Since 1961.

OFFICE OF INSPECTOR GENERAL

To: Aaron Williams, Director
Carrie Hessler-Radelet, Deputy Director
Stacy Rhodes, Chief of Staff/Chief of Operations
Joseph Hepp, Chief Financial Officer
Cathryn Thorup, Director, OSIRP
Daljit Bains, Chief Compliance Officer

From: Kathy A. Buller, Inspector General

Date: February 14, 2012

Subject: Final Report on the Audit of the Peace Corps' Budget Formulation Process (IG-12-02-A)

Transmitted for your information is our final report on the Audit of the Peace Corps' Budget Formulation Process.

Management concurred with 11 of 12 recommendations. All recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

Our comments, which are in the report as Appendix G, address these matters. Please respond with documentation to close the open recommendations in accordance with the estimated completion dates listed in the agency's response.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Bradley Grubb at 202.692.2904 or Jeffrey Lee at 202.692.2919.

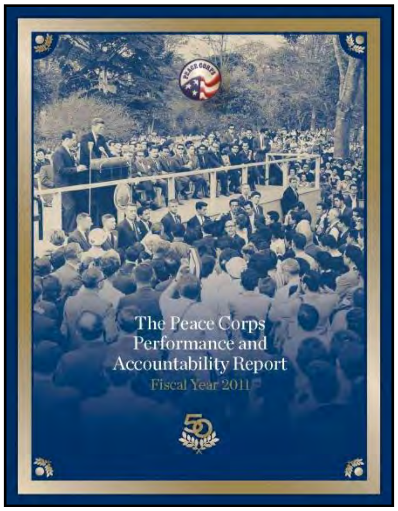
Please accept our thanks for your cooperation and assistance in our review.

Attachment

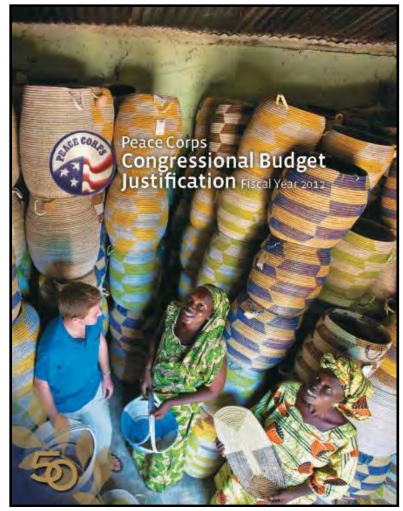
cc: Elisa Montoya, White House Liaison/Senior Advisor to the Director
Bill Rubin, General Counsel
Dorine Andrews, Chief Information Officer
Ed Hobson, Associate Director for Safety and Security

Esther Benjamin, Associate Director, Global Operations
Jules Delaune, Associate Director, Volunteer Support
Lisa Bilder, Chief Acquisition Officer
Earl Yates, Acting Associate Director for Volunteer Recruitment and Selection
Garry Stanberry, Acting Associate Director for Management
Brenda Goodman, Deputy Associate Director, Volunteer Support
Charles Kemp, Deputy Chief Financial Officer
Samuel Taylor, Director, Office of Budge and Analysis
Jamie Loughridge, Chief of Planning, Performance and Data Management

Peace Corps
Office of Inspector General



The Peace Corps' Performance and
Accountability Report, Fiscal Year 2011



The Peace Corps' Congressional
Budget Justification, Fiscal Year 2012

The Peace Corps' Strategic Plan Fiscal Years 2009-2014
and Performance Plan Fiscal Years 2009-2011

Final Audit Report:
The Peace Corps' Budget Formulation Process
IG-12-02-A

February 2012

EXECUTIVE SUMMARY

Our audit focused on whether the Peace Corps' budget process was effective in formulating the agency's overall budget; complied with applicable federal laws, regulations, and Peace Corps policy; and had sufficient internal control. The Peace Corps' budget formulation process did not fully comply with applicable federal laws and regulations; lacked sufficient transparency; and did not have fully documented controls.

The Peace Corps had not fully implemented federal laws and regulations requiring the use of performance data to inform budget decision-making and resource allocation. The Government Results and Performance Act (GPRA), GPRA Modernization Act of 2010, and Office of Management and Budget (OMB) Circular No. A-11 requires federal agencies to describe the relationship between performance goals and the resources for achieving targeted levels of performance. We determined that the agency did not sufficiently identify resources related to projected costs of human and capital investments, and did not report the associated costs of such resources used to achieve the Peace Corps' performance goals. This lack of a clear link between performance reporting and the budget inhibits the use of performance data as an effective tool for justifying and prioritizing budget decisions, allocating resources, and formulating future budget estimates and performance goals. Further, managers cannot accurately assess whether goals are reasonable, achievable, and cost effective without information to understand the full cost of a program. We also found that the agency did not comply with GPRA and OMB Circular No. A-11 regarding timely reporting and making certain performance reports publicly available.

The Request for Agency Resources (RAR) approval and budget reduction decision processes within the Peace Corps were not sufficiently transparent and a clear line of communication regarding certain budgeting decisions was lacking. We found agency processes lacked a full and open review by the senior managers who represent the various functional and program component offices. Management did not document the basis for decisions made on RARs and budget reductions and had not established criteria for decision-making. Further, we determined that approved RARs were not tracked to determine if requesting components fulfilled the objectives included in their justification for additional funding. As a result, the Peace Corps' highest priorities may not be adequately funded, scarce agency resources might not necessarily be put to the best use, and executives were not fully informed of key budget decisions.

The Peace Corps Office of Budget and Analysis had not sufficiently documented and assessed its internal control over the budget process. A weak internal control structure impacts the ability to adequately assess risks, determine if effective internal control activities are in place, and efficiently locate and retrieve supporting documentation that validates and authorizes transactions. Procedures related to preparing detailed line item budgets, reviewing and analyzing RARs, processing budget transactions, and performing mid-year reviews of the agency's budget were not fully documented. We found that the overall internal control structure related to these procedures lacked adequate detail for ensuring that data supporting budget transactions, and inputs for budgetary reporting, was complete and accurate. Prior to FY 2011 a central database for maintaining sufficient detail related to all RARs submitted by agency components was not maintained and much of this budget data was not always retained or was not readily available.

Management concurred with 11 out of 12 recommendations. All recommendations remain open pending copies of the documents described in Appendix F and G.

TABLE OF CONTENTS

BACKGROUND

The Office of Inspector General (OIG) conducted an audit of the Peace Corps' budget formulation and execution process. Our primary objective was to determine if the Peace Corps had an effective and efficient process in place for formulating and executing the budget. An additional objective was to determine if the agency was fully complying with applicable federal laws and regulations as well as Peace Corps policy governing the budget process. Further, we reviewed internal control as it related to our objectives. Appendix A provides a full description of our audit objectives, scope, and methodology.

Laws and Regulations
The GPRA was enacted to establish a requirement for strategic planning and performance measurement in the federal government. Key purposes of this act include improving public confidence in federal operations, achieving greater accountability, making programs more effective, and assisting Congressional decision making through better visibility over agency performance. In January 2011, President Obama signed the GPRA Modernization Act of 2010. This act establishes some important changes to existing requirements that move toward a more useful approach to performance planning and reporting. It serves as a foundation for helping agencies to focus on their highest priorities and creating a culture where data and empirical evidence plays a greater role in policy, budget, and management decisions.

OMB Circular No. A-11 provides overall guidance and requirements for formulation and execution of federal agency budgets. It also includes guidance on performance management and details regarding preparing agency strategic plans, annual performance plans, Congressional budget justifications (CBJ), and annual performance reports.

Public Law 97-255, "The Federal Managers' Financial Integrity Act (FMFIA) of 1982," encompasses accounting and administrative controls. Such controls include program, operational, and administrative areas as well as accounting and financial management. FMFIA establishes specific requirements with regard to management controls. It requires, "ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency." The act encompasses program, operational, and administrative areas as well as accounting and financial management.

OMB Circular No. A-123 provides guidance for compliance with FMFIA to federal agencies. The regulation requires agency management to develop and maintain effective internal control to provide assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner. It further states that internal control should not be an isolated management tool; instead agencies should integrate their efforts to meet the requirements of the FMFIA with other efforts to improve effectiveness and accountability. The circular also states that, "internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing…and provide continual feedback to management….internal control applies to program, operational, and administrative areas as well as accounting and financial management."

Historical Budget Data
Table 1 shows the Peace Corps' historical appropriation data for FYs 2006-2011. Data included in the table indicates the amounts of funding appropriated to the Peace Corps and unobligated amounts carried over to the next fiscal year (FY). The Peace Corps has two year budget authority and is authorized by law to carry over any unobligated amounts appropriated to the next FY.

Table 1. FY 2006-2011 Peace Corps Appropriation and Unobligated Funding Carried Forward (in millions)

Fiscal Year	Appropriated	Carried Forward
2011	$375	$46.2
2010	$400	$48.3
2009	$340	$22.8
2008	$333.5	$13.1
2007	$319.7	$10.6
2006	$322	$ 7.8

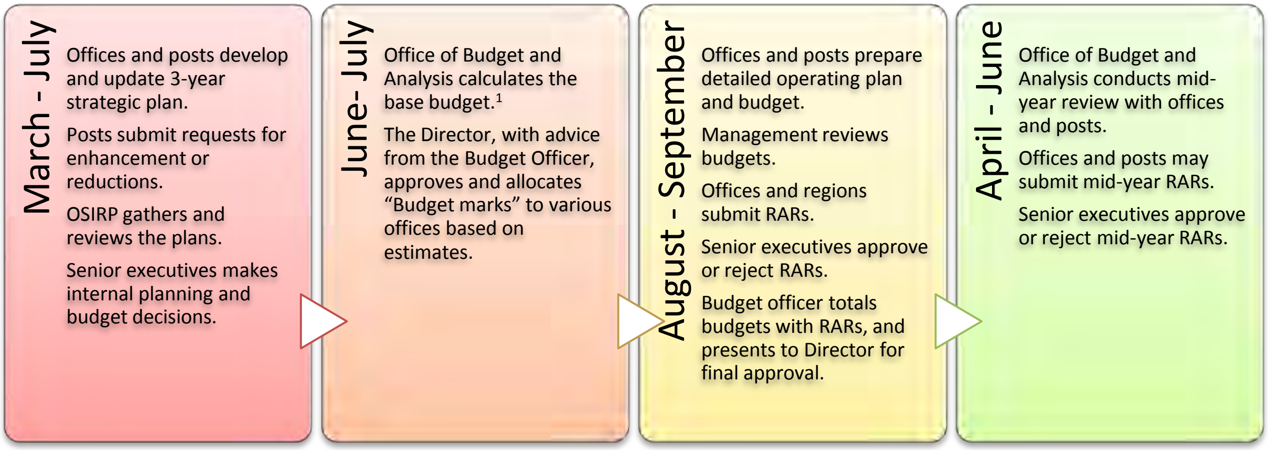
Federal Budget Formulation Process
The Congressional Research Services provided a summary of the budget process in CRS Report for Congress, "Introduction to the Federal Budget Process." It stated that:

> Preparation of the President's budget typically begins in the spring (or earlier) each year, at least nine months before the budget is submitted to Congress, about 17 months before the start of the fiscal year to which it pertains, and about 29 months before the close of that fiscal year. The early stages of budget preparation occur in federal agencies. When they begin work on the budget for a fiscal year, agencies already are implementing the budget for the fiscal year in progress and awaiting final appropriations actions and other legislative decisions for the fiscal year after that. The long lead times and the fact that appropriations have not yet been made for the next year mean that the budget is prepared with a great deal of uncertainty about economic conditions, presidential policies, and congressional actions.
>
> As agencies formulate their budgets, they maintain continuing contact with the OMB examiners assigned to them. These contacts provide agencies with guidance in preparing their budgets and also enable them to alert OMB to any needs or problems that may loom ahead. Agency requests are submitted to OMB in late summer or early fall; these are reviewed by OMB staff in consultation with the President and his aides. (Code 98-721 GOV, updated March 7, 2008)

See Appendix B for the OMB Circular No. A-11 presentation of major steps in the Federal budget formulation process.

The Peace Corps' Budget Process
The Office of Strategic Information, Research, and Planning (OSIRP), manages the process to develop information used in the Peace Corps' strategic and performance plans. The Peace Corps' budget exercise begins when the Director issues Integrated Planning and Budget System (IPBS) guidance to the agency's offices and overseas posts. Based on this guidance, offices follow the IPBS process that represents a multilevel global planning process that requires each office and sub-office to set goals and establish measurable objectives and tasks considering projected funding. Figure 1 depicts the Peace Corps' annual budget process that offices and posts use for developing operating plans for their base budget amounts and receiving additional funds through RARs.

Figure 1. The Peace Corps' Budget Process



[1]The base budget is calculated using the current year budget, which is adjusted for inflation and changes in program factors, plus newly approved RARs, less expired funding for RARs.

FINDINGS AND RECOMMENDATIONS

INTEGRATING PERFORMANCE AND BUDGET PROCESSES

The Peace Corps had not fully implemented federal laws and regulations requiring the use of performance data to inform budget decision-making and resource allocation and certain performance reporting was not timely.

The GPRA Modernization Act of 2010 requires agencies to develop strategic and performance plans containing goals and objectives and a description of how they are to be achieved, including a description of the operational processes, skills, and technology, and the human, capital, information, and other resources required to achive those goals and objectives.[1] OMB Circular No. A-11 requires resources be aligned at the program level and encourages agencies to align resources at the performance goal level. Peace Corps did not clearly identify the resources needed to achieve its strategic goals and objectives. Further, the Peace Corps' budget and performance documentation did not sufficiently report resources required to meet the agency's stated performance goals. The Peace Corps managers responsible for preparing and reporting the information did not believe it was cost effective to fully integrate performance and budget data and stated that the information was not required by the OMB examiner. Also, the agency's Annual Performance Plan, containing the FY 2012 performance data was not finalized and included in the FY 2012 CBJ or made publicly available due to an oversight.

As a result, the Peace Corps lacked a clear link between performance reporting and the budget, making it difficult to use performance reporting data as an effective tool for justifying and prioritizing budget decisions, allocating resources, and formulating future budget estimates and performance goals. Managers could not accurately assess whether goals are reasonable, achievable, and cost effective without understanding the full cost of a program. Further, the Peace Corps did not fully comply with the intent of applicable laws and regulations governing the content and timely reporting of budget and performance data.

Performance Budgeting Explained
Performance budgeting is the process of linking expected results to budget levels. Tying performance goals and outcomes to the budgetary resources is not a new requirement for federal agencies and departments. GPRA, which stresses the importance of using performance reporting in the budgeting process, was signed into law 18 years ago. Since that time, interest in preparing and presenting performance budgets to the White House executive offices, the Congress, and the public at large has grown as evidenced in numerous Government Accountability Office (GAO) reports and OMB revisions to related regulations. While the requirement is not new, the approach has changed over time.

In January 2011, the GPRA Modernization Act of 2010 was signed into law. This law serves to update the original act adding new requirements and emphasis on preparing performance budgets. The act requires agencies to appoint the deputy head of the agency as the chief

[1] GPRA, which was amended by the GPRA Modernization Act of 2010, contained this same requirement.

operating officer responsible for improving the management and performance of the agency and designate a performance improvement officer to assist with this process. The act also continues to require agencies to include their inputs (for example staff, technology, and other operating costs) when developing strategic plans and considering how program goals will be achieved. The underlying concept is that without understanding the full cost of a program, managers cannot accurately assess whether goals are reasonable, achievable, and cost effective. In an austere budget environment it is essential that federal managers consider carefully how they use taxpayer dollars, weigh the opportunity costs, and ensure efficiency.

GPRA and OMB Circular A-11 require performance plans for each program activity[2] to include "operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals." OMB Circular No. A–11 indicates:

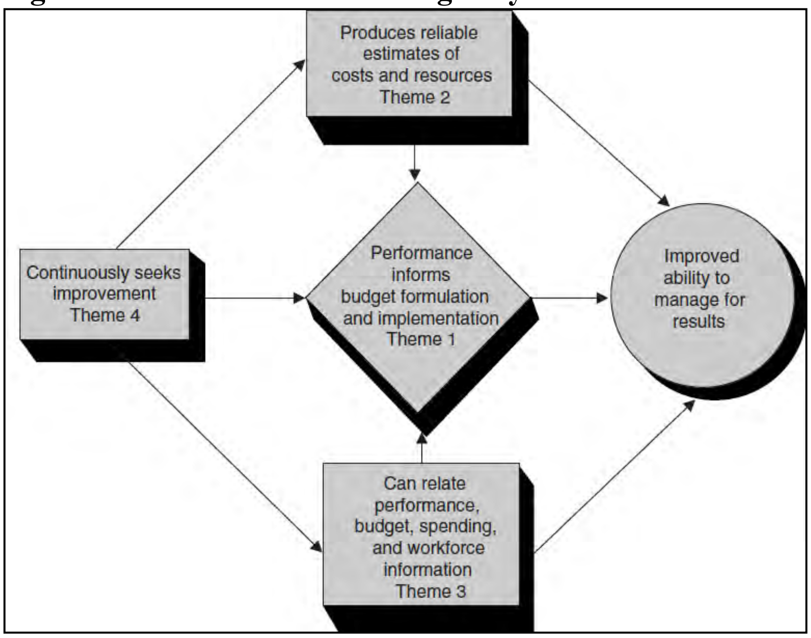
> Integrating performance information in the budget process remains a priority. The performance goals, measures and targets in agency performance plans should be consistent with those set through agency strategic and performance planning processes, and updated to reflect final congressional action on FY 2012 appropriations, if complete. The FY 2013 budget submission should reflect the amount needed to meet FY 2013 targets. At a minimum, resources are aligned at the program level within this framework, and agencies are encouraged to align resources at the performance goal level (Part 6, Section 220.6).

According to the GAO, "GPRA requires linkages of performance plans to budgets, recognizing that one of the ways in which the full acceptance and potential of performance management can be promoted is if this information becomes relevant for the allocation of resources."[3] In recent Congressional testimony[4] before the Senate Committee on the Budget, the GAO Comptroller General emphasized government challenges such as ensuring that performance information is both useful and used for decision making. The Comptroller General stated that, "Moving forward, the GPRA Modernization Act can offer opportunities to help make tough choices in setting priorities as well as reforming programs and management practices to better link resources to results."

[2] Although the President's Budget lists the Peace Corps as a single program activity, GPRA and OMB Circular Number A-11, Section 220.7 state that, "Agencies may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation for the agency."
[3] Performance Budgeting: Opportunities and Challenges, Statement of David M. Walker, Comptroller General, GAO-02-1106T, September 19, 2002.
[4] Government Performance: GPRA Modernization Act Provides Opportunities to Help Address Fiscal, Performance, and Management Challenges, GAO-11-466T, March 16, 2011.

Figure 2 demonstrates how performance budgeting provides decision makers with results that inform budget decisions.

Figure 2. The Performance Budget Cycle



Results-Oriented Budget Practices in Federal Agencies, GAO-01-1084SP, August 2001.

Integrating Budgeting and Performance Goals

The Peace Corps requires offices to consider performance goals during the budget formulation process, but does not fully integrate the budget information with the performance goals to ensure that performance data is used in resource allocation and tied to presentation of performance goals. The Peace Corps' IBPS process is intended to integrate planning and budgeting to include performance and results. According to *Peace Corps Manual* section (MS) 702:

> The Operating Plan and Budget Process occurs during August and September each year. Based on the Director's IPBS decisions and guidance from their Regional and Associate Directors, each post and office prepares a detailed operating plan and budget, taking the goals and objectives of the strategic plan down to the task level and focusing specifically on the upcoming fiscal year.

Peace Corps CFO Bulletin Number 06-03, "Reengineering of Peace Corps' Integrated Planning and Budget System," states:

> The Integrated Planning and Budget System (IPBS) is Peace Corps' primary program and resource management planning mechanism. IPBS is consistent with the planning process defined by the Government Performance and Results Act and is tied to the President's Management Agenda.
>
> The agency, with input from the regions and other major offices, is envisioning a system to roll up results from posts and domestic offices into the Performance and Accountability Report using key indicators as required by the Program Assessment Rating Tool. The information submitted by posts and domestic offices is used by Peace Corps to make decisions on how and where to allocate the resources provided with a focus on rewarding performance and ensuring that reported results are verifiably measured (January 6, 2006).

The Peace Corps' Strategic Plan for FYs 2009-2014 and Performance Plan 2009-2011 included five strategic goals and 14 performance goals. The goals did not present inputs such as costs and personnel. Although the plans discuss how performance and budget information are integrated, the goals and results do not sufficiently drive the budget decisions and resource allocation. During the IPBS process individual Peace Corps offices are required to submit goals and objectives and use resources to meet those goals. The IPBS also requires offices to identify which agency goal is addressed by the office goals. However, offices were not required to identify the resources allocated to the specific goals. Without this information, management could not fully assess how the final budget mark and subsequent budget decisions would impact performance goals.

The Federal Budget Formulation and Execution Line of Business states that an advanced budget process includes a budget that flows from the strategic plan; includes performance measures that are clear and quantitative and describe the relationship between the expected results and the resources requested; and actual data used is integrated with the strategic plan.[5] To better link performance data with budget information, the Peace Corps needs to determine the primary inputs required for each of its agency performance goals. It might not be practical to track every resource to a goal when the cost of gathering the information would exceed the benefit. However, many of the Peace Corps' 14 performance goals can be connected to existing financial data. For example:

- Performance goal 3.1.2 "Increase Returned Peace Corps Volunteers' cultural outreach to the American public through Peace Corps programs" is tied to Peace Corps' education partners and programs such as Coverdell World Wise schools.

- Performance goal 4.1.2 "Manage Volunteer recruitment functions in an efficient and effective manner" is directly impacted by the budget of the Volunteer Recruitment and Selection office.

- Performance goals 5.1.1 and 5.1.2 "Ensure the safety and security of Volunteers" and "Provide quality medical and mental health services to trainees and Volunteers" can be, in part, tracked by each expenditure charged against the medical expenses and the safety and security budgetary purpose code.

Measuring Performance Goals

The Peace Corps did not provide cost-related measurements for performance goals and has not fully complied with Federal cost accounting requirements. Reporting reliable and timely information on the full cost of federal programs, their activities, and outputs is a fundamental concept of financial and performance reporting and is required by the Federal Accounting Standards Advisory Board (FASAB).

The Association of Government Accountants (AGA) annually reviews federal agency's Performance and Accountability Reports (PAR) for presentation, content, and compliance with

[5] Budget Capability Self-Assessment Tool (SAT) version 2.0, April 4, 2011, OMB Max website.

laws and regulations. Although AGA awarded the Peace Corps the AGA Certificate of Excellence in Accountability Reporting for its PAR, its reviewers have recommended that the agency provide efficiency or cost-effectiveness measures for its performance goals. In its Certificate of Excellence in Accounting Reporting recommendations regarding the Peace Corps' Performance Section of the FY 2010 PAR, the AGA commented that:

> The report does not present any measures that enable readers to ascertain the efficiency or cost-effectiveness with which the Peace Corps is managing the resources to which it has been entrusted (i.e., measures that relate financial or other inputs to outputs or outcomes). Although the Peace Corps does not currently maintain a cost accounting system, presenting at least one or a few efficiency or cost-effectiveness measures when the systems capability is available would enable Peace Corps to demonstrate its accountability for managing the resources to which it has been entrusted.

According to the Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," issued in 1993, the objectives of federal financial reporting are to provide useful information to assist internal and external users in assessing the budget integrity, operating performance, stewardship, and systems and control of the federal government. Managerial cost accounting is the accumulation and reporting of costs of activities on a regular basis for management information purposes. FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standard" requires managerial costing be used "to provide reliable and timely information on the full cost of federal programs, their activities, and outputs. Managerial cost accounting is especially important for fulfilling the objective of assessing operating performance." It further states:

> Managerial cost accounting is especially important for fulfilling the objective of assessing operating performance. In relation to that objective, it is stated in SFFAC [Standard of Federal Financial Accounting Concepts] No. 1 that federal financial reporting should provide information that helps users to determine:
>
> - Costs of specific programs and activities and the composition of, and changes in, those costs;
> - Efforts and accomplishments associated with federal programs and their changes over time and in relation to costs; and
> - Efficiency and effectiveness of the government's management of its assets and liabilities (July 31, 1995).

The Peace Corps Office of Budget and Analysis expressed concern that quantifying and allocating costs and resources to goals may be difficult and would require additional work. However, the method of allocating costs and quantifying performance results depends on each agency's needs. SFFAS No. 4 further states that, "Each reporting entity should determine the appropriate detail for its cost accounting processes and procedures based on several factors." The standard includes factors such as the nature of operations; precision desired and needed, practicality of data collection and processing; and cost of installing, operating, and maintaining the cost accounting processes. Further, the Peace Corps presented costs and resources with its goals in previous years. For example, the Peace Corps' FY 2003 CBJ included cost and personnel resources for each of its performance goals, including comparisons of planned, estimated, and actual resources (see Appendix C). The Peace Corps continued to include the specific resources needed in its Annual Performance Plan submitted with the agency's FY 2004 PAR, but discontinued displaying this type of information in FY 2005.

Timely Performance Planning
Although the Peace Corps prepared current performance planning data and included it with its FY 2012 budget request submitted to OMB in September 2010 it did not publish such data with its FY 2012 CBJ or make it publicly available within the established milestones as required by OMB Circular No. A-11 (July 2010). Instead, the Peace Corps' FY 2010 Annual Performance Report was included with the FY 2012 CBJ that was submitted to the Congress in February 2011. A draft Performance Plan covering the FYs 2012-2014 performance period was submitted to OMB for review in July 2011. The agency recently received OMB's comments regarding the draft Performance Plan and is finalizing it so it can be made publicly available. A draft version of this plan was coordinated with agency managers in September 2011. However, as of November 22, 2011 the Performance Plan posted to the agency's public website covered the FYs 2009-2011 performance period.

The Peace Corps did not comply with OMB Circular No. A-11 regarding the timing and availability of its FY 2012 Performance Plan. As a result, stakeholders did not have the benefit of access to timely information regarding the agency's performance planning. This lack of timely reporting does not allow the public to stay current and is not consistent with the President's goal of maximizing transparency in the federal government. Compliance regarding posting of the agency's current Performance Plan to its public website is a continuing issue since the version that can be publicly accessed is out of date.

Conclusion
While the Peace Corps had robust processes for developing budget plans and performance data, it had not effectively connected these processes. Managers and stakeholders were not provided with the complete and accurate information necessary for making informed decisions on resource allocation, budget cuts, and root causes for performance shortfalls. Further, without aligning budget requests with the critical data related to meeting the agency's strategic and performance goals, the highest priority programs are at risk of not being sufficiently funded for effectively carrying out those goals. Performance plans should help determine where additional funds or personnel are needed, which activities are not cost effective, and where budget cuts would result in the least negative impact.

In keeping with the Congressional intent of GPRA and the GPRA Modernization Act, the Peace Corps needs to develop better analytical methods for improving its capability to identify, track, report, and effectively plan for the resources that are necessary to accomplish its strategic and performance goals. Management decisions must consider the human and capital costs associated with its goals when approving budget requests and making budget cuts. Additionally, agency managers responsible for budgetary and performance reporting must ensure that all required documents are timely and fully compliant with applicable laws and regulations. More effective and timely reporting will help improve the transparency of budget decisions in supporting the administration's initiative of enhancing public understanding of how resources are used, provide greater accountability of taxpayer dollars expended, and assist OMB and Congressional decision-makers in more informed decisions regarding requested agency budgets.

We recommend:

1. That the chief operating officer direct that the Offices of Chief Financial Officer and Office of Strategic Information, Research and Planning collaborate in developing better analytical methods for preparing performance data that focuses on identifying, tracking, and reporting the resources, such as personnel and funding, needed to achieve the desired results for strategic and performance goals.

2. That the chief operating officer ensure that the director of the Office of Strategic Information, Research and Planning utilize the methods from recommendation 1 to develop performance goals that can be linked to the resources, including the associated estimated costs, necessary to successfully achieve them.

3. That the chief operating officer oversee the agency's Strategic Plans, Annual Performance Plans, OMB budget submissions, Congressional Budget Justifications, and Performance and Accountability Reports prior to their release and provide critical comments and recommendations to responsible agency offices for purposes of fostering continuous improvement.

4. That the chief operating officer ensure that the agency is fully compliant with all applicable Government Performance and Results Act, the Modernization Act, and Office of Management and Budget Circular No. A-11 provisions regarding the format, content, and timeliness of required information.

Transparency of the Request for Agency Resources Approval and Budget Reduction Decision Processes

The Request for Agency Resources approval and budget reduction decision processes were not sufficiently transparent and lacked a clear line of communication regarding certain budgeting decisions.

The processes for reviewing and approving new requirements submitted as RARs or reductions in budgets were not sufficiently transparent. The Peace Corps had not formalized its policies and procedures for budget decision making and had not established clear lines of communication regarding the rationale for approving or rejecting RARs and decisions on budget reductions. The process also lacked a full and open review by the agency's key executives that manage and represent the various functional and program components.

The Office of the Chief Financial Officer (OCFO) reviews RARs and formulates proposals for reductions in spending before coordinating with the Director for consideration and approval. However, individual RAR submissions or proposed budget reductions did not benefit from a collective review by agency component heads and there was no documented evidence of prioritization. Further, approved RARs were not tracked to determine if objectives included in their justifications for additional funding were met. As a result, the Peace Corps' highest priorities may not be adequately funded, scarce agency resources might not necessarily be put to the best use, and executives were not fully informed of key budget decisions.

The RAR Review and Approval Process

Each Peace Corps office was responsible for annually preparing its budget based on a "mark" (funding level) developed by OCFO and approved by the Director. Offices submitted new or unanticipated requirements through the submission of RARs. RARs included a description of the requirement, estimated costs, and justification. They were coordinated through OCFO and ultimately approved, modified, or rejected by the Director or designee.

OCFO reviewed each RAR prior to submission to the Director for approval. This review consisted primarily of determining if the RAR appeared to be complete, was not duplicative of resources already in place, and was adequately justified. OCFO had the authority to ask for additional data from requesting offices, often requiring a component to modify the initially submitted RAR. After a RAR was reviewed by OCFO it was forwarded to the Director's office. Although OCFO closely advised the Director on RARs submitted they informed us that they did not prioritize them or otherwise influence the Director's approval process. However, sometimes RARs were withdrawn by the requesting office prior to reaching the Director's office either upon advisement of OCFO or through their own accord.

The Director's RAR-approval process included a review by five agency executives: the deputy director, the chief of staff, the chief financial officer (CFO), the associate director for global operations, and the White House liaison/senior advisor to the Director (the RAR review committee). The director of budget and analysis, and senior staffers in the Director's office served as advisors to the budget review committee but are not directly involved in the decision process. All committee decisions were based on a consensus reached by the members rather than through a formal casting of member votes. The budget review committee was created for purposes of providing a means for performing a high-level review of RARs and other significant budget matters. The committee met during the regular RAR submission process at the beginning and middle of the FY and on an as needed basis to consider RARs submitted for approval and make other important budgeting decisions.

Policies and Procedures

The RAR review committee did not have formal written policy, charter, or procedures. Senior managers (office heads) were generally aware of agency priorities established through the agency assessments, strategic planning, and OIG recommendations when making budget decisions. However, the criteria had not been formally documented to ensure all decision makers were fully aware of priorities and used the same guidelines when making difficult funding choices. Further, decisions were not fully documented to support approvals or rejections and provide the related explanations or justifications. RARs were prioritized at the component office level but there was no documentation or other evidence of prioritizations at the agency level.

Since the basis for budgeting decisions made by the review committee were not formally documented, we were not able to determine if the approval process involved sufficient prioritization of RARs or if decisions about budget cuts were driven by agency priorities. We identified certain budget decisions that did not appear consistent with agency priorities. For example, an agency office was advised by OCFO to withdraw a $1.5 million RAR targeted for improving the quality of medical care for Volunteers and resubmit the request for additional funding in a FY 2012 RAR. The Peace Corps' performance goal 5.1.2 is to: "Provide quality medical and mental health services to trainees and Volunteers." This performance goal is included in the agency's current Strategic and Performance Plans and was reported as a goal in its FY 2010 PAR. Further, our recent work has confirmed that there were quality issues related to Volunteer medical care and we agree that improving quality should be one of the Peace Corps highest priorities. Postponing the funding for high priority issues illustrates that the agency may not be consistently taking its priorities into consideration when making decisions that impact the budget.

As discussed in the finding on Integrating Performance and Budget Processes, it is important that an agency's' budget is sufficient to meet its performance goals. In a fully integrated budget process, the agency would establish performance goals based on its known mission requirements and then develop a budget that supports successfully carrying out those goals. RARs should be reserved for initiatives that were not anticipated during setting of performance goals and formulating a budget. Using RARs to fund programs or activities that are known at the time a budget is formulated is not an effective budgeting strategy and should be avoided.

Similarly, the process for budget reductions requires established criteria and documented decisions. The Peace Corps, like other federal agencies, frequently faces budget constraints that may result in significant cost cutting measures. The current austere budget environment requires close scrutiny of the availability of budgeted dollars. As the Peace Corps' financial management organization, OCFO continuously tracks and monitors the Peace Corps' financial position. OCFO serves as an advisor to the Director on the severity of anticipated budget shortfalls and their potential impact on the overall budget. However, the Director and his staff make the final decisions on where and how much to cut from the Peace Corps offices' budgets. All such decisions made by the Director are communicated by the Director's office to OCFO and down to agency components. When making important decisions about how to reduce funding levels for various programs and offices it is important to clearly communicate the rationale behind the decisions to ensure transparency and prevent misunderstandings.

Management Perspective

We interviewed most of the key Peace Corps senior managers in charge of the various functional and programmic components supporting the agency's mission to obtain their perspective on the overall budget process. All of the senior managers interviewed stated that the services provided by OCFO regarding budgeting assistance were satisfactory and they were comfortable asking questions regarding their component's budget. However, nine of 10 senior managers interviewed expressed concern that the present processes for review and approval of RARs and budget reduction decisions were not sufficiently transparent. There was general consensus among the key executives and staff we interviewed that they did not fully understand the basis for approving or rejecting RARs or making budget cuts. They also indicated that although they had a good understanding of RARs prepared within their own office, they had very limited knowledge regarding RARs prepared by other offices or the rationale behind RAR decisions.

GAO has long been an advocate of improving the federal budget process through greater transparency and more effective communication.[6] According to GAO, agencies should strive to improve their budget process by seeking input from agency managers; setting priorities; coordinating with the stakeholders throughout the process; justifying budgets from both within the agency and externally to OMB and the Congress; and keeping all affected stakeholders informed. Broader participation in the budget process can provide greater transparency and enhances upward and downward communications. Such budget input by component offices and other stakeholders would help better focus on agency wide priorities, avoid the risk of funding of resources that may be duplicative, and assist senior leadership in making more informed budget decisions.

Incorporating additional reviews by agency senior managers is also needed because some RARs may impact various offices, such as information technology resources of the chief information officer or contracting resources of the chief acquisition officer. The budget analyst would advise offices to coordinate with other offices when they determined it useful, but without a more formal process for review there was no assurance that all of the impacted offices would be aware of the RAR. In 2010, the CFO began preparing a compilation of RARs at the beginning of the year and at mid-year to send to office heads. This practice is helpful but OCFO could improve the process by providing additional communication and feedback from offices and an automated tool, such as Microsoft SharePoint, for collecting information and documenting the review process.

---

[6] "Results-Oriented Budget Practices in Federal Agencies," GAO-01-1084SP, August 2001; "Performance Budgeting: Current Developments and Future Prospects," GAO-03-595T, April 1, 2003; and "Army Corps of Engineers: Budget Formulation Process Emphasizes Agencywide Priorities, but Transparency of Budget Presentation Could be Improved," GAO-10-453, April 2010.

Tracking Approved RARs

Approved RARs were not tracked to determine their status or if the objectives justifying a requirement for additional funds were met. Without effective controls in place to track and determine the status of approved RARs, there was little assurance that high priority initiatives were fully carried out as intended. For example, an RAR approved in FY 2010 to hire specialized personnel and establish a quality improvement capability within the Peace Corps' Office of Medical Services (OMS) was impacted by a lack of continued funding. The Director was fully committed to implementing a more robust quality improvement plan in the wake of the tragic death of a Peace Corps Volunteer in Morocco.[7] Although this initiative had begun by hiring and filling some of the positions needed with qualified personnel, its full implementation had been significantly delayed because of insufficient funding.

Additional funding was requested by OMS for FY 2011 in support of the FY 2010 RAR objectives but the related RAR submitted was withdrawn upon advisement of OCFO that approval was not likely. The requesting component office was also advised by OCFO to submit another RAR in FY 2012. As a result, the requesting office decided not to rely on the RAR process to fund this initiative and instead identified funding from the office's FY 2012 operating budget. This resulted in displacing funding that had been approved for other programs. As part of the budget, achieving a fully staffed quality improvement operation became dependent on receiving sufficient funding in the FY 2012 Congressional appropriation to fund this initiative and other operational costs already approved for funding. This course of action resulted in delaying or possibly not fulfilling an important initiative that is directly related to one of the agency's stated performance goals. Additionally, it is unclear whether the Director or other executive leadership were aware of the RAR initially submitted by OMS in 2011 but later withdrawn upon OCFO's advice that approval was not likely.

Conclusion

The Peace Corps could improve its overall budget process through measures focused on greater transparency, establishment of clear lines of communication, and documenting the budget decision-making processes. Formalized policies and procedures with clearly established decision criteria will help ensure budget decisions are aligned with agency goals and priorities.

Application of a formal method for prioritizing becomes more critical as federal budgets shrink. A defined process would benefit from established decision criteria, a consistent method of prioritizing and selecting between competing RARs, and documented decision memoranda. Such a process could support greater transparency and accountability.

Once RARs are approved, they need to be tracked and their status evaluated to ensure the purpose of additional funding is accomplished and the offices are accountable. In addition, RARs and proposed budget reduction decisions would benefit from a broader review and comments from the various agency executives. A more effective budget process supports increased communication and input from key managers, which allows executive leadership to make more informed budget decisions.

---

[7] Peace Corps OIG Special Report: Peace Corps/Morocco Assessment of Medical Care, February 2010.

We recommend:

5. That the Director revise the process for reviewing Request for Agency Resources and budget reductions and update *Peace Corps Manual* section 702 accordingly, to ensure greater transparency and agency participation in budget formulation by:

    a. Coordinating all Request for Agency Resources and proposals for budget reductions with the office heads prior to their consideration by the review committee;
    b. Providing a reasonable exposure period for formulation of feedback on the Request for Agency Resources and budget reduction proposals;
    c. Receiving and discussing feedback after the exposure period, and prior to committee consideration for approval; and
    d. Documenting the rationale for budgeting decisions and maintaining such documentation in accordance with applicable laws and regulations.

6. That the Director formally establish the budget review committee and its processes, in *Peace Corps Manual* section 702 and accompanying procedure, to enhance the process for advising the Director on Request for Agency Resources and budget reductions. The policy and procedure should include the committee's mission, membership, roles and responsibilities, and describe the process to:

    a. Coordinate budget information with office heads as discussed in recommendation 5;
    b. Evaluate budget requests using established criteria;
    c. Prioritize Request for Agency Resources; and,
    d. Document and retain budgeting advice and rationale.

7. That the Director ensure that the Office of the Chief Financial Officer refer all properly formulated Request for Agency Resources to the Director, and refrain from advising components to withdraw them prior to committee review so that all requests can be properly reviewed in accordance with agency wide priorities and needs.

8. That the Peace Corps chief operating officer, in coordination with the chief financial officer, develop a written policy and procedure for tracking the status of all approved Request for Agency Resources that includes following up with requesting agency components, and taking appropriate corrective actions when it is determined that Request for Agency Resources objectives are not being met or are significantly delayed.

INTERNAL CONTROL OVER THE BUDGET PROCESS

The Office of Budget and Analysis had not fully documented its control structure over the budget process to ensure significant risks were appropriately mitigated.

The Office of Budget and Analysis employed 14 budget analysts, including budget analyst technical managers and senior budget analysts to prepare detailed line item budgets, review and analyze RARs, process budget transactions, and perform mid-year reviews of the agency's budget. The budget process contained control activities such as supervisory approvals and separation of duties. In addition, the Office of Budget and Analysis recently implemented a budget software application with additional system controls. However, the Office of Budget and Analysis had not sufficiently documented these procedures or its internal control structure related to budgetary transactions and processes to ensure accuracy and completeness of the associated data. Specifically:

- The annual risk assessment prepared by the director of budget and analysis did not include sufficient details with supporting documents to verify the conclusions;

- The director of budget and analysis had not fully documented the budget process and evaluated the associated internal control activities within the Office of Budget and Analysis or over the budget system; and

- The Office of Budget and Analysis did not maintain appropriate documentation to support all budget transactions.

As a result, it was difficult to confirm the level of risk assessed by the director of budget and analysis and whether proper internal control activities were established and sufficient in number and operating effectively in order to mitigate those risks. Without defining the risks and inventorying and assessing controls, management could not make a fully informed judgment as to the overall adequacy and effectiveness of internal control within the agency as required by FMFIA and OMB Circular No. A-123.

The Peace Corps' Policies
MS 784, "Internal Control System," defines the policies and procedures for establishing, maintaining, and evaluating internal control in accordance with FMFIA and OMB A-123.

> Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting and program execution. Internal control applies to program, operational and administrative areas as well as accounting and financial management. Monitoring the effectiveness of internal control should occur in the normal course of business. Office heads, managers, and employees should identify deficiencies in internal control from all available sources of information and report those control deficiencies to the next supervisory level to determine the relative importance of each deficiency.

CFO Policy Statement Number 06-02 identified the policies and procedures for establishing and maintaining an effective internal control programming within OCFO. The policy required managers within OCFO to:

- Perform the initial risk assessment.

- Prepare internal control evaluation checklists for each process, which contains questions that determine whether or not functions are being carried out according to law, regulations, and generally accepted business practices.

- Assess any identified weakness for materiality, develop corrective action plans with milestones and completion dates, and maintain documentation for at least two years after completion.

Risk Assessment
OCFO requires each office to prepare a risk assessment annually using its standard risk assessment template (see Appendix D). The Implementation Guide for OMB Circular A-123 issued by the CFO's Council, July 2005, defines risk assessment as an internal management process for identifying, analyzing and managing risks relevant to achieving the objectives of reliable financial reporting, safeguarding of assets and compliance with relevant laws and regulations. According to CFO Policy Statement 06-02, the manager preparing the risk assessment is required to:

> Answer all checklist questions with either a yes or no. An explanation must be included for each answer. The explanation must show the basis for each response and must be supported by work-papers, when applicable. A reasonably knowledgeable person (e.g., supervisor or auditor) reviewing the checklist should be able to reach the same conclusions.

The director of budget and analysis certified a risk assessment template, with a "Low" risk rating. However, the Office of Budget and Analysis had not retained documentation to substantiate conclusions noted in the annual risk assessment. Further, the director of budget and analysis responded affirmatively to the following questions under caption "security programs, planning, and management, access controls, application software development and change controls, system software, segregation of duties, and service continuity":

- Does the functional area have effective documented financial and operating controls or checks and balances over assets and information to protect against fraud, waste, abuse, mismanagement and conflicts of interest?

- Does the functional area have relevant and periodic management information system data, reports and procedures to adequately manage, monitor and evaluate performance of significant activities and are mgmt controls integrated into systems?

We noted that office of budget and analysis had not fully documented their processes and controls. Without supporting documentation, it is not possible to reach the same conclusions noted in their risk assessment. An effective risk assessment process should be documented to enable the evaluation of controls and retention of work papers that evidence results of evaluation and support the risk assessment as prescribed by the CFO policy.

Documentation and Evaluation of Controls
The director of budget and analysis had not fully identified and documented the control activities within the Office of Budget and Analysis and over the budget process. Further, there was no documented procedure to evaluate whether the internal control over the budget process is adequate and operating effectively.

CFO Policy Statement 06-02 states:

> Internal controls include such things as the organizational structure itself (designating specific responsibilities and accountability), formally defined procedures (e.g., required certifications and reconciliations), checks and balances (e.g., separation of duties), recurring reports and management reviews, supervisory monitoring, physical devices (e.g., locks), and a broad array of measures used by managers to provide reasonable assurance that their subordinates are performing as intended.

It requires managers to:

- Prepare internal control evaluation checklists for each process;

- Perform a periodic, detailed assessment of key internal controls to determine whether they are operating as intended. This assessment must be based on the actual testing of key internal controls and must be supported by documentation;

- Maintain documentation for at least two years after completion.

Without adequate documentation about the organizational structure, formally defined budget procedures, a list of key internal control activities, and a formal assessment, it is difficult to conclude if the proper internal control activities were established, sufficient in number, and operating effectively.

Record Retention
Prior to FY 2011, the Office of Budget and Analysis did not have a formalized process to maintain support for transactions processed and RARs submitted to the Office of Budget and Analysis or retain RAR documentation at a central filing location. Individual budget analysts processed transactions in the budget system and maintained support without the availability of an established standard. RARs that were submitted and subsequently withdrawn or otherwise not approved were generally not retained. As a result, we were unable to perform a review of the complete universe of RARs submitted by component offices. In FY 2011, OCFO began documenting all RARs received in Hyperion, its budget and planning software application. However, there was no specific written guidance within the Office of Budget and Analysis to determine what supporting documents should be retained and how they should be archived that complies with the general records schedule issued by the national archives or MS 892 "Records Management."

MS 892 requires that offices institute adequate records management controls over the maintenance and use of records to ensure that records can be located when needed and that they are preserved for eventual disposition. Further, OMB Circular A-123, "Management's Responsibility for Internal Control" states:

> While the procedures may vary from agency to agency, management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process.

Without an adequate audit trail and complete documentation supporting budgetary transactions it is difficult to determine the basis for formulating and executing the agency's budget or defend budget decisions. As previously discussed in our finding on the transparency of the RAR approval and budget reduction processes, the agency did not document how it prioritizes RAR submissions or their justifications for approval or rejection. Clearly defined procedures for retaining documentation is a key control to help ensure important decisions and transactions are properly supported and information is readily available.

We recommend:

9. That the chief financial officer ensure that the director of budget and analysis performs a comprehensive review that will result in identifying and documenting significant risks associated with the budget process and serve as a framework for drafting and implementing policy and procedures that will strengthen internal control.

10. That the chief financial officer ensure that the director of budget and analysis develops a sufficiently detailed risk assessment tool that provides an explanation of how each risk that has been indentified is mitigated and documents the basis for each response related to risk mitigation. This tool should formally incorporate the Office of Budget and Analysis' policy and procedures that includes written instructions for retention of documentation supporting budget-related transactions and lists key internal control activities, such as appropriate segregation of duties within the Office of Budget and Analysis and budget system.

11. That the chief financial officer ensure that the director of budget and analysis develops and implements formal written procedures to provide for continuous monitoring of the agency's control environment related to the budget process to determine whether proper internal control activities are established, are sufficient in number, and operating effectively.

12. That the chief financial officer ensure that the director of budget and analysis formalizes the process within the Office of Budget and Analysis for analyzing and advising on Request for Agency Resources and retain the results and conclusions of all analyses together with the associated Request for Agency Resources.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We did not identify questioned costs or funds to be put to better use during the course of the audit.

List of Recommendations

We recommend:

1. That the chief operating officer direct that the Offices of Chief Financial Officer and Office of Strategic Information, Research and Planning collaborate in developing better analytical methods for preparing performance data that focuses on identifying, tracking, and reporting the resources, such as personnel and funding, needed to achieve the desired results for strategic and performance goals.

2. That the chief operating officer ensure that the director of the Office of Strategic Information, Research and Planning utilize the methods from recommendation 1 to develop performance goals that can be linked to the resources, including the associated estimated costs, necessary to successfully achieve them.

3. That the chief operating officer oversee the agency's Strategic Plans, Annual Performance Plans, OMB budget submissions, Congressional Budget Justifications, and Performance and Accountability Reports prior to their release and provide critical comments and recommendations to responsible agency offices for purposes of fostering continuous improvement.

4. That the chief operating officer ensure that the agency is fully compliant with all applicable Government Performance and Results Act, the Modernization Act, and Office of Management and Budget Circular No. A-11 provisions regarding the format, content, and timeliness of required information.

5. That the Director revise the process for reviewing Request for Agency Resources and budget reductions and update *Peace Corps Manual* section 702 accordingly, to ensure greater transparency and agency participation in budget formulation by:

    a. Coordinating all Request for Agency Resources and proposals for budget reductions with the office heads prior to their consideration by the review committee;
    b. Providing a reasonable exposure period for formulation of feedback on the Request for Agency Resources and budget reduction proposals;
    c. Receiving and discussing feedback after the exposure period, and prior to committee consideration for approval; and
    d. Documenting the rationale for budgeting decisions and maintaining such documentation in accordance with applicable laws and regulations.

6. That the Director formally establish the budget review committee and its processes, in *Peace Corps Manual* section 702 and accompanying procedure, to enhance the process for advising the Director on Request for Agency Resources and budget reductions. The policy and procedure should include the committee's mission, membership, roles and responsibilities, and describe the process to:

a. Coordinate budget information with office heads as discussed in recommendation 5;
b. Evaluate budget requests using established criteria;
c. Prioritize Request for Agency Resources; and,
d. Document and retain budgeting advice and rationale.

7. That the Director ensure that the Office of the Chief Financial Officer refer all properly formulated Request for Agency Resources to the Director, and refrain from advising components to withdraw them prior to committee review so that all requests can be properly reviewed in accordance with agency wide priorities and needs.

8. That the chief financial officer, in coordination with the performance improvement officer, develop a written policy and procedure for tracking the status of all approved Request for Agency Resources that includes following up with requesting agency components, and taking appropriate corrective actions when it is determined that Request for Agency Resources objectives are not being met or are significantly delayed.

9. That the chief financial officer ensure that the director of budget and analysis performs a comprehensive review that will result in identifying and documenting significant risks associated with the budget process and serve as a framework for drafting and implementing policy and procedures that will strengthen internal control.

10. That the chief financial officer ensure that the director of budget and analysis develops a sufficiently detailed risk assessment tool that provides an explanation of how each risk that has been indentified is mitigated and documents the basis for each response related to risk mitigation. This tool should formally incorporate the Office of Budget and Analysis' policy and procedures that includes written instructions for retention of documentation supporting budget-related transactions and lists key internal control activities, such as appropriate segregation of duties within the Office of Budget and Analysis and budget system.

11. That the chief financial officer ensure that the director of budget and analysis develops and implements formal written procedures to provide for continuous monitoring of the agency's control environment related to the budget process to determine whether proper internal control activities are established, are sufficient in number, and operating effectively.

12. That the chief financial officer ensure that the director of budget and analysis formalizes the process within the Office of Budget and Analysis for analyzing and advising on Request for Agency Resources and retain the results and conclusions of all analyses together with the associated Request for Agency Resources.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our primary objective was to determine if the Peace Corps has an effective and efficient process in place for formulating and executing its budget. An additional objective was to determine if the agency was fully complying with applicable federal laws and regulations and Peace Corps policy governing the budget process. We also announced we would assess whether the budget process used is meeting agency needs in terms of funding its mission requirements. Further, we reviewed internal control as it related to our objectives.

Our audit conclusions are based on information from three sources: (1) document and data analysis, (2) interviews, and (3) direct observation. Our audits are conducted in accordance with the government auditing standards prescribed by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

After performing preliminary audit work it was decided to focus our scope on budget formulation and related compliance with laws and regulations. However, we did review a selected aspect of budget execution regarding tracking and following up on the status of approved Request for Agency Resources.

The audit was initially announced in June 2010. We suspended this audit project on November 1, 2010 due to resourcing constraints and other OIG priority work being performed during this period. The audit was re-announced in January 2011 and audit work was resumed and performed through September 2011.

To perform the audit we examined how the budget was formulated; whether related policies, procedures, and federal governance were followed; reviewed key documentation associated with the budget; and met with Peace Corps personnel that are responsible for carrying out budgeting activities. We also obtained feedback from agency managers on how well the budget process serves their needs in supporting Peace Corps' mission. Further, earlier plans for growth and expansion have been impacted by current and anticipated future budget reductions. As a result we took the budget reductions into consideration in performing the audit. We did not rely on computer-processed data in the performance of most of our audit work. However, limited data kept in the agency's Hyperion system was requested to enable us to assess the type of data stored in the budget software application.

APPENDIX B

FEDERAL BUDGET FORMULATION TIME TABLE

OMB Circular No. A-11 provides the following table depicting major steps in the budget formulation process.

OMB issues Spring planning guidance to Executive Branch agencies for the upcoming budget. The OMB Director issues a letter to the head of each agency providing policy guidance for the agency's budget request. Absent more specific guidance, the outyear estimates included in the previous budget serve as a starting point for the next budget. This begins the process of formulating the budget the President will submit the following February.	Spring
OMB and the Executive Branch agencies discuss budget issues and options. OMB works with the agencies to: • Identify major issues for the upcoming budget; • Develop and analyze options for the upcoming Fall review; and • Plan for the analysis of issues that will need decisions in the future.	Spring and Summer
OMB issues Circular No. A–11 to all Federal agencies. This Circular provides detailed instructions for submitting budget data and materials.	July
Executive Branch agencies (except those not subject to Executive Branch review) make budget submissions. See section 25.	September*
Fiscal year begins. The just completed budget cycle focused on this fiscal year. It was the "budget year" in that cycle and is the "current year" in this cycle.	October 1
OMB conducts its Fall review. OMB staff analyzes agency budget proposals in light of Presidential priorities, program performance, and budget constraints. They raise issues and present options to the Director and other OMB policy officials for their decisions.	October–November
OMB briefs the President and senior advisors on proposed budget policies. The OMB Director recommends a complete set of budget proposals to the President after OMB has reviewed all agency requests and considered overall budget policies.	Late November
Passback. OMB usually informs all Executive Branch agencies at the same time about the decisions on their budget requests.	Late November
All agencies, including Legislative and Judicial Branch agencies, enter MAX computer data and submit print materials and additional data. This process begins immediately after passback and continues until OMB must "lock" agencies out of the database in order to meet the printing deadline.	Late November to early January *
Executive Branch agencies may appeal to OMB and the President. An agency head may ask OMB to reverse or modify certain decisions. In most cases, OMB and the agency head resolve such issues and, if not, work together to present them to the President for a decision.	December *
Agencies prepare and OMB reviews congressional budget justification materials. Agencies prepare the budget justification materials they need to explain their budget requests to the responsible congressional subcommittees.	January
President transmits the budget to the Congress.	First Monday in February

*OMB provides specific deadlines for this activity.

BUDGET REQUESTS PRESENTED WITH GOALS

Peace Corps FY 2003 Budget Request by GPRA Goal

($ in Thousands)		FY 2001 PLAN $	FTE	FY 2002 ESTIMATE $	FTE	FY 2003 ESTIMATE $	FTE
Performance Goal 1		**27,311**	**59**	**24,674**	**65**	**35,942**	**81**
	1A	442	5	1,016	7	4,916	14
	1B			(included in 1A above)			
	1C	15,813	54	17,442	58	18,584	67
	1D	11,056		6,235		12,441	
	1E			(included in 1D above)			
Performance Goal 2		**11,513**	**182**	**13,795**	**190**	**15,518**	**196**
	2A	11,077	177	13,280	185	14,983	191
	2B	436	5	515	5	535	5
	2C			(included in 2A above)			
Performance Goal 3		**156,452**	**527**	**169,694**	**553**	**187,477**	**582**
	3A	155,817	518	168,702	544	186,457	571
	3B			(Included in 3A above)			
	3C	635	9	990	9	1,020	11
Performance Goal 4		**979**	**5**	**1,449**	**5**	**1,832**	**7**
	4A	979	5	1,449	5	1,832	7
	4B			(included in 4A above)			
Performance Goal 5		**4,844**	**53**	**5,355**	**57**	**6,345**	**63**
	5A	4,092	32	4,509	36	4,657	38
	5B	64	1	68	1	73	1
	5C	188	2	201	2	537	4
	5D	94	4	128	4	287	4
	5E	406	14	449	14	791	16
Performance Goal 6		**1,313**	**18**	**1,754**	**16**	**1,363**	**17**
	6A	601	6	847	6	640	7
	6B	192	5	308	3	118	3
	6C	520	7	599	7	605	7
Performance Goal 7		**34,559**	**161**	**34,761**	**171**	**28,947**	**175**
	7A	17,874	87	18,467	87	7,167	90
	7B	10,447	5	5,010	7	6,081	7
	7C	2,436	8	7,160	15	11,376	15
	7D	1,858	30	1,961	30	2,176	30
	7E	1,944	31	2,163	32	2,148	33
All Goals		**236,972**	**1,005**	**244,246**	**1,058**	**272,853**	**1,121**
Overhead		**25,341**	**104**	**40,376**	**109**	**42,894**	**119**
GRAND TOTAL		**262,313**	**1,109**	**291,856**	**1,166**	**320,318**	**1,240**

The Peace Corps' Congressional Budget Justification, FY 2003

Performance Goal 1.1.1.

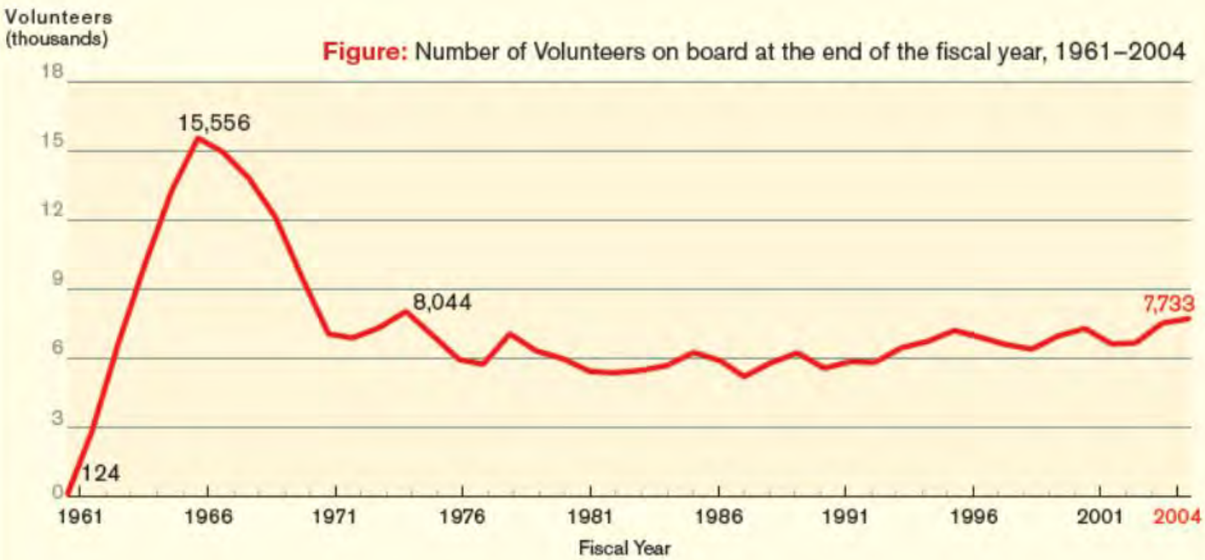
Incrementally increase in subsequent performance years Volunteers/trainees on board from the FY 2003 level of 7,533 to 9,300 (23 percent) by FY 2006.

FY 2004 Goal	FY 2004 Actual
7,840	7,733[9]

Results and Analysis

The Peace Corps strives to recruit and place the most qualified and diverse Volunteers effectively and efficiently. In FY 2004, the agency came very close to achieving this goal—7,733 is the highest number of Volunteers in 29 years. However, the current appropriations levels and trends require a revision of the agency's strategic plan for growth.

Figure: Number of Volunteers on board at the end of the fiscal year, 1961–2004



Performance Indicators 1.1.1.	FY 2004 Target	FY 2004 Actual
i. New country entries	0	2
ii. New country assessments	2	3
iii. Countries requesting programs	10	19
iv. Overall traffic to website	6 million	7 million
v. Online applications completed	8,000	10,062
vi. Inquiries originating from website	125,000	147,872
vii. Rate of applications started vs. submitted	22%	22%
viii. Value of earned/donated media *(based on $250K cost to produce)*	$8 million	$7.9 million
Resources Needed:		
Dollars in thousands	229,033	226,147
Full-time equivalents	922	875

Note: All data in Performance Indicators 1.1.1 as of September 2004

The Peace Corps' Performance and Accountability Report, FY 2004

RISK ASSESSMENT RATING

Business Area	Sub-Area			Date
Preparer		Title		
Please check “Yes” or “No” for each of the following questions. Complete “Comments” in response to a question or as needed for clarification.				

	Risk Assessment Questions	***Yes***	***No***	***Comments***
Relates to the nature of programs, transactions, and accounts and whether the area had significant audit findings.				
1.	Has the functional area been free of cited **material** weaknesses within the last five years (by Congress, GAO, OIG, an independent audit) that have not been fully corrected and verified?			
2.	Has the functional area been free of findings that they are not in compliance with laws and regulations?			
3.	Has the functional area been free of a reported potential or actual loss of $75,000 or more in a fiscal year due to weaknesses?			
4.	Does the functional area have clearly stated and current policies and operating procedures (e.g., appropriate separation of duties, SOPs, delegation of authority, systematically organized and updated in manuals or handbooks)?			
5.	Is the nature of the work in your area **other** than inherently High risk?			
Generally considers security programs, planning, and management, access controls, application software development and change controls, system software, segregation of duties, and service continuity.				
6.	Does the functional area have effective documented financial and operating controls or checks and balances over assets and information to protect against fraud, waste, abuse, mismanagement and conflicts of interest?			
7.	Does the functional area have relevant and periodic management information system data, reports and procedures to adequately manage, monitor and evaluate performance of significant activities and are mgmt controls integrated into systems?			
8.	Does the functional area have trained and competent personnel to properly manage the activity (including knowledge and training related to internal controls)?			

Assign Rating of Low, Medium, High, or Inherent High Risk	***Rating Key*** 2 or fewer *No* = Low Risk 3 *No* = Medium Risk 4 or more *No* = High Risk OR Inherent High Risk	Total “No” responses=	**Rating =**
OVERALL ASSESSMENT			
Do the weaknesses in your area rise to the level of being reported to OMB and Congress or internally monitored and controlled by the agency?	***Report Weaknesses to OMB and Congress? (Yes or No)***		***Monitor and control weaknesses within the Peace Corps? (Yes or No)***

Circular 123-A Implementation Guide (2005), NIH materials

LIST OF ACRONYMS

AGA	Association of Government Accountants
CBJ	Congressional Budget Justification
CFO	Chief Financial Officer
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers Financial Integrity Act
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
IPBS	Integrated Planning and Budgeting System
MS	Manual Section
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Medical Services
OSIRP	Office of Strategic Information, Research and Planning
PAR	Performance and Accountability Report
RAR	Request for Agency Resources
SFFAS	Statement of Federal Financial Accounting Standards

MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT

Since 1961.

MEMORANDUM

To:	Kathy Buller, Inspector General
Through:	Daljit K. Bains, Chief Compliance Officer
From:	Carrie Hessler-Radelet, Deputy Director Carrie Hessler Radelet Stacy Rhodes, Chief of Staff Cathryn Thorup, Director, OSIRP Joseph Hepp, Chief Financial Officer
Date:	February 07, 2012
CC:	Joaquin Ferrao, Deputy Inspector General Bradley Grubb, Assistant IG, Audits Bill Rubin, General Counsel Charles Kemp, Deputy Chief Financial Officer Samuel Taylor, Budget Officer Jamie Loughridge, Chief of Planning, Performance and Data Management Carl Sosebee, Senior Advisor Maryann Minutillo, Senior Advisor
Subject:	Response to the Preliminary Audit Report/ Peace Corps' Budget Formulation Process/November 2011

Enclosed please find the Agency's response to the Inspector General's Audit Report of the Peace Corps Budget Formulation Process.

The Agency concurs with 11 recommendations and non-concurs with 1.

The Agency thanks the OIG team for their collaboration and efforts in this audit.

Page | 1

Agency Response to the
Preliminary Audit Report on the Peace Corps' Budget Formulation Process

In reviewing the recommendations made by the OIG in this report, Peace Corps senior managers have consulted with the Office of Management and Budget (OMB). Under the GPRA Modernization Act of 2010 (GPRA-MA), OMB is responsible for giving guidance to agencies as required for implementation of GPRA-MA. Based on discussions agency leadership has had with OMB, the Peace Corps understands that there is flexibility in how it can move toward performance budgeting. Given the flexibility that GPRA-MA and OMB Circular A-11 give agencies in linking performance and budget, Peace Corps management does not necessarily agree with the conclusion reached by OIG in the report that the agency's budget formulation process does not fully comply with applicable federal laws and regulations. The Agency does, however, believe that the Peace Corps can improve its performance budgeting as required by both GPRA-MA and OMB Circular A-11 and is willing to undertake an analysis to determine the best way to proceed with the development of better analytical tools for more closely linking performance and budget.

1. **That the Chief Operating Officer directs that the Offices of Chief Financial Officer and Office of Strategic Information, Research, and Planning collaborate in developing better analytical methods for preparing performance data that focuses on identifying, tracking, and reporting the resources, such as personnel and funding, needed to achieve the desired results for strategic and performance goals.**

Concur:
The Chief Operating Officer has instructed the Office of the Chief Financial Officer (OCFO) and the Office of Strategic Information, Research, and Planning (OSIRP) to determine the best way to proceed with the development of better analytical tools for more closely linking performance and budget. In particular, Peace Corps management will make a good faith effort to determine an improved means for identifying, tracking, and reporting the resources needed to achieve strategic and/or performance goals that is cost-effective and appropriate for a small agency like the Peace Corps.

As we begin the development of Peace Corps' next multi-year Strategic Plan (to be issued in February 2014), OCFO and OSIRP will work together to assess options for developing a meaningful performance budgeting system and conduct a thorough review of small agency best practices through publicly-available information, interviews with performance and budget staff at key agencies, and consultations with OMB. The assessment process will begin as soon as possible, and activities to begin the process for developing the new strategic plan will commence in the fall of 2012.

OMB has indicated that the agency should make use of the budgeting and financial systems that already exist and that Peace Corps is not expected to acquire new budgeting or financial systems in planning for greater use of performance budgeting. Peace Corps and OMB both recognize that, in managing scarce public resources, any major process redesign requiring significant additional resources must be carefully scrutinized. An analysis of the resource requirements associated with adopting a performance budgeting system is required to determine the most cost-effective method of linking performance to resources in a small agency such as the Peace Corps. The emphasis is on achieving something that is meaningful in terms of helping the agency to make sound decisions by more effectively linking the budgetary process to strategic and/or performance goals in a way that is not too onerous for the agency to achieve.

For an agency of the Peace Corps' size, senior managers agree with OMB that the starting point should be to link budgetary resources with the agency's strategic goals and then to move on to linking budgetary resources with the agency's performance goals, to the extent practicable. The degree of linkage will be determined as part of the assessment process.

Collaborating with OMB and other small agencies through OMB's Performance Improvement Council and the Performance Improvement Committee of the Small Agency Council will be key in determining the degree and pace of performance budgeting that is appropriate for a small agency like Peace Corps. Much of the OMB and GAO's focus on performance budgeting has been on implementation at large agencies. Linking performance to budget will look very different depending on the size and structure of the agency; as such, a thorough review of performance budgeting implementation at small agencies is necessary to determine how to move forward at the Peace Corps. In a recent consultation, OMB emphasized that Peace Corps has the flexibility to proceed in a way that makes sense for the agency.

Once the agency has determined a means for identifying, tracking, and reporting the resources needed to achieve the strategic and/or performance goals that is cost-effective and appropriate for a small agency like the Peace Corps, the agency will seek to link resources to strategic and/or performance goals in Peace Corps' next multi-year Strategic Plan and subsequent annual performance plans. However, it will not be possible to do so until that analysis is completed. In the meantime, existing structures within the agency (including the Country Portfolio Review, Quarterly Performance Review sessions, and the Integrated Planning and Budget System) provide performance information that contributes to budget formulation and decision making at the office, post, and agency levels.

Status and Timeline for Completion:

- Assessment will begin as soon as possible; new strategic plan development process begins Fall, 2012
- Complete with the submission of Peace Corps' next multi-year Strategic Plan in February 2014

2. **That the Chief Operating Officer ensures that the Director of the Office of Strategic Information, Research, and Planning utilize the methods from recommendation 1 to develop performance goals that can be linked to the resources, including the associated estimated costs, necessary to successfully achieve them.**

Non-concur with the recommendation as it is currently written:

As described above in the Agency's response to Recommendation 1, Peace Corps has agreed to conduct an assessment to determine the best way to proceed with the development of better analytical tools for more closely linking performance and budget in a manner that is cost-effective and appropriate for a small agency like the Peace Corps. As part of this assessment, the Agency will determine the extent to which strategic and/or performance goals can be linked and a process and timeline for the Agency to move towards adopting a performance budgeting system. Our assessment will consider various options and models for improving performance and budgeting. At this point, Peace Corps prefers to remain unbiased and flexible to determine and craft the best possible framework for the Agency. The recommendation as it is currently written presupposes that the development of performance goals linked to resources will increase the Agency's ability to make meaningful decisions while not imposing an onerous burden that exceeds the benefit to the Agency – and it is quite possible that the assessment will lead to that conclusion. However, at his time, it is not possible for Peace Corps to commit to any outcome before the analysis has been completed.

One issue that Peace Corps intends to carefully consider in its analysis is the selection of performance goals. The Agency would like to state that upon review of the legislation, there is nothing in GPRA-MA that requires the agency to use the ability to link performance goals to the resources necessary to successfully achieve them as criteria in the development of performance goals. Rather, GPRA-MA and OMB Circular A-11 require that agencies develop performance goals based on their contribution to the strategic goals in the agency's strategic plan, which is consistent with Peace Corps' current practice.

Peace Corps remains concerned that using the ability to link performance goals to the resources necessary to successfully achieve them as criteria in developing performance goals could lead to a shift from outcome-based goals and measures to output-based goals and measures. It is easier to link resources to outputs rather than outcomes. Reverting to greater use of output-based goals and measures would be a step back in the agency's performance improvement efforts. Use of outcome-based goals and measures is considered best practice in the broader international development and evaluation communities and the importance of outcome measures has been reinforced in OMB Circular A-11.

In fact, in an effort to improve the rigor of our analysis, in its next Annual Performance Plan, Peace Corps is moving towards increasing the use of outcome-based performance indicators, even while we are concerned that this may ultimately make it more difficult for the Agency to link performance goals and resources. Peace Corps is certainly willing to link strategic and/or performance goals to resources, as long as it does not reduce the rigor of our performance improvement efforts. Based on our lengthy discussions with OMB, there is an expectation that any effort to link performance to resources should increase the Agency's ability to make sound decisions, while not imposing an onerous burden that exceeds the benefits to the Agency. Peace Corps will work closely with OMB to improve performance budgeting while ensuring that it uses the most rigorous performance goals possible, as is required by GPRA-MA.

3. **That the Chief Operating Officer oversees the agency's Strategic Plans, Annual Performance Plans, OMB budget submissions, Congressional Budget Justifications, and Performance and Accountability Reports prior to their release and provide critical**

comments and recommendations to responsible agency offices for purposes of fostering continuous improvement.

Concur:

The agency will formalize the review and clearance lists for key agency performance and budget documents to ensure all applicable documents are reviewed and cleared and any comments and recommendations are coordinated among responsible agency offices. The agency will continue to employ a rigorous process for the review and clearance of the agency's strategic plan, annual performance plans, OMB budget submissions, Congressional Budget Justifications, and Performance and Accountability Reports prior to their release.

The Chief Operating Officer will have responsibility for overseeing this entire process and, as part of that responsibility, will review all documents and provide critical comments to the offices responsible for their production (OSIRP for the agency strategic plan and annual performance plans, OCFO for OMB budget submissions, the Office of Congressional Relations for the annual Congressional Budget Justification and OCFO and OSIRP jointly for the annual Performance and Accountability Report). Each office consults with and submits their documents for review by the responsible agency offices. Final clearance will be provided by the agency's senior leadership.

Documents to be Submitted:

- Review and Clearance Lists

Status and Timeline for Completion:

March 2012

4. **That the Chief Operating Officer ensures that the agency is fully compliant with all applicable Government Performance and Results Act, the Modernization Act, and Office of Management and Budget Circular No. A-11 provisions regarding the format, content, and timeliness of required information.**

Concur:

The Chief Operating Officer, the Office of the General Counsel (OGC), and OSIRP will collaborate to ensure that the Peace Corps is fully compliant with all applicable GPRA (1993), GPRA-MA (2010), and OMB Circular A-11 (2011) provisions regarding the format, content, and timeliness of required information in performance management documentation. The omission of the FY 2012 Annual Performance Plan in the FY 2012 Congressional Budget Justification (CBJ) was an oversight that, with the review and clearance process outlined in the response to Recommendation 3, should not be repeated. The FY 2013 Annual Performance Plan has been approved by agency leadership and OMB. It will be included in the FY 2013 CBJ to be submitted to Congress in February 2012.

Documents to be Submitted:

- Review and Clearance Lists (as referenced in recommendation 3)

Status and Timeline for Completion:
March 2012

5. **That the Director revises the process for reviewing Request for Agency Resources and budget reductions and update Peace Corps Manual section 702 accordingly, to ensure greater transparency and agency participation in budget formulation by:**

    a. **Coordinating all Request for Agency Resources and proposals for budget reductions with the office heads prior to their consideration by the review committee;**
    b. **Providing a reasonable exposure period for formulation of feedback on the Request for Agency Resources and budget reduction proposals;**
    c. **Receiving and discussing feedback after the exposure period, and prior to committee consideration for approval; and**
    d. **Documenting the rationale for budgeting decisions and maintaining such documentation in accordance with applicable laws and regulations.**

Concur:
Manual Section 702 has not been updated since 1997 and per the OIG recommendation the agency will revise Manual Section 702 to reflect both the current budget practice and the changed nature of the policy manual (the removal of procedures). While MS 702 will mention RARs, a separate CFO Bulletin on RARs as well as an RAR Review Committee Charter will further document all RAR procedures in accordance with Recommendation 6 below.

Documents to be Submitted:
- RAR Review Committee Charter
- CFO Bulletin on RARs
- Updated Manual Section 702

Status and Timeline for Completion:
RAR Review Committee Charter: April 2012
CFO Bulletin on RARs: April 2012
MS 702 updates: June 2012

6. That the Director formally establishes the budget review committee and its processes, in Peace Corps Manual section 702 and accompanying procedure, to enhance the process for advising the Director on Request for Agency Resources and budget reductions. The policy and procedure should include the committee's mission, membership, roles and responsibilities, and describe the process to:

a. **Coordinate budget information with office heads as discussed in recommendation 5;**
b. **Evaluate budget requests using established criteria;**
c. **Prioritize Request for Agency Resources; and,**
d. **Document and retain budgeting advice and rationale.**

Concur:
Pursuant to the policy revision in response to Recommendation 5, above, the agency will establish a formal RAR Review Committee operating under a formal charter establishing senior management membership; establishing procedures for submission of RARs to the Committee; procedures for internal posting of all RARs prior to Committee recommendations and action, including opportunities for input from submitting offices; establishment of criteria against which RARs will be reviewed and action recommendations rendered; establishment of regular meeting schedules; and creation and retention of documents submitted to the Director for final action on RARs.

Documents to be Submitted:
- Updated MS 702

Status and Timeline for Completion:
June 2012

7. That the Director ensures that the Office of the Chief Financial Officer refer all properly formulated Requests for Agency Resources to the Director, and refrain from advising components to withdraw them prior to committee review so that all requests can be properly reviewed in accordance with agency wide priorities and needs.

Concur.
Pursuant to the establishment of a formal operating RAR Review Committee operating under a charter and procedures and criteria in accordance with Recommendation 6, the agency will ensure that offices which submit properly formulated RARs will not be instructed to withdraw RARs before being submitted to the Committee for review and action under applicable procedures and criteria. However, this will not impinge on the responsibility of the CFO and its Budget Office to carefully review and discuss the budgetary requirements and implications of RARs with the submitting offices.

Documents to be Submitted:
- Updated MS 702

Status and Timeline for Completion:
June 2012

8. That the Peace Corps Chief Operating Officer, in coordination with the Chief Financial Officer, develops a written policy and procedure for tracking the status of all approved Requests for Agency Resources that includes following up with requesting agency components, and taking appropriate corrective actions when it is determined that Request for Agency Resources objectives are not being met or are significantly delayed.

Concur:
The CFO will issue to all appropriate offices and officers, written procedural guidance, as an integral component of the RAR implementation process, requiring office heads to certify in writing to the CFO that at the time of the agency budget mid-year review and at fiscal year's end that funding provided through the RAR process was, is or will be within an authorized period of obligation and expenditure, used for the purpose stated in the RAR. Resource allocations authorized under the RAR process which have not, are or will not be used specifically for the RAR objectives may be rescinded for other agency priorities. This process will be documented in RAR guidance, as appropriate.

Documents to be Submitted:

- CFO Bulletin on RARs

Status and Timeline for Completion:
April 2012

9. That the Chief Financial Officer ensures that the Director of Budget and Analysis performs a comprehensive review that will result in identifying and documenting significant risks associated with the budget process and serve as a framework for drafting and implementing policy and procedures that will strengthen internal control.

Concur:
The agency has long recognized the importance and necessity of identifying and documenting significant risks, as well as strengthening internal controls to eliminate or diminish such risks. The agency agrees to review again the budget formulation process to identify significant risks. However, given the level of past and ongoing focus on these issues, the agency is confident that it has identified significant risks and established appropriate internal controls to mitigate and/or eliminate such risks. Nevertheless, a further review by the Director of Budget and Analysis is being carried out, and will determine the extent to which new or additional policies and procedures may be required.

Documents Submitted:

- Hyperion Systems Controls Documents (previously provided to the OIG)

Documents to be submitted:

- Budget Process Risk Assessment and Mitigation Procedures Memo

Status and Timeline for Completion:
August 2012

10. That the Chief Financial Officer ensures that the Director of Budget and Analysis develops a sufficiently detailed risk assessment tool that provides an explanation of how each risk that has been indentified is mitigated and documents the basis for each response related to risk mitigation. This tool should formally incorporate the Office of Budget and Analysis' policy and procedures that includes written instructions for retention of

documentation supporting budget-related transactions and lists key internal control activities, such as appropriate segregation of duties within the Office of Budget and Analysis and budget system.

Concur:

The Chief Financial Officer and the Office of Budget and Analysis have reviewed the risks inherent in the agency's budget formulation process, and the risks inherent in each element of that process have been examined, and controls have been put into place to mitigate those risks. Furthermore, per guidance received from the AIG, Audits, dated, 01/17/2012, the OCFO agrees to create an assessment tool which comprises a checklist or list of risks and controls that will reference corresponding documents.

Documents Submitted:

- Email from AIG dated 01/17/2012

Documents to be Submitted:

- Budget Process Risk Assessment and Mitigation Procedures Memo

Status and Timeline for Completion:

August 2012

11. That the Chief Financial Officer ensures that the Director of Budget and Analysis develops and implements formal written procedures to provide for continuous monitoring of the agency's control environment related to the budget process to determine whether proper internal control activities are established, are sufficient in number, and operating effectively.

Concur:

The Director of Budget and Analysis will develop and issue and implement formal written procedures for the continuous monitoring of the budget process control environment. This issuance will formalize and describe the purpose and safeguards deriving from the redundancies and checks-and-balances currently in place, as well as any new controls developed as a result of further analysis. In addition, OCFO/FS will audit the budget control process and provide an annual report of all budget system users/roles to the Budget Officer. The Budget Officer will review this report on an annual basis to ensure that the intended segregation of duty controls was not circumvented.

Documents to be Submitted

- Budget Process Risk Assessment and Mitigation Procedures Memo
- Copy of annual report

Status and Timeline for Completion:

August 2012

12. That the Chief Financial Officer ensures that the Director of Budget and Analysis formalizes the process within the Office of Budget and Analysis for analyzing and advising on Request for Agency Resources and retain the results and conclusions of all analyses together with the associated Request for Agency Resources.

Concur:

CFO/BA will develop and document a formal process to analyze RARs and provide recommendations to the RAR Review Committee and other appropriate senior managers. Documentation related to these recommendations will be stored, filed and retained in accordance with applicable document control schedules governing federal records. However, these documents are internal work products of CFO/BA staff and will not be circulated to client-offices as it would deter frank and open discussions and deliberations and pose potential risks to the effective and cordial work relations between the CFO/BA and client offices. Any concerns regarding transparency will be offset by the review process and objective criteria governing decision-making under the charter of the RAR Review Committee.

Documents to be Submitted:

- Procedure for analyzing RARs

Status and Timeline for Completion:

June 2012

OIG COMMENTS

Of the 12 recommendations made in our report Peace Corps management concurred with 11 and non-concurred with one. In their response, management described actions they are taking or intend to take to address the issues that prompted each of our recommendations. Management's corrective actions are ongoing and as a result none of the 12 recommendations can be closed at this time. We wish to note that when we close recommendations, we are not certifying that the agency has taken these actions, nor that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

In our opinion Peace Corps management's comments were generally responsive however, we disagree with the agency's response relating to its basis for not concurring with recommendation 2. We agree that management must consider its current capabilities, collaborate with OMB, and implement cost-effective linkage between goals and resources. In addition, we appreciate that management has agreed to improve the transparency of the RAR process and documents its controls over the budget formulation process.

We disagree with management's basis for not concurring with recommendation 2. Management contended that *"... there is nothing in GPRA-MA that requires the agency to use the ability to link performance goals to the resources...."* However, it has been a requirement since GPRA was passed into law in 1993 that performance planning identify the resources necessary to meet an agency's performance goals. The original act required federal agencies to*, "briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals (see Section 1115, Performance Plans (a)(3))."* This same requirement was included in the *GPRA Modernization Act*, *Section 1115(b), Agency Performance Plans (5)(A) and OMB Circular No. A-11 (August 2011), Section 220.7, III. Strategies and Supporting Analysis.*

We disagree with management's statement included in their response that they do *". . . not necessarily agree with the conclusion reached by OIG in the report that the agency's budget formulation process does not fully comply with applicable federal laws and regulations. The agency does, however, believe that the Peace Corps can improve its performance budgeting . . ."* Full compliance would identify resources for strategic and performance goals and ensure reporting deadlines are always met. As discussed in our report, there are a number of steps that will need to be taken to become fully compliant with the GPRA Modernization Act and OMB Circular No. A-11.

The recommendations will remain open pending confirmation that sufficient evidence has been received that appropriate corrective actions have been taken to remediate the deficient conditions found. Such evidence must include the following:

- Recommendation 1. Issuance of the agency's performance and strategic plans; OMB and Congressional budget submissions; and annual performance report that present budget and performance data that is aligned with Peace Corps' strategic and performance goals as defined by the requirements contained in the GPRA Modernization Act and OMB Circular No. A-11.

- Recommendation 2. As discussed above we do not agree with management's basis for not concurring with this recommendation. Compliance with the applicable laws and regulations will require that agency management link, to the extent possible, the necessary resources to meet both its strategic and performance goals. Remediation may be accomplished through demonstrating that such linkage has been made as documented in Peace Corps performance and strategic plans and other related budget and planning documentation. We do not recommend or suggest in our findings and recommendations that the agency should "revert" to a greater use of output based goals. We welcome agency efforts to move towards useful outcome based goals and measures. Such effort is certainly not incompatible with establishing linkages to needed resources. Management is encouraged to further discuss this recommendation with OIG.

- Recommendations 3 and 4. Preparation of a formal review and clearance procedure as described in management's comments that has been incorporated into policy and officially implemented.

- Recommendations 5, 6, and 7. Preparation of a RAR Review Committee Charter that has been implemented into Peace Corps policy. Also, an updated and implemented *Peace Corps Manual* section 702 and issuance of a separate CFO Bulletin on RARs.

- Recommendation 8. We agree that written certification provided by office heads to OCFO would increase oversight of the use of RAR funding. However, we do not agree that this procedure alone would be an adequate control. Offices heads must be accountable to their management and should be responsible for tracking and reporting RAR fund status and accomplishments to their supervisors to ensure it is efficiently used for intended purposes. Such procedures must be formally documented and implemented into policy.

- Recommendations 9 and 10. Preparation and formal implementation of a "Budget Process Risk Assessment and Mitigation Procedures Memorandum" as described in management's comments.

- Recommendation 11. In addition to documents to close recommendation 9, we request the review procedures and compilation of the annual report of all budget system users/roles. The review procedures and annual report must be memorialized in policy or a CFO Bulletin.

- Recommendation 12. Preparation of a formal process related to the Office Budget and Analysis' review of RARs as described in management's response to recommendation 12. This process must be documented and implemented into policy.

AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

Expert Consultant Jeffrey Lee and Lead Auditor Hal Nanavati performed the audit.

Bradley Grubb
Assistant Inspector General for Audit

OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please email Assistant Inspector General for Audit Bradley Grubb at bgrubb@peacecorps.gov, or call him at (202) 692-2914.

Help Promote the Integrity, Efficiency, and Effectiveness of the Peace Corps

Anyone knowing of wasteful practices, abuse, mismanagement, fraud, or unlawful activity involving Peace Corps programs or personnel should call or write the Office of Inspector General. Reports or complaints can also be made anonymously.

Contact OIG

Hotline:

U.S./International:	202.692.2915
Toll-Free (U.S. only):	800.233.5874
Email:	OIG@peacecorps.gov
Web Form:	www.peacecorps.gov/OIG/ContactUs
Mail:	Peace Corps Office of Inspector General P.O. Box 57129 Washington, D.C. 20037-7129

Main Office: 202.692.2900