of 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 or significant deficiencies may exist that have not been identified.

As discussed in *Appendix 1*, our audit identified two significant deficiencies in Peace Corps' internal controls over financial reporting: one deficiency pertaining to property, plant, and equipment and one deficiency pertaining to information security.

Although the significant deficiencies in internal control did not affect our opinion on Peace Corps' fiscal year 2023 financial statements, misstatements may occur in unaudited financial information reported internally and externally by Peace Corps because of these deficiencies.

Our assessment of the current status of the prior material weakness, significant deficiency and noncompliance matter is presented in *Appendix III*.

In addition to the current year significant deficiencies, we also identified deficiencies in Peace Corps' internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Peace Corps management's attention. We have communicated these matters to Peace Corps management, separately in a management letter.

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

We performed our procedures related to Peace Corps' internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance[5].

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

[5] Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, issued on October 19, 2023. According to the guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude on whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

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

Auditor's Responsibilities for Internal Control over Financial Reporting
In planning and performing our audit of Peace Corps' financial statements as of and for the fiscal year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered Peace Corps' internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on Peace Corps' internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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

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

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

Intended Purpose of Report on Internal Control over Financial Reporting
The purpose of this report is solely to describe the scope of our consideration of Peace Corps' internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of 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 Peace Corps' financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance for fiscal year 2023 that would be

reportable under U.S. generally accepted government auditing standards. As discussed in *Appendix II*, this instance of noncompliance is related to the Federal Information Security Modernization Act. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to Peace Corps. Accordingly, we do not express such an opinion.

<u>Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>
We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

<u>Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>
Peace Corps management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to Peace Corps.

<u>Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>
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 Peace Corps' financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Peace Corps. We caution that noncompliance may occur and not be detected by these tests.

<u>Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>
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, Peace Corps management provided a written response which is presented in *Appendix IV*. We did not audit Peace Corps' response and, accordingly, we express no opinion on the response.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 14, 2023

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

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. A comprehensive internal control framework is critical for preventing errors in the financial statements, theft, lack of accountability, waste, fraud, abuse, and lack of responsiveness to changing risk and threats.

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, also called Sunflower. Data from each of these property systems are reconciled with data in the asset management system (Odyssey Fixed Asset Module) on a monthly basis, specifically for assets that meet the capitalization threshold. Although Peace Corps has improved its internal controls over PP&E related to recording, capitalizing, and tracking property, improvements are still needed.

Peace Corps has a de-centralized process over capitalized assets and did not comply with existing policies and procedures which has led to a repeat significant deficiency from FY 2019 through 2021 and a material weakness in FY 2022. There are many offices involved with managing property. The Offices of Management, Administrative Services and the Chief Information Officer (OCIO) are responsible for recording and managing the physical property, including vehicles, while the Office of the Chief Financial Officer (OCFO) is responsible for the financial implications of these assets.

<u>Inaccurate Reporting of Information in VMIS</u>
Peace Corps does not have adequate controls in place to ensure the information entered into VMIS by the Posts is accurate and timely. We identified four instances in which the Morocco Post inaccurately recorded placed in-service dates for vehicles in VMIS. Specifically, the Post entered a placed in-service date of January 25, 2022 (the date the four vehicles were received) instead of November 1, 2022 (the date the four vehicles were registered).

Personnel at the Posts are responsible for entering information related to vehicles, including the placed in-service date, into VMIS. Upon populating the placed in-service date field, the vehicle appears in VMIS. OCFO relies on the placed in-service date in VMIS when entering purchases of new vehicles in the Odyssey Fixed Asset Module. However, the instructions within VMIS regarding the placed in-service date contradicts the language in Peace Corps OMB Circular A-123 PP&E Cycle Memo. Specifically, the VMIS instructions indicate the placed-in service date represents the date the Post received the vehicle. The PP&E Cycle Memo states the "vehicle is not yet considered active until registration has been completed." Peace Corps does not have a policy that clearly defines and documents what constitutes a vehicle's placed in-service date.

Additionally, Peace Corps policy does not identify the timing of when a vehicle should be entered into VMIS (e.g., the received date or the 'active' date). This has resulted in inconsistencies when the Posts record vehicles in VMIS.

Assets recorded in Odyssey but not in Sunflower

Monthly reconciliations are conducted by the OCFO between the fixed asset listing from Odyssey Fixed Asset Module and Sunflower. However, we identified situations in which the monthly reconciliation conducted by the OCFO did not identify all discrepancies. Specifically, our reconciliation as of June 30, 2023 of the fixed asset listing and Sunflower resulted in three assets, which met the capitalization threshold, reported in the Odyssey Fixed Asset Module, but were not reported in Sunflower. For these three assets we noted the following:

- Two assets, valued at $652,687 related to IT hardware, were placed into service in July 2020 and accurately recorded in Odyssey in September 2020 but were not in Sunflower.
- One asset, valued at $141,020 related to furniture, was placed into service in December 2021 and was accurately recorded in Odyssey in February 2022 but was not in Sunflower.

Since the assets were accurately recorded in Odyssey, there is no impact on the Financial Statements.

Monthly reconciliations between Sunflower and the Odyssey Fixed Asset Module identified two IT Hardware assets and one furniture asset with reconciliation issues due to being a part of bulk purchases. OCFO did not adequately follow-up on the issues identified and no corrective actions were taken to ensure the Fixed Asset Module and Sunflower were in alignment.

Untimely Recording of Assets in Odyssey

Our reconciliation between Odyssey and Sunflower identified seven assets retired in FY 2022 and 2023 that met the capitalization threshold and were recorded in Sunflower but were not recorded in Odyssey, as shown below:

Fiscal Year (FY) of the Retirement	Number of Assets Retired	Acquisition Cost	Net Book Value at time of Retirement
FY 2022	5	$253,347	$37,894
FY 2023	2	$80,140	$0
Total	**7**	**$333,487**	**$37,894**

Peace Corps was unable to locate the obligating documents (i.e., contract, purchase order, invoice, etc.) for the above-mentioned assets. Therefore, we are unable to determine if these assets should have been capitalized and reported in the PP&E line of the FY 2022 Balance Sheet.

OCFO is responsible for recording capitalized assets in Odyssey. Peace Corps' policies and procedures require OCFO ensure the information recorded in Odyssey agrees to acceptable supporting documentation (e.g., contract, purchase order, approved invoice, etc.). Although OCFO is the official record keeper of all capital asset transactions, the Property Officer responsible for the assets is required to maintain supporting documentation for asset purchases, transfers, and disposals. OCFO did not obtain the supporting documentation from the Property Officer and therefore, did not record the capital assets in Odyssey.

Prior to FY 2023, the reconciliation between Odyssey and Sunflower was not designed to identify instances of assets not having a purchase order number in Sunflower. In October 2022, as part of the corrective actions related to the reconciliation, OCFO updated the process to identify instances in which capitalized assets in Sunflower do not have an associated purchase order number. Specifically, a pivot table was created to allow the reviewer to identify these discrepancies more easily. However, we noted there were flaws in the design of the pivot table and it did not accurately identify all active capitalized assets in Sunflower without a purchase order number. Additionally, there is no formal internal review process conducted by the OCFO to analyze the pivot tables, to ensure that they are operating as designed.

Further, prior to FY 2023, Sunflower did not require a Purchase Order number for assets to be entered. However, in March 2023, we determined Peace Corps implemented a new automated control in which Sunflower prevents the addition of a new asset without an associated purchase order number. As the implementation of this control sufficiently addresses the cause of untimely recording of assets in Odyssey issues identified above, Williams Adley will not issue a recommendation related to this issue.

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

- Loss of asset accountability, which introduces operational risk related to the ability to execute Peace Corps' mission.
- Decrease in the uniformity and standardization of procedures, resulting in inconsistent treatment of assets and increasing the difficulty in completing consolidated reports.
- Increased risk of misstatement to the Financial Statements, due to Peace Corps' lack of controls around Sunflower, Odyssey and VMIS not recording assets in a timely manner or correctly.

The Domestic Financial Management Handbook, Chapter 22, July 27, 2023 version states:

- <u>22.5.C Tracking and Reporting of Capital Assets</u>
  The corresponding office that has custody of the capital assets must track the PP&E in all phases of its useful life, from the time the asset is delivered and accepted, until disposal when the asset is finally retired from service. All actions associated with capital assets must be monitored, tracked and recorded (including transfer between offices and Post/HQ).
- <u>22.5.E Retention of Supporting Documentation</u>
  Although OCFO/AFR shall be the official record keeper of all PP&E or capital asset transactions, the Property Officer responsible for the asset should maintain supporting documentation for asset purchases, transfers, and disposals. All supporting documentation must be filed and organized for any possible future audits or verification purposes.
- <u>22.5.F Internal Controls</u>
  The management controls for the PP&E process include the following:
  - Recordation of capital asset and changes to capital assets are verified by OCFO/AFR against acceptable backup documentation, such as copy of approved invoice, proceed of sales information, Leasehold Tracking Spreadsheet, Labor Hours Tracking Spreadsheet, or disposal record**.**

Recommendations: We recommend that Peace Corps:

1. Enhance the reconciliations of Sunflower and the Odyssey Fixed Asset module to ensure the reconciliations take into consideration the asset status in the source system (retired assets and assets with no purchase order number should be removed from Sunflower).

When differences are identified, they should be investigated and resolved within a timely manner.

2. Update policies and procedures to clarify that bulk assets are to be recorded as separate assets to make them easily identifiable in Sunflower.
3. Update policies and procedures to clearly define the placed in-service date for vehicles and the timing of when a vehicle and the associated placed in-service date should be entered into VMIS. Ensure the policies are communicated to the director of management and operations and the general services officer at the Posts.

B. Information Technology Security (Updated, Repeat Finding)

Peace Corps was not in compliance with the Federal Information Security Modernization Act of 2014 (FISMA) during FY 2023. All five FISMA functions, inclusive of nine domains did not meet the Department of Homeland Security's required maturity level, managed and measurable. Specifically, design and operational weaknesses associated with key FISMA domains are summarized below for FY 2023:

- Peace Corps has defined the agency's risk appetite, however, there are no defined requirements for automated solutions to provide a centralized, enterprise-wide view of cybersecurity risks. Cybersecurity risk is not yet incorporated into the Enterprise Risk Management program.
- Peace Corps has not fully defined the Information Security Continuous Monitoring Strategy to incorporate risk management goals and organizational risk tolerance.
- Peace Corps has not finalized an Identity, Credential, and Access Management (ICAM) strategy to guide the organization's ICAM program. In addition, Peace Corps is not fully compliant with Homeland Security Presidential Directive 12: *Policy for a Common Identification Standard for Federal Employees and Contractors*. As of July 2023, the agency still had not fully implemented Personal Identity Verification authentication at regional recruiting offices and overseas posts for both physical and logical access.
- There is no up-to-date, accurate, and complete inventory information systems, including hardware and software assets.
- Peace Corps has not fully implemented supply chain risk management policies and procedures.
- There is inconsistent implementation of vulnerability management, patch management, and baseline management.

Peace Corps' Management has not implemented an Enterprise Risk Management (ERM) process throughout Peace Corps at the organization, business, and information system level. Additionally, OCIO did not prioritize nor have the resources required to complete the ERM strategy and supporting documentation needed to transition to a defined information security continuous monitoring process.

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

Also, 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.

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, Information Systems (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 – FISMA directs agency heads to ensure that: (1) information security management processes are integrated with budgetary planning; (2) senior agency officials, including chief information officers, carry out their information security responsibilities; and (3) all personnel are held accountable for complying with the agency-wide information security program.

Recommendations: We recommend:

1. The OCIO fully implement an Information Security Continuous Monitoring strategy that includes policies and procedures, defined roles and responsibilities, and security metrics to measure effectiveness;

2. Peace Corps' Director and Agency Risk Executive, in coordination with 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 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; and

5. The OCIO develop an information security architecture that is integrated with the risk management strategy.

C. Noncompliance with Laws, Regulations, Contracts, and Grant Agreements – 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 Office of Inspector General 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, 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. 24-01, *Audit Requirements for Federal Financial Statements*.

By not complying with FISMA, Peace Corps has potentially weakened security controls which could adversely affect the confidentiality, integrity, and availability of information and information systems.

The Office of Inspector General has provided Peace Corps' management with a separate limited distribution report that further details the vulnerabilities in Peace Corps' systems and provides recommendations for improvement. Please refer to Finding B regarding Information Technology Security (Updated, Repeat Finding) for high-level details.

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

Prior Year Finding	Current Status
2019-06: Improper Internal Controls over Property, Plan, and Equipment (Material Weakness)	**Open**. Finding has been downgraded to a significant deficiency and repeated as Finding A in *Appendix I*.
2018-05: Information Technology Security (Significant Deficiency)	**Open**. Finding has been updated and repeated as Finding B in *Appendix I*.
FISMA (Non-Compliance)	**Open**. Finding has been updated and repeated as Finding C in *Appendix II*.

Peace Corps

November 14, 2023

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 draft Independent Auditor's Report, received November 7, 2023. We are pleased with your issuance of an unmodified (clean) audit opinion. The Peace Corps management reviewed the Notice of Findings and Recommendations for two significant deficiencies issued by Williams Adley, in connection with the audit of our financial statements for Fiscal Year (FY) 2023. We concur with the conditions, criteria, and levels of control deficiency identified. We have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2024, as we continuously strive to improve our internal control environment.

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

In FY 2023, the Peace Corps updated and strengthened policies and procedures over personal property, including timely and proper recordation of capitalized assets. Roles and responsibilities over personal property are now clearly defined between Office of the Chief Financial Officer (OCFO), Office of Management (M), and Office of the Chief Information Officer (OCIO). OCFO oversaw monthly meetings between these offices to communicate purchase plans and other PP&E activities. The Peace Corps enhanced its reconciliation process to better identify and resolve differences between source systems and the financial system. The agency also increased collaboration between OCFO and the custodians of personal property to ensure bulk assets were recorded in the property inventory system correctly. The Peace Corps updated its property inventory system to require the purchase order field in order to enter an asset and reviewed monthly purchases over the capitalization threshold that could have been miscategorized. In FY 2024, the Peace Corps will further enhance the reconciliations of the property inventory system and Fixed Asset module to ensure the reconciliations take into consideration the asset status in the source system. When differences are identified, they will be investigated and resolved in a timely manner. The Peace Corps will update policies and procedures over Bulk Assets. The Peace Corps will update the policies to clearly define the placed-in-service date for vehicles and the timing of when a vehicle and the associated placed-in-service date should be recorded in VMIS. The updated policies will be communicated to the necessary personnel at Posts.

Estimated Completion Date: September 2024

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

In FY 2023, the OCIO documented the integration of Information Security Information Continuous Monitoring (ISCM) into the risk management strategy and updated policies and procedures for managing IT security and strategies for risk management. The agency also committed resources to the

Enterprise Risk Management (ERM) program, leading to the completion of the agency's Risk Appetite Statement and the annual review of the office-level risk registers, which codifies the OCIO risks and the accepted tolerance. In FY 2024, the OCIO will continue its efforts to fully implement its ISCM strategy and perform the required Security Assessment and Authorization on FISMA-reportable systems in accordance with the agency's risk management strategy, in addition to developing an IT security architecture that is integrated into the risk management strategy. The Peace Corps will continue to develop and implement a more comprehensive ERM strategy for IT security.

Estimated Completion Date: September 2024

Thank you and we appreciate the opportunity to respond to the draft Independent Auditor's Report pertaining to the FY 2023 Financial Statements Audit.

Sincerely,

Carol Spahn
Director

Management Letter

Ms. Carol Spahn
Director
Peace Corps

We have completed our audits of the financial statements of Peace Corps as of and for the fiscal years ended September 30, 2023 (fiscal year 2023), and 2022 (fiscal year 2022) and have issued our Independent Auditor's Report thereon dated November 14, 2023.

In planning and performing our audits of Peace Corps' financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022, 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 Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on Peace Corps' internal control over financial reporting.

In our fiscal year 2023 audit, we identified two internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrant management's attention, which is provided in *Appendix I*. We have discussed these comments and recommendations with Peace Corps personnel, and we will be pleased to discuss them in further detail at your convenience.

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

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 14, 2023

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

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

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.

Peace Corps uses the document entry, processing, inquiry and correction (EPIC) application, which is designed, developed, and maintained by the National Finance Center (NFC) for its U.S. direct hires. This is a specific application system within the NFC payroll that allows the Peace Corps personnel to enter payroll/personnel transactions for processing in the payroll system. Data from this system is used as the official personnel information for the Peace Corps.

Documentation of personnel actions for newly hired and separated employees was not consistently maintained, completed, and/or approved in a timely manner. As part of our internal control testing in FY 2023, we selected 45 out of 194 newly hired individuals and 45 out of 126 separated individuals during the first three quarters of FY 2023. Based on our testing, we determined that the Peace Corps did not follow their own policies and procedures related to the processing of the Standard Form 50, *Notification of Personnel Action* (SF-50), Standard Form 52, *Request for Personnel Action* (SF-52) and PC-671A, *Peace Corps Clearance for Final Payment* Form (Exit PC-671A). During our testing, we noted the following issues:

- For one newly hired employee, the SF 52 was missing the signature of an appointed Human Resources Officer on line 2 of Part C.
- For seven newly hired employees, the SF 52s were missing required personal identifiable information, such as Name, Social Security Number, Date of Birth, Effective Date and Box 5 – Action Requested By (Action Requested with Name, Title, Signature and Requested Date) and Box 6 - Action Authorized By (Action Authorized with Name, Title, Signature and Concurrence Date).
- For 16 newly hired and 20 separated employees, the Peace Corps could not provide us with their SF 52.
- For two separated employees, the Peace Corps could not provide us with their SF 50.
- For one separated employee, the Peace Corps could not provide us with the Exit PC-671A Form.

Cause: Peace Corps lacks proper controls over document retention. Specifically, for the missing SF-50s and SF-52s, Peace Corps indicated they experienced a reorganization in FY 2023, which led to an unexpected amount of turnover during the audit period. Positions responsible for records retention were unfilled for over six months. As a result, records were not located in a single accessible area and they were unable to locate the documents.

For the Exit PC-671A Form, Peace Corps failed to complete the form for one employee. Peace Corps stated that they had intended to complete the exit checklist during this employee's probation period. However, the employee resigned from the Agency during their probation period and as a result, no Exit PC-671A Form was filled out for this employee due to the action taken of resignation and personnel staff forgetting to close out the checklist process.

Effect: Although no material compensation errors resulted from the late approvals, failure to (1) consistently process personnel action forms in a timely manner, (2) complete an exit package for the separated employee, (3) review these forms for accuracy, and/or (4) maintain documentation, could result in erroneous compensation payments and/or the employee not receiving their final salary or leave payout.

In addition, Peace Corps is not complying with personnel actions criteria set forth by the Office of Personnel Management (OPM) nor their own MS-671 Policy related to the Separation Procedures for employees.

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

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

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

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

The MS 671 Separation Process for Direct Hire Peace Corps Employee, Section 5.2 Separation Procedures for Domestic Staff

> *"Before separating from the Peace Corps, employees must obtain an exit package from their staffing analyst that includes form PC-671A Peace Corps Clearance for Final Payment. After employees obtain the certifying signatures from all offices designated on the PC-671A, the form must be submitted to their staffing analyst or office point of contact. Failure to submit will delay the final lump sum payout for accrued and unused annual leave or delay the transfer of annual and sick leave to a new federal agency, if applicable."*

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

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

Recommendations: We recommend:

1. Develop guidance and instructions for current HR employees to follow for the separation of employees in the event of HR employee turnover.
2. Develop more effective quality assurance processes that will ensure accurate and timely processing of personnel actions, including actions involving employees separating and transferring from the Agency.

3. Continue to provide more effective training to human resources staff on policies and procedures related to the entry of employee data into EPIC.
4. Organize and maintain proper supporting documentation for personnel and payroll records to be able to easily provide documentation upon request.

2023-01: Access Control

Peace Corps relies on user access controls to enhance security, manage risk, and improve operational effectiveness. Users require access to accounting information systems to perform their job responsibilities. One such system is FORPost, which is a financial transaction system used by the field offices to manage their budgets, perform budget execution (obligations and invoices), and cashier imprest funds.

A separated user's FORPost account at the Morocco Post was deactivated on December 12, 2022, seven business days after the personnel separated the agency on November 30, 2022.

Cause: The access control procedures do not define timeline requirements for deactivating a separated user account. In addition, a daily check for off-boarded accounts was not performed as required by the procedures.

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

Criteria: Per the Account Management Procedures for FORPost and FORHQ, under section Supplemental Procedure, it states that a daily check for expired, or off-boarded accounts is required. For FORPost, this involves comparing the list of active users with their Active Directory accounts. If any inconsistencies are detected, an email notification is sent to the Post Director of Management and Operations.

Recommendations: We recommend that Peace Corps further define and implement its account deactivation processes to ensure account deactivation is completed in a timely manner.

Peace Corps

November 14, 2023

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 draft Management Letter, received November 8, 2023. The Peace Corps management team reviewed the Notice of Findings and Recommendations for the deficiencies issued by Williams Adley in connection with the audit of our financial statements for Fiscal Year (FY) 2023. We concur with the conditions, criteria, and levels of control deficiency identified. We have established corrective action plans to address the root causes of these findings. We are dedicated to resolving these issues in FY 2024, as we continuously strive to improve our internal control environment.

Inadequate Controls Surrounding Processing of Personnel Actions (Repeat Finding)
Response: Concur

During FY 2023, the Office of Human Resources (OHR) updated its policies and procedures regarding the processing of personnel actions. In FY 2024, OHR will continue to update its policies and procedures and strengthen its quality assurance process. In addition, OHR will continue to train its staff and further develop its procedures to ensure that personnel records and supporting documentation are maintained.

Estimated Completion Date: September 2024

Access Control (New Finding)
Response: Concur

In FY 2024, the Office of the Chief Financial Officer (OCFO) will further define and implement its account deactivation processes to ensure account deactivation is completed in a timely matter.

Estimated Completion Date: September 2024

Thank you and we appreciate the opportunity to respond to the draft Management Letter pertaining to the FY 2023 Financial Statements Audit.

Sincerely,

Carol Spahn

Carol Spahn
Director