



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.



PEACE CORPS Office of **INSPECTOR GENERAL**

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

FISCAL YEAR 2018

Background

We contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 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, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, 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 no material weaknesses, two significant deficiencies, and one instance of reportable non-compliance. Furthermore, Williams Adley noted three additional concerns regarding internal controls that do not rise to the level of material weakness or significant deficiency. These concerns are reported in the following attached reports.

Summary of Recommendations

The 18 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 audit of the fiscal year 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 year ended September 30, 2018 (hereinafter referred to as financial statements) 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 2018 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 an emphasis of matter paragraph related to the new Statement of Budgetary Resources presentation, and 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. 19-01, *Audit Requirements for Federal Financial Statements*, we

¹A 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.

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

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

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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have audited the Peace Corps' financial statements. The Peace Corps' financial statements comprise the balance sheet as of September 30, 2018; the related statements of net cost, changes in net position, and budgetary resources for the fiscal year 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 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, 2018, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in note 1w to the financial statements, OMB Circular A-136, *Financial Reporting Requirements*, required federal agencies in fiscal year 2018 to present its budgetary information in a format different than that used in fiscal year 2017. We draw attention to the newly presented information in the Peace Corps' fiscal years 2018 and 2017 Statement of Budgetary Resources and related note 1w. Our opinion on the Peace Corps' financial statements is not modified with respect to this matter.

Other Matters

Prior Year Financial Statements

The Peace Corps' financial statements as of and for the year ended September 30, 2017 were audited by other auditors, whose Independent Auditor's Report dated November 7, 2017 expressed an unmodified opinion on those financial statements.

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, 2018, 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 deficiencies⁴ 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 2018 audit identified two deficiencies in the Peace Corps' controls over information security and payroll processing 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 2018 financial statements.

⁴A 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.

Although the significant deficiencies in internal control did not affect our opinion on the Peace Corps' fiscal year 2018 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.

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 2018 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, D.C.
November 13, 2018

Appendix I Significant Deficiencies and Non-compliance Matter

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 2018, the Office of the Chief Information Officer (OCIO) continued the process of implementing a Continuous Monitoring Program. However, the OCIO was not able to fully implement the program at the information system level in accordance with the current Information Security Continuous Monitoring (ISCM) strategy. The Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Team identified the following control deficiencies:
 - The Peace Corps does not have a defined 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 OCIO formalized an overall risk management strategy in February 2014, 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 or business process levels. Furthermore, the Peace Corps' risk management strategy 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. Although the Senior Assessment Team held meetings with the Chief Information Officer and Risk Executive, these meetings were neither formalized nor consistently held during the review period. Specifically, the FISMA Evaluation Team identified the following control deficiencies:
 - The Peace Corps did not fully maintain current authorization and assessment packages for two of the information systems tested.
 - 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

Appendix I

Significant Deficiencies and Non-compliance Matter

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 develop and 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 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 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.

Appendix I
Significant Deficiencies and Non-compliance Matter

II. Improper and Untimely Processing of Personnel Actions (Repeat Condition)

Personnel Actions are processed when an employee is hired or an existing employee experiences a change in personnel status (e.g. resignation, retirement, or promotion). These actions are initiated on the Standard Form (SF)-52, *Request for Personnel Action* or similar agency form approved by the Office of Personnel Management (OPM). Per the Peace Corps’ policy, once the SF-52 is completed, a SF-50, *Notification of Personnel Action*, is generated. The Peace Corps uses the Entry, Processing, Inquiry, and Correction (EPIC) application to record personnel action forms.

Personnel actions for new hires were not consistently approved in a timely manner. As part of our internal control testing, we selected 10 out of 85 individuals hired during the first three quarters of fiscal year 2018. For two of the individuals selected, we noted that the SF-50, *Notification of Personnel Action*, and/or SF-52, *Request for Personnel Action*, were approved after their effective date of employment. See the table below for more details.

Table 1: Personnel Actions Testing Exceptions

Sample	Effective Date of Employment	SF-52 HR Specialist Approval Date	SF-50 Director of HR Approval Date
Employee 1	10/15/17	10/16/17	10/15/17
Employee 2	6/24/18	6/26/18	6/26/18

As part of our year-end testing, we selected 20 out of 43 individuals hired during the fourth quarter of fiscal year 2018. For eight individuals, we noted that the SF-50, and/or SF-52 were approved after their effective date of employment. In addition, we noted one employee's SF-52 was missing the HR Specialist's approval. See the table below for more details.

Table 2: Personnel Actions Testing Exceptions Fourth Quarter

Sample	Effective Date of Employment	SF-52 HR Specialist Approval Date	SF-50 Director of HR Approval Date
Employee 3	9/20/2018	9/25/2018	9/20/2018
Employee 4	9/16/2018	9/17/2018	9/16/2018
Employee 5	9/4/2018	8/21/2018	9/7/2018
Employee 6	7/22/2018	8/8/2018	7/23/2018
Employee 7	7/22/2018	8/6/2018	7/22/2018
Employee 8	7/22/2018	7/23/2018	7/23/2018
Employee 9	9/16/2018	9/18/2018	9/16/2018
Employee 10	9/16/2018	9/18/2018	3/26/2018

Appendix I
Significant Deficiencies and Non-compliance Matter

Sample	Effective Date of Employment	SF-52 HR Specialist Approval Date	SF-50 Director of HR Approval Date
Employee 11	9/2/2018	Missing	9/1/2018

The Guide to Processing Personnel Actions by the United States Office of Personnel Management, 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 OPM, in block 50 of the Standard Form 50, or in Part C-2 of the Standard Form 52.”*

Due to ineffective training and procedures, an adequate quality assurance review was not performed to ensure the data (e.g. dates of approval) in the forms was accurate. Although no compensation errors resulted from the late approvals, failure to consistently process personnel action forms in a timely manner and/or review these forms for accuracy could result in erroneous compensation payments in the future. In addition, the Peace Corps is not complying with personnel actions criteria set forth by OPM. Certain conditions identified in the fiscal year 2017 audit report have been resolved, however, the overall significance of the current control deficiency remains.

Recommendations: We recommend the Peace Corps:

1. Develop a more effective quality assurance process that will ensure accurate and timely processing of personnel actions.
2. Provide more effective training to HR staff on policies and procedures related to the entry of employees into EPIC.

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. 19-01, *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 the 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)	Open and repeated as finding # II in Audit Report.
FISMA (Noncompliance)	Open and repeated as finding # III in Audit Report.

Appendix III Management Official Response



November 7, 2018

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 agency's response to your draft Independent Auditor's Report, received November 5, 2018. We are pleased with your issuance of an unmodified opinion. 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) 2018. We concur with the condition, criteria, and level of deficiency identified and have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2019, as we strive for an effective and efficient internal control environment.

Information Technology Security

Agency Response: Concur. The Peace Corps Office of Chief Information Officer drafted an improved Information System Continuous Monitoring plan, which should be finalized in FY 2019. Additionally, the Peace Corps is fully committed to the implementation of an organization-wide, holistic risk management program. During FY 2018, the agency developed an Enterprise Risk Management (ERM) Council Charter and By-Laws, in addition to policies, procedures, and a training plan. Execution of ERM program will begin in FY 2019 through FY 2020.

Estimated Completion Date: December 2021

Improper and Untimely Processing of Personnel Actions

Agency Response: Concur. The Peace Corps Office of Human Resources (HR) will document procedures for the timely recordation and processing of personnel actions and establish the appropriate levels of quality assurance reviews. HR will also provide the necessary trainings to staff to ensure compliance with these established procedures are implemented and consistently followed.

Estimated Completion Date: June 2019

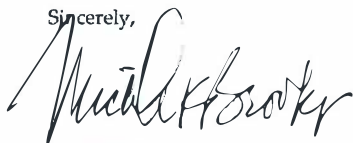
Paul D. Coverdell Peace Corps Headquarters

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**Appendix III
Management Official Response**



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

Sincerely,

Michelle K. Brooks
Chief of Staff

Paul D. Coverdell Peace Corps Headquarters
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MANAGEMENT LETTER

United States Peace Corps
Director
Inspector General

We have completed our audit of the financial statements of the United States Peace Corps (the Peace Corps) as of September 30, 2018, and have issued our Independent Auditor's Report dated November 13, 2018.

In planning and performing our audit of the Peace Corps' fiscal year (FY) 2018 financial statements, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, 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 Independent Auditor's Report included a discussion of the concept of significant deficiencies and material weaknesses related to internal control. 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, 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 significant deficiency is 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.

Our Independent Auditor's Report identified two significant deficiencies, and one matter of noncompliance with laws, regulations, contracts, and grant agreements (noncompliance), as follows:

- Information Technology Security (Repeat Condition)
- Improper and Untimely Processing of Personnel Actions (Repeat Condition)
- FISMA (Repeat Condition) (noncompliance)

We also noted three matters that we consider internal control deficiencies that did not rise to the level of a significant deficiency or material weakness. However, we believe that these additional control deficiencies warrant management attention and are discussed in Appendix I to this letter. Additionally, we have provided the status of prior year management letter comments in Appendix II. None of these matters affect the conclusions in our Independent Auditor's Report. The status of these findings will be evaluated during the FY 2019 audit.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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We appreciate the cooperation and courtesies extended to us during the conduct of the audit. We are pleased to meet with you or your staff, at your convenience, to discuss matters in this Management Letter or furnish any additional information you may require.

This Management Letter is intended solely for the information and use of the 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.

Agency Comments and Auditor Evaluation

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

Williams, Adley & Company - DC, LLP
Washington, D.C.
November 13, 2018

Appendix I
Deficiencies Noted in FY 2018

The following are deficiencies noted during our audit of the Peace Corps’ FY 2018 financial statements.

I. Inadequate Record Retention and Tracking for Property, Plant, and Equipment (PP&E)

The Peace Corps’ Policy, MS-711, *Accounting for Property, Plant, and Equipment*: 4.6 Records Retention notes that “The Peace Corps shall maintain complete and accurate records for all active assets. Records for PP&E that have been removed from service, due to theft, loss, damage, or sale, shall be maintained in accordance with MS 892 Records Management (see also Guide to the Peace Corps’ Records Schedules for Posts).”

Based on our audit of the Peace Corps’ FY 2018 financial statements, the record retention policy is not being fully followed, and the Peace Corps did not maintain adequate records to support and track certain PP&E assets. As of June 30, 2018, we tested a sample of 10 equipment line items located at headquarters (30% of HQ population) from General Ledger account 1750 with a cost of \$3,915,558 from a total population of 33 items with a total cost of \$4,229,496.

The Peace Corps’ management was unable to provide adequate supporting documentation for four of the items selected (furniture) for examination (40% of the sample selected for testing). Such items are summarized¹ in Table 1 below. In addition, we noted that these items were not properly tracked or tagged, and we could not locate them to validate their existence.

We performed separate testing of Equipment located at overseas posts and noted no exceptions.

Table 1: Summary of PP&E Exceptions Noted

Item Number	Equipment Title	Cost	Net Book Value as of 6/30/2018
1	Office Furniture for HQ building Phase 4 FY11	\$462,099	\$149,644
2	Office Furniture HQ building Phase 3-4	\$644,989	\$192,260
3	Office Furniture for HQ building Phase 1-2 FY11	\$1,283,864	\$321,494
4	HQ Office Furniture Phase 5-7	\$1,099,206	\$373,085
	Total	\$ 3,490,158	\$1,036,483

The Peace Corps’ legacy tracking system does not have the capability of tracking bulk purchase assets individually. The furniture noted in the Table above were all considered to be bulk purchases. Although the assets were tagged individually, the corresponding sub-level detailed information that was maintained in the legacy tracking system for each individual asset was incomplete, resulting in the Peace Corps’ inability to reconcile the bulk purchase against the PP&E assets listing.

The Peace Corps’ equipment may be overstated or incorrectly reported because proper documentation does not exist to substantiate the amounts recorded. Additionally, the unidentifiable capital assets may not exist or may be incorrectly included in the general ledger, causing an overstatement of the fixed assets account.

¹ Per clarification from the Peace Corps, the furniture items selected were part of bulk purchases.

Appendix I Deficiencies Noted in FY 2018

Recommendations: We recommend that the Peace Corps:

1. Perform an analysis on the capital assets purchased as bulk items to determine the true cost. Maintain supporting documentation to substantiate the cost.
2. Review the asset listing to ensure items purchased in bulk each have a unique identifier. In addition, maintain sufficient documentation for bulk purchases to ensure proper existence of assets, along with substantiated costs.
3. Revise PP&E policies and procedures to provide specific guidelines for asset tracking regarding bulk purchases.
4. Perform a detailed review of the asset listing to determine if any assets are incorrectly included in the capital asset tracking system. During the review, tracking records should be updated to remove any items that do not exist or to include any previously omitted unique-identifying details. If deemed necessary, an adjusting entry should be performed to update the PP&E GL amount.

II. Untimely De-Obligation of Unliquidated Obligations (ULO) (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; and timely de-obligate ULOs:

1. that do not have a legal basis, or are not properly authorized and supported by appropriate documentation;
2. that have been completed and have not been closed out; and
3. for which no future outlays are expected.

The Peace Corps did not maintain effective controls over dormant ULOs. At June 30, 2018, the balance of the Peace Corps' outstanding obligations without accounting activity in the last two years was approximately \$1.1 million. Of that balance, we selected the 10 largest open obligations lacking accounting activity, which aggregated \$941,119. Based on supporting documentation and discussions with management for these 10 open obligations, we noted the following:

- One of the ten items examined (\$17,500) was noted as being approved for de-obligation in June 2017. However, as of June 30, 2018 and again at September 30, 2018, the obligation was still included in the Odyssey accounting system as an open obligation,
- Three of the ten items (\$208,663) were approved by the Contracting Officer's Representative for de-obligation in September 2017. However, as of June 30, 2018, these three items were still included in the Odyssey accounting system as an open obligation. After bringing the three items to the Peace Corps' management's attention, the de-obligation of these three items was processed on August 27, 2018.

Appendix I
Deficiencies Noted in FY 2018

Table 2: Summary of ULO Exceptions Noted

Purchase Order #	Dollar Value	Fund	Obligation Date	Last PO Update Date
PC-15-6-003	\$17,500	141501000	10/30/14	10/30/14
PC-14-9-031/0010	\$30,000	151601000	9/25/15	9/25/15
PC-14-9-031/0010	\$161,200	151601000	9/25/15	9/25/15
PC-14-9-031/0010	\$17,463	161701000	9/25/15	9/25/15

The Peace Corps’ policies and procedures does not provide for a defined timeframe to execute de-obligations of ULOs that have been approved to be de-obligated.

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. Perform an in-depth analysis of all open obligations that have had no activity for at least a year and identify the obligations that require immediate or near future de-obligations.
2. For those obligations identified, set forth a time line for de-obligation.
3. Based on the results of this analysis, determine the reasons for the obligation delays, and update the Peace Corps’ policies and procedures to ensure for the timely approval and actual de-obligation of dormant funds.

Appendix I Deficiencies Noted in FY 2018

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

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 2018, 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 Peace Corps did not prioritize resources to update the Financial System Contingency Plan in FY 2018 to reflect changes to the operating environment. Management stated that the Peace Corps is in the process of moving data centers and transitioning to cloud-based backups. Accordingly, a decision was made to postpone the update and testing until these processes were completed.

Without an updated contingency plan that reflects current operations, the ability for the Peace Corps to efficiently recover operations may be impacted. For example, without the 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.

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 in it is current and correct. If new hardware or software is added to Odyssey, the Maintenance Team will determine whether any new recovery processes are needed and add those to the IT Contingency Plan.”

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

Recommendations: We recommend that the Peace Corps:

1. Dedicate resources to develop an Information System Contingency Plan (ISCP) for the Financial System that reflects the current operating environment including the use of cloud-based backups.
2. Document a plan to ensure the ISCP is tested, reviewed, and updated annually as required.
3. Dedicate resources to test the ISCP annually as required.

Appendix II
Status of Prior Year Findings

Status of Prior Year Findings:

The following is the status of the prior year findings noted in the FY 2017 management letter.

Prior Year Finding	Current Year Status
Untimely De-obligation of Unliquidated Obligations	The prior year recommendations were implemented; however, there was a lack in the open obligation monitoring process to ensure that unliquidated obligations were de-obligated on a timely basis and this resulted in issuance of three new recommendations by Williams Adley. The repeat condition is presented as finding II in the FY 2018 Management Letter above.
Information Technology - Change Management Separation of Duty Conflict	Prior year recommendations were implemented in FY 2018; therefore this item is considered closed.
Information Technology - Lack of Process to Review the National Finance Center Service Organization Controls (SOC) Report	Prior year recommendations were implemented in FY 2018; therefore this item is considered closed.

Appendix III Official Management Response to Findings



November 7, 2018

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 agency's response to your draft Management Letter, received November 5, 2018. Peace Corps management has reviewed the Notice of Findings and Recommendations for the three deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2018. We concur with the condition, criteria, and level of control deficiency identified and have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2019, as we strive for an effective and efficient internal control environment.

Inadequate Record Retention and Tracking for Property, Plant, and Equipment

Agency Response: Concur. The Office of the Chief Financial Officer (OCFO) in coordination with the Office of Management will determine the appropriate methodology for recording and maintaining documentation for bulk purchases, specifically for furniture and fixtures. In addition, policies and procedures will be updated to address for the effective monitoring of bulk purchases. The agency will also perform a reconciliation of fixed assets between the property tracking system and the financial system to validate existence of active assets.

Estimated Completion Date: July 2019

Untimely De-Obligation of Unliquidated Obligations

Agency Response: Concur. The OCFO will continue to require offices to conduct open obligation reviews on a tri-annual basis to verify and validate obligation balances. Procedures will be established to ensure that obligation actions, such as de-obligations, are completed on a timely basis.

Estimated Completion Date: April 2019

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Appendix III Official Management Response to Findings



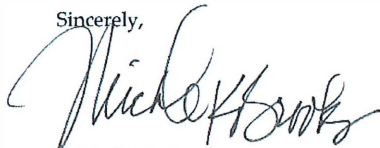
Inadequate Maintenance and Testing of the Financial System Contingency Plan

Agency Response: Concur. The OCFO will work with the Office of the Chief Information Officer to update the financial system contingency plan to align with the FY 2019 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: May 2019

We thank you and your team and appreciate the opportunity to respond to the draft Management Letter.

Sincerely,



Michelle K. Brooks
Chief of Staff

Paul D. Coverdell Peace Corps Headquarters

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