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To: Carol Spahn, Peace Corps Chief Executive Officer

From: Joaquin Ferrao, Acting Inspector General *Joaquin Ferrao*

Date: November 14, 2022

Subject: Audit of the Peace Corps' Fiscal Year 2022 Financial Statements

This letter transmits the reports of Williams, Adley & Company – DC, LLP (Williams Adley) on its audit of the Peace Corps' Fiscal Year (FY) 2022 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

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

We contracted with Williams Adley, an independent certified public accounting firm, to audit the financial statements of the Peace Corps as of the fiscal years ended September 30, 2022 and 2021. The audit was conducted in accordance with U.S. generally accepted government auditing standards (GAGAS); the standards applicable to financial audits contained in *Generally Accepted Accounting Principles* (GAAP), issued by the Comptroller General of the United States; and the OMB Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*.

Williams Adley's report for FY 2022 includes: an opinion on the Peace Corps' financial statements, conclusions on internal control over financial reporting, and compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. In its audit of the Peace Corps, Williams Adley found:

- The financial statements were fairly presented, in all material respects, in accordance GAAP.
- One material weakness in internal control over financial reporting.[1]
  - *Inadequate internal controls over property, plant, and equipment.* Williams Adley cited gaps in the internal control framework in the areas of recording, capitalizing, and tracking property.
- One significant deficiency related to internal control over financial reporting.[2]
  - *Lack of effective information technology security*. Williams Adley cited a lack of a comprehensive risk management program and fully defined continuous monitoring strategy.
- One instance of reportable noncompliance was found relating to compliance with provisions of applicable laws, regulations, contracts, and grant agreements which are

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
[2] A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

required to be reported under GAGAS or OMB guidance. Williams Adley found that the Peace Corps did not fully comply with:

- The Federal Information Security Modernization Act of 2014 by not meeting the Department of Homeland Security's required maturity level of managed and measurable.

OIG Oversight of Williams Adley's Audit Performance

In connection with the contract, we reviewed Williams Adley's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on the Peace Corps' financial statements or conclusions about the effectiveness of internal control or compliance with laws, regulations, contracts, and grant agreements. Williams Adley is responsible for the attached auditor's report dated November 14, 2022, and the auditor's conclusions expressed therein. However, our review disclosed no instances where Williams Adley did not comply in all material respects with GAGAS.

If you or a member of the Peace Corps staff has any questions about Williams Adley's audit or our oversight of it, please contact Assistant Inspector General for Audit Judy Leonhardt at 202-692-2914.

Attachment

cc: Thomas Peng, Deputy Chief Executive Officer
Viquar Ahmad, Chief Financial Officer
Michael Terry, Acting Chief Information Officer
Emily Haimowitz, Chief Compliance Officer
Greg Yeich, Compliance Officer

Peace Corps
Office of
Inspector General

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

FISCAL YEAR 2022

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.

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, 2022. 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. 22-01, 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 one material weakness, one significant deficiency, and one instance of reportable non-compliance. Furthermore, Williams Adley noted one additional concern 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

Director
United States Peace Corps

Inspector General
United States Peace Corps

In our audits of the fiscal years 2022 and 2021 financial statements of the Peace Corps, we found:

- Peace Corps' financial statements as of and for the fiscal years ended September 30, 2022, and 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- one material weakness in internal control over financial reporting based on the limited procedures we performed;[1] and
- one reportable instance of noncompliance for fiscal year 2022 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

Opinion
In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, we have audited Peace Corps' financial statements. Peace Corps' financial statements comprise the balance

[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 the Management's Discussion and Analysis section which is 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.

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sheets as of September 30, 2022, and 2021; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, Peace Corps' financial statements present fairly, in all material respects, Peace Corps' financial position as of September 30, 2022, and 2021, 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 the 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 (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 Peace Corps' Agency Financial Report, and ensuring consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of the financial statements to ensure that they 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 obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to 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 the 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, 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

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. Management is responsible for the other information included in Peace Corps' Agency Financial Report. The other information comprises of the Inspector General's Statement on the Peace Corps' Management and Performance Challenges and the Summary of Financial Statement Audit and Management Assurances 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. Therefore, additional deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses may exist that have not been identified.

As discussed in **Appendix I**, our audit identified one deficiency in Peace Corps' controls pertaining to property, plant, and equipment, that represents a material weakness in Peace Corps' internal control over financial reporting. In addition, our audit identified one deficiency in Peace Corps' controls pertaining to information security that represent a significant deficiency in Peace Corps' internal control over financial reporting which is discussed in **Appendix II**.

Although the material weakness and significant deficiency in internal control did not affect our opinion on the Peace Corps' fiscal year 2022 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Peace Corps because of these deficiencies.

Our assessment of the current status of the two prior significant deficiencies and the noncompliance matter discussed in the next section of the Audit Report is presented in **Appendix IV**.

In addition to the material weakness and significant deficiency, we also identified a deficiency in Peace Corps' internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, this deficiency warrants Peace Corps management's attention. We have communicated this matter to Peace Corps management and, will report on it separately.

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.

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.

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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.

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, 2022, 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 (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.

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 2022 that would be reportable under U.S. generally accepted government auditing standards. As discussed in **Appendix III**, 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 the Peace Corps. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

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

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

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

Our responsibility is to test compliance with selected provisions of 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 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 the Peace Corps. We caution that noncompliance may occur and not be detected by these tests.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. 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 V**. We did not audit the Peace Corps' response and, accordingly, we express no opinion on the response.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 14, 2022

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

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

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

The Peace Corps has a de-centralized process over capitalized assets and lacks compliance with existing policies and procedures which has led to a repeat significant deficiency since FY 2019. There are many offices involved with managing property, the Office of Management, Administrative Services (M/AS) and the Office of 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. The Peace Corps' internal controls over PP&E needs improvements related to recording, capitalizing, and tracking property. Specifically, we identified the following issues and the underlying cause of each issue as identified below:

Untimely Recording of Assets in Odyssey:

Our reconciliation between VMIS and the Fixed Asset module identified vehicles that had been disposed of but were still recorded within the Fixed Asset module. This means that the net book values of the assets are still reflected on the Balance Sheet even though Peace Corps no longer owns the asset. Specifically, we noted the following:

- 50 vehicles, valued at $766,146, were disposed or marked as disposed in VMIS in multiple fiscal years, but not removed from Odyssey as of June 30, 2022. See disposals per fiscal year below:

Fiscal Year of the Disposal	Number of Vehicles Disposed	Net Book Value
FY 2019	15	$205,655
FY 2020	7	$131,448
FY 2021	21	$315,170
FY 2022	7	$113,873
Total	**50**	**$766,146**

After we identified and communicated these issues to the Peace Corps, Peace Corps staff removed 44 of the 50 vehicles from the Fixed Asset module prior to September 30, 2022. This reduced the potential overstatement of $766,146 to an actual net overstatement of $89,381 on the PP&E line of the Balance Sheet on the FY 2022 Financial Statements.

However, on the FY 2021 Financial Statements, 43 (15 + 7 + 21) vehicles were inappropriately included, resulting in a net overstatement of $652,273 on the PP&E line of the Balance Sheet.

During our audit, we determined that the OCFO did not follow their policies and procedures to ensure that items were removed from Odyssey timely. Specifically, OCFO conducts a monthly reconciliation of property and vehicles from the source systems to the Fixed Asset module. However, these reconciliations did not identify the need to remove the 14 vehicles that were no longer listed in VMIS from the Fixed Asset module.

Additionally, OCFO has not adequately designed their reconciliation process, as the review only looks to identify vehicles that are no longer listed in VMIS. The VMIS report lists all vehicles that are currently in service or have been disposed of in the last two years. According to M/AS, VMIS is required to maintain this listing of disposed vehicles per records retention requirements. However, OCFO was unaware that the VMIS report listed disposed vehicles. This resulted in 50 vehicles being overlooked and inappropriately remaining in the Fixed Asset module.

Finally, the Office of Management, Administrative Services (M/AS) sends monthly reports to OCFO outlining the status of all vehicles in Peace Corps' possession. However, there is no evidence that these reports were used to identify or remove the retired vehicles from the Fixed Asset module.

Untimely Recording of Assets in Odyssey:
In FY 2022, there were a total of 97 additions made as of June 30, 2022. Of these additions, we identified eight separate instances of delays in entering these assets into the Fixed Asset module. Specifically, two assets were placed into service during FY 2021 but remained in the clearing account for almost a year. This means that the associated depreciation on these assets was not being recognized during FY 2021; however, the total asset amount is included on the PP&E line of the Balance Sheet. Furthermore, six assets were placed into service during FY 2021 but were not entered into either the clearing account or the Fixed Asset module in FY 2021. The delays in entering these eight assets in the Fixed Assets module ranged between 109 and 415 days after their placed in-service date (average 176 days). This created an impact on the FY 2021 Financial Statements. Specifically:

- For two assets, valued at $60,354, the acquisition cost was reflected on the Balance Sheet as part of the clearing account, but depreciation of $2,328 was never accounted for.
- For six assets, the acquisition cost of $274,305 and depreciation of $12,986 was not recorded on the Balance Sheet, resulting in a net effect of $261,319.

This resulted in a net understatement of $258,991 ($261,319 - $2,328) on the PP&E line of the Balance Sheet on the FY 2021 Financial Statements.

Additionally, in FY 2021 the Peace Corps updated its policy for recording capital asset additions. Specifically, the policy states that any asset with an in-service date between October 1st and June 30th should be entered into the Fixed Asset module during the current fiscal year; however, any asset with an in-service date between July 1st and September 30th should be entered into the Fixed Asset module during the first quarter of the following fiscal year. Based on our review of the clearing account as of September 30, 2022, we noted that no additions were recorded to the clearing account in the fourth quarter. However, our reconciliation between Sunflower and the Fixed Asset module for the fourth quarter identified IT assets, valued $1,830,468, that had been purchased and recorded in Sunflower but were not recorded to the clearing account or the Fixed Asset module. This resulted in the acquisition cost of the IT assets not being reflected as PP&E on the Balance Sheet.

After we identified and communicated these issues to the Peace Corps, Peace Corps staff recorded an adjustment to their FY 2022 Financial Statements, in which the assets were added to the clearing account. This adjustment corrected and removed the potential understatement of $1,830,468 to on the PP&E line of the Balance Sheet on the FY 2022 Financial Statements.

During our audit, we determined OCFO is responsible for recording capitalized assets in the financial system and has policies and procedures in place to ensure capitalized assets are added appropriately to the financial system. However, these processes are not always followed, while two assets acquired in FY 2021 were recorded on the USSGL clearing account, these items should have been marked in the Fixed Asset module as "placed-in-service" in the same fiscal year.

Furthermore, OCFO relies on programming offices to utilize specific object class codes when entering purchases of new capitalized assets in the financial system. However, these programming offices are not always using the designated object class codes, which leads to assets being improperly recorded as non-capitalized assets. OCFO does not have a process to flag purchases made in the financial system that are over the capitalized asset dollar threshold but are not categorized by the designated capitalized asset object class codes. Which resulted in the delay of adding six assets to the Fixed Asset module.

Peace Corps did not fully utilize the Statement of Federal Accounting Standard 6 when developing their revised capitalized asset policy.

Asset values recorded in Odyssey do not match asset values in Sunflower:
Monthly reconciliations between Sunflower and the Fixed Asset module identified one asset ("VOIP System") with a reconciliation issue. Specifically, we noted that the VOIP system was a bulk purchase and the entire acquisition amount of $408,867 was capitalized and recorded in the Fixed Asset module, however, only $29,713 of these assets were recorded in Sunflower.

While this discrepancy was initially identified during a monthly reconciliation in FY 2021, the agency still has not taken follow-up actions to remediate the difference, either by reducing the total dollar value recorded as PP&E in the Fixed Asset module or increasing the dollar value of the assets within Sunflower.

During our audit, we determined that OCFO did not have adequate follow-up on issues identified in their monthly reconciliations. Specifically, OCFO identified an issue with the VOIP system in FY 2021; however, no corrective actions were taken to ensure the Capitalized Asset module and the property system were in alignment.

This issue is further compounded by the fact that there is a de-centralized process for categorizing and recording assets. M/AS maintains Sunflower and provides guidance to all agency employees on how to use Sunflower, including how to record non-IT assets in their system. However, the OCIO is responsible for IT specific assets and is tasked with deciding which assets should be recorded in Sunflower as capitalized assets. Lastly, OCFO is responsible for maintaining the Fixed Asset module and is responsible for ensuring the correct financial implications are recorded. However, the Peace Corps lacks controls to ensure that agency assets are consistently categorized (i.e., capitalized or not). Furthermore, the procedures lack a process to remediate and resolve the difference in categorization. In the VOIP system example, OCFO categorized the full bulk purchase cost as a capitalized asset; however, OCIO only categorized a portion of the bulk purchase as a capitalized asset.

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

- Loss of asset accountability, which introduces operational risk related to the ability to execute the Peace Corps' mission.
- Decrease in the uniformity and standardization of procedures, resulting in inconsistent treatment of assets and increasing the difficulty in completing consolidated reports.
- Overstatement in the FY 2022 PP&E net balance of $89,381.
- Overstatement in the FY 2021 PP&E net balance of $393,282 ($652,273 – 258,991).

Paragraphs 34 and 38 of The Statement of Federal Financial Accounting Standards (SFFAS) 6: Accounting for Property, Plant and Equipment states:

> *34."PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agency of the entity."*
>
> 38.*"In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with the associated accumulated depreciation/amortization. Any difference between the book value of the PP&E amounts realized shall be recognized as a gain or loss in the period that the general PP&E is disposed of, retired, or removed from service."*

According to the Domestic Financial Management Handbook, Chapter 22 states, July 12, 2021, version:

- <u>22.5.3 Tracking and Reporting of the 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 associate with capital assets must be monitored, tracked and recorded (including transfer between offices and Post/HQ).

- <u>22.5.3.3 IT hardware and General PP&E</u>
  Capitalization of new assets and corresponding changes to capital assets, including disposals, should be recorded within the time parameters listed below:

  - If the asset's in-service date occurs between October 1st and June 30th, the new asset should be recorded as a new asset in the F/A module during the same fiscal year of purchase.

- If the asset's in-service date occurs between July 1st and September 30th, the new asset should be recorded by December 31st of the subsequent fiscal year.

- <u>22.5.6 Internal Control</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 the Peace Corps:

1. Update policies and procedures to clarify the roles of all responsible offices and establish timelines in accordance with the SFFAS No. 6 for proper recording of additions and disposal of assets in Sunflower and the Fixed Asset module. The updated roles should clearly establish the authority to make final determinations when discrepancies of opinions occur.
2. Enhance the reconciliations of the source systems and Fixed Asset module to ensure the reconciliations take into consideration the asset status in the source system (assets with disposed status should be removed from Odyssey) and the asset value (it should agree in both systems). When differences are identified, they should be investigated and resolved within a timely manner.
3. Update policies and procedures to clarify that OCFO is ultimately responsible for determining if assets, including IT assets, meet the capitalization threshold in both Fixed Asset Module and tracking systems (e.g., Sunflower and VMIS).
4. Update the procedures on how Bulk Assets are recorded as separate assets to make them easily identifiable in Sunflower.
5. Review purchase orders monthly for orders over the threshold that could have been miscategorized.

B. Information Technology Security (Updated, Repeat Finding)

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

- In Fiscal Year (FY) 2018, the Peace Corps had not finalized an information security continuous monitoring strategy. From FY 2019 to 2022, the Peace Corps worked to develop an information security continuous monitoring strategy; however, the strategy was not fully defined at the organization level. In addition, implementation of access controls was not fully documented.
- The Peace Corps does not have a robust agency-wide Risk Management Program to manage information security risks. Specifically, the agency has not fully defined the agency's risk appetite and risk tolerance.
- The Peace Corps has not fully addressed issues regarding its PC General Support System (GSS) security controls assessments. In addition, the agency has not conducted an assessment on a portion of Financial System security controls.
- The Office of Chief Information Officer (OCIO) has developed an information security architecture in FY 2021; however, it is not yet integrated with the risk management strategy.

Peace Corps' management has not implemented an Enterprise Risk Management (ERM) process throughout the 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 a fully implemented Continuous Monitoring Program, agency systems could incur potential damage, including system downtime, unauthorized access, changes to data, data loss, or operational failure. Also, without effectively implementing a comprehensive risk management process at the agency level, the Peace Corps may be unable to address the root causes associated with existing information security risks.

Government Accounting Office (GAO) Federal Information System Controls Audit Manual (FISCAM) 1.2 states: "Without effective general controls, business process application controls can generally be rendered ineffective by circumvention or modification."

GAO FISCAM 2.3 states: "If one or more of the nine control categories are not effectively achieved, IS controls are ineffective, unless other factors sufficiently reduce the risk."

GAO FISCAM SM-2 states: "According to FISMA, federal agencies must periodically assess the risk and magnitude of the harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support their operations and assets. Policies and procedures are based on risk, and the rigor of management testing and evaluation of information security should also be based on risk."

GAO FISCAM SM-5 states: "An important element of risk management is ensuring that policies and controls intended to reduce risk are effective on an ongoing basis. Effective monitoring involves the entity performing tests of IS controls to evaluate or determine whether they are appropriately designed and operating effectively to achieve the entity's control objectives."

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

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

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 Offices of Inspectors General (OIG) are required to annually report on the effectiveness of the agencies' security programs.

As noted in its Assurance Statement included in its Agency Financial Report, the Peace Corps disclosed an instance of noncompliance with FISMA that is required to be reported under Government Auditing Standards and Office of Management and Budget (OMB) Bulletin No. 22-01, *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 Peace Corps' management with a separate limited distribution report that further details the vulnerabilities in the 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 are presented below.

Prior Year Finding	Current Status
2019-06: Inadequate Internal Controls over Property, Plant, and Equipment (Significant Deficiency)	**Open**. Finding has been elevated to a material weakness and repeated as Finding A Appendix I.
2018-05: Information Technology Security (Significant Deficiency)	**Open**. Finding has been updated and repeated as Finding B in Appendix II.
FISMA (Non-Compliance)	**Open**. Finding has been updated and repeated as Finding C in Appendix III.

Peace Corps

November 14, 2022

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 3, 2022. We are pleased with your issuance of an unmodified (clean) audit opinion. The Peace Corps management reviewed the Notice of Findings and Recommendations for one material weakness and one significant deficiency issued by Williams Adley, in connection with the audit of our financial statements for fiscal year (FY) 2022. We concur with the condition, criteria, and level of control deficiency identified. We have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2023, as we strive for an effective and efficient internal control environment.

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

In FY 2022, the Office of the Chief Financial Officer (OCFO) updated its procedures to identify differences between the agency's inventory management systems (Sunflower) and the Odyssey financial system. The Office of Management (M) provided guidance to custodians of personal property to ensure that assets were tagged and accounted for in Sunflower, while the Office of the Chief Information Officer (OCIO) improved its procedures to properly account, in a timely manner, Information Technology (IT) property purchased, maintained, and secured by the OCIO. In FY 2023, the Peace Corps will strengthen its policies and procedures with clearly defined roles and responsibilities between OCFO, M, and OCIO so that assets are accounted for in the tracking systems (Sunflower and VMIS); OCFO as primary stakeholder over the accounting and verification of capital assets, M as the administrator for ensuring the accuracy of Sunflower and VMIS, and OCIO as the custodian of IT assets. OCFO will lead the effort to identify and resolve differences between the tracking systems and Odyssey to ensure the capital assets are classified and valued accurately in the financial statements.
Estimated Completion Date: September 2023

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

In FY 2022, 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 office-level risk registers, which codifies the OCIO risks and the accepted tolerance. In FY 2023, 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 improve its ERM strategy, ensuring that IT security risks are clearly communicated and acted upon at all three tiers of the organization.
Estimated Completion Date: September 2023

Thank you and we appreciate the opportunity to respond to the draft Independent Auditor's Report pertaining to the FY 2022 Financial Statements Audit.

Sincerely,

Peng, Thomas

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Thomas Peng
Deputy Chief Executive Officer

Management Letter

Carol Spahn
Chief Executive Officer
Peace Corps
1275 First St NE
Washington, DC 20526

We have completed our audits of the financial statements of the Peace Corps as of and for the fiscal years ended September 30, 2022 (fiscal year 2022), and 2021 (fiscal year 2021) and have issued our Independent Auditor's Report thereon dated November 14, 2022.

In planning and performing our audit of the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2022, and September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered Peace Corps' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the Peace Corps' internal control over financial reporting.

In our fiscal year 2022 audit, we identified one deficiency in internal control over property, plant, and equipment, that we considered to be a material weakness. In addition, our audit identified one deficiency in internal control over financial reporting that we considered to be a significant deficiency. We also identified one internal control deficiency that did not rise to the level of a material weakness or significant deficiency, but still warrants management's attention, which is provided in *Appendix I* of this letter. We have discussed this deficiency 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.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 23, 2022

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

WILLIAMS, ADLEY & COMPANY-DC, LLP
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A. Inadequate Controls Surrounding Processing of Personnel Actions (Repeat 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.

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

Personnel actions for newly hired and separated employees were not consistently approved in a timely manner. As part of our internal control testing in FY 2022, we selected 45 out of 121 new hired individuals and 45 out of 112 separated individuals during the first three quarters of FY 2022. During our test we noted the following issues:

- For two of the separated individuals and four of the newly hired individuals, we noted that the SF-50s, Notification of Personnel Action, were approved between one and four days after their effective date.
- For 10 of the separated individuals and one newly hired individual, the Peace Corps could not locate and provide us with the individual's Standard Form-52, Request for Personnel Action.

The Peace Corps did not follow their policies and procedures related to the proper processing of SF-50s and 52s.

Additionally, for employees with missing SF-52s, the Peace Corps indicated that many of the files were lost due to the major turnover experienced, which indicates the agency does not have proper controls on document retention.

Although no compensation errors resulted from the late approvals, failure to consistently process personnel action forms in a timely manner and/or review these forms for accuracy could result in erroneous compensation payments. In addition, the Peace Corps is not complying with personnel actions criteria set forth by the Office of Personnel Management (OPM).

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

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

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 that the Peace Corps:

1. Develop more effective quality assurance process that will ensure accurate and timely processing of personnel actions.
2. Continue to provide more effective training to human resources staff on policies and procedures related to the entry of employee data into EPIC.
3. Organize and maintain proper supporting documentation for personnel and payroll records to be able to easily provide documentation upon request.

Peace Corps

November 22, 2022

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 17, 2022. The Peace Corps management reviewed the Notice of Findings and Recommendations for the deficiency issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2022. We concur with the condition, criteria, and level of control deficiency identified. We have established corrective action plans to address the root cause this finding. We are dedicated to resolving this issue in FY 2023, as we strive for an effective and efficient internal control environment

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

During FY 2022, the Office of Human Resource (OHR) updated its policies and procedures over the processing of personnel actions. In FY 2023, 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 2023

Thank you and we appreciate the opportunity to respond to the draft Management Letter pertaining to the FY 2022 Financial Statements Audit.

Sincerely,

Peng, Thomas

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Thomas Peng
Deputy Chief Executive Officer