



# Office of Inspector General

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**To:** Carol Spahn, Acting Peace Corps Director

**From:** Kathy A. Buller, Inspector General

**Date:** November 12, 2021

**Subject:** Audit of the Peace Corps' Fiscal Year 2021 Financial Statements

This letter transmits the reports of Williams, Adley & Company – DC, LLP (Williams Adley) on its audit of the Peace Corps' Fiscal Year (FY) 2021 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

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

We contracted with Williams Adley, an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 2021 and 2020. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Generally Accepted Accounting Principles* (GAAP), issued by the Comptroller General of the United States; and the OMB Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*.

Williams Adley's report for FY 2021 includes: an opinion on the financial statements, conclusions on internal control over financial reporting, and compliance with laws, regulations, contracts, and grant agreements. In its audit of the Peace Corps, Williams Adley found:

- The financial statements were fairly presented, in all material respects, in conformity with GAAP.
- There were no material weaknesses in internal control.<sup>1</sup>
- Two significant deficiencies related to internal control were disclosed by Williams Adley:<sup>2</sup>
  - *Lack of effective information technology security.* Williams Adley cited a lack of a comprehensive risk management program.
  - *Inadequate internal controls over property, plant, and equipment.* Williams Adley cited gaps in the internal control framework in the areas of recording and tracking property and performing necessary reconciliations of property data.
- One instance of reportable noncompliance was found relating to compliance with applicable provisions of laws, regulations, contracts, and grant agreements which are

<sup>1</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

<sup>2</sup> A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

required to be reported under *Government Auditing Standards* (GAGAS) or OMB guidance. Williams Adley found that the Peace Corps did not fully comply with:

- The Federal Information Security Modernization Act of 2014 by not fully implementing information security continuous monitoring and the agency's risk management program.

#### OIG Evaluation of Williams Adley's Audit Performance

In connection with the contract, we reviewed Williams Adley's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on the Peace Corps' financial statements or conclusions about the effectiveness of internal control or compliance with laws, regulations, contracts, and grant agreements. Williams Adley is responsible for the attached auditor's report dated November 12, 2021, and the auditor's conclusions expressed in the report. However, our review disclosed no instances where Williams Adley did not comply in all material respects with GAGAS.

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

#### Attachment

**cc:** Dave Noble, Chief of Staff  
Andrew Pierce, Acting Chief Financial Officer  
Thomas Peng, Chief Information Officer  
Emily Haimowitz, Chief Compliance Officer  
Colin Jones, Compliance Officer



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



# PEACE CORPS Office of **INSPECTOR GENERAL**

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

FISCAL YEAR 2021

### Background

We contracted with Williams, Adley & Company-DC LLP (Williams Adley), an independent certified public accounting firm, to audit the Peace Corps' financial statements as of September 30, 2021. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Generally Accepted Accounting Principles, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, Audit Requirements for Federal Financial Statements.

As part of their review, Williams Adley considered the Peace Corps' internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. However, Williams Adley does not provide assurance

on internal control over financial reporting or on compliance. Accordingly, they do not express an opinion on the effectiveness of the Peace Corps' internal control over financial reporting or on its compliance.

## Results

The results of Williams Adley's review of internal controls identified no material weaknesses, two significant deficiencies, and one instance of reportable non-compliance. Furthermore, Williams Adley noted two additional concerns regarding internal controls that do not rise to the level of material weakness or significant deficiency. These concerns are reported in the following attached reports.

## Summary of Recommendations

The 13 recommendations made in Williams Adley's reports are intended to assist in improving the Peace Corps' internal control or other operating efficiencies.

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## Independent Auditor's Report

Acting Director  
United States Peace Corps

Inspector General  
United States Peace Corps

In our audits of the fiscal years 2021 and 2020 financial statements of the Peace Corps, we found:

- the Peace Corps' financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;<sup>1</sup> and
- one reportable instance of noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>2</sup> and other information included with the financial statements;<sup>3</sup> (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, we have audited the Peace Corps' financial statements. The Peace Corps' financial statements comprise the balance sheets as of September 30, 2021, and 2020; the related statements of net cost, changes in net position, and the combined statements of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by

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<sup>1</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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

<sup>3</sup>Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

the Comptroller General of the United States; and OMB Bulletin No. 21-04. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Management's Responsibility

The Peace Corps' management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

#### Opinion on Financial Statements

In our opinion, the Peace Corps' financial statements present fairly, in all material respects, the Peace Corps' financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended, in accordance with U.S. generally accepted accounting principles.

#### Other Matters

##### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial

statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

#### Other Information

The Peace Corps' other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the Peace Corps' financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

### **Report on Internal Control over Financial Reporting**

In connection with our audits of the Peace Corps' financial statements, we considered the Peace Corps' internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the Peace Corps' internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

#### Management's Responsibility

The Peace Corps' management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

In planning and performing our audit of the Peace Corps' financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered the Peace Corps' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the Peace Corps' internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies<sup>4</sup> or material weaknesses.

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

We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

#### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

#### Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As discussed in **Appendix I**, our audit identified two deficiencies in the Peace Corps' controls pertaining to information security and property, plant, and equipment, that represent significant deficiencies in the Peace Corps' internal control over financial reporting.

Although the significant deficiencies in internal control did not affect our opinion on the Peace Corps' fiscal year 2021 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Peace Corps because of these significant deficiencies.

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

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

#### Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the Peace Corps' internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the Peace Corps' internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting.



Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

In connection with our audits of the Peace Corps' financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

#### Management's Responsibility

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

#### Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the Peace Corps that have a direct effect on the determination of material amounts and disclosures in the Peace Corps' financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Peace Corps.

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

As discussed in **Appendix II**, our audit noted one instance of noncompliance related to the Federal Information Security Modernization Act for fiscal year 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Peace Corps. Accordingly, we do not express such an opinion.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

#### **Agency Comments**

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

*Williams, Adley & Company - DC, LLP*

Washington, D.C.

November 12, 2021

### Significant Deficiencies

#### A. Information Technology Security (Updated Repeat Finding)

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

- In Fiscal Year (FY) 2018, the Peace Corps had not finalized an information security continuous monitoring strategy. During FY 2019 to 2021, the Peace Corps worked on developing an information security continuous monitoring strategy; however, the strategy was not fully defined at the organization level as of September 30, 2021.
- The Peace Corps still does not have a robust agency-wide Risk Management Program to manage information security risks. In addition, the agency has not fully defined the agency's risk appetite and risk tolerance.
- The Peace Corps has not fully addressed the issues regarding its Peace Corps General Support System (GSS) assessment and authorization.
- The Office of Chief Information Officer (OCIO) has developed an information security architecture in FY 2021; however, it is not yet integrated with the risk management strategy.

The Peace Corps' management has not implemented an Enterprise Risk Management process throughout the Peace Corp at the entity, business, and information system level. Specifically, the OCIO was not prioritized to develop a risk register and risk appetite as to help identify and mitigate information security risks across the agency. Additionally, OCIO did not have the resources required to complete the strategy and supporting documentation needed to transition to a defined information security continuous monitoring process.

Without a fully implemented Continuous Monitoring Program, agency systems could incur potential damage, including system downtime, unauthorized access, changes to data, data loss, or operational failure.

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

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

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

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

## Appendix I – Significant Deficiencies

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

S.2521 - Federal Information Security Modernization Act of 2014 states: Agency heads to ensure that: (1) information security management processes are integrated with budgetary planning; (2) senior agency officials, including chief information officers, carry out their information security responsibilities; and (3) all personnel are held accountable for complying with the agency-wide information security program.

**Recommendations:** We recommend that:

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

### **B. Improper Internal Controls over Property, Plant, and Equipment (Updated, Repeat Finding)**

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

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

The Peace Corps' internal controls over PP&E needs improvements related to recording and tracking property.

#### **Untimely Recording of Assets in Odyssey:**

For FY 2021, there were a total of 83 additions that were made as of June 30, 2021. We identified some assets that remained in the clearing account for almost 2 years, accordingly depreciation was not being fully recognized in FY 2021. Specifically, out of the 83 additions, 31 were not entered in the fixed asset module between 90 and 414 days (average 199 days) after they were placed in-service. Furthermore, during our review we noted the 29 of the 31 assets had an impact on the FY 2020 Financial Statements:

- For 15 assets valued at \$3.1 million, acquisition cost was reflected on the Balance Sheet, as part of the clearing account, but depreciation of \$530,041 was not properly recorded in the accounting system.
- Fourteen other assets, with an acquisition cost of \$481,194 and depreciation of \$36,921, were not initially recorded on the Balance Sheet.

These errors resulted in the Peace Corps' net property assets at September 30, 2020 being overstated \$85,768 (\$530,041 accumulated depreciation less \$444,273).

#### **Assets Recorded in Sunflower but Not in Odyssey:**

Monthly reconciliations between Sunflower and the Fixed Asset module identified assets within Sunflower but not within the Fixed Asset module; however, these issues were not remediated appropriately.

Our reconciliation of Sunflower and the Odyssey Fixed Asset Listing resulted in 12 assets which met the capitalization threshold reported in Sunflower, but were not reported in Odyssey. Out of these 12 assets, we noted:

- nine assets, valued at \$344,450 relating to the old data center, were retired in Odyssey but were not retired in Sunflower; and

## Appendix I – Significant Deficiencies

- three assets, valued at \$87,553, located during an inventory count have not been entered into Odyssey due to missing invoices.

There are multiple offices involved with managing property, the Office of Management, Administrative Services (M/AS) and the OCIO are responsible for recording and managing the physical property, while the Office of the Chief Financial Officer (OCFO) is responsible for the financial implications of these assets. As mentioned, the agency utilizes different systems to achieve these goals. However, these offices must work together to ensure that the systems align, and that all property is properly recorded in all of the agency's official systems of record.

During our audit, we determined that there is a breakdown in the Peace Corps' internal controls around property. Specifically, there is a de-centralized process for bringing new assets into existence within both Sunflower and the Fixed Asset module. While the asset management and financial systems have controls in place, we determined that those procedures were not consistently being followed.

OCFO did not follow their policies and procedures to ensure that items were recorded timely in Odyssey. Newly acquired assets are recorded on the USSGL clearing account; however, these items should have been marked in the Fixed Asset module as "placed-in-service."

We determined that the assets recorded in Sunflower were not recorded in Odyssey because OCFO bypassed established internal controls, requiring adequate documentation for disposals, and instead marked the assets as disposed in the Fixed Asset module without verification from M/AS or OCIO.

Additionally, M/AS did not ensure items were disposed in Sunflower within 5 days of the disposal date, as required by policy.

Furthermore, OCFO was unable to capitalize transactions in Odyssey because the responsible office, Office of the Chief Information Officer, did not provide the required supporting documentation.

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

- Loss of asset accountability, which introduces operational risk related to the ability to execute the Peace Corps' mission.
- Decrease in the uniformity and standardization of procedures, resulting in inconsistent treatment of assets and increasing the difficulty in completing consolidated reports.
- Understatement in PP&E of \$87,553 for fixed assets, not recorded in Odyssey as of June 30, 2021.
- Overstatement in the FY 2020 PP&E net balance of \$ 85,768.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government states:

*"Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include*

## Appendix I – Significant Deficiencies

*automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.”*

According to the Domestic Financial Management Handbook, Chapter 22 states, April 28, 2018 version:

- 22.5.3 Tracking and Reporting of the Capital Assets

The office having custody must track a capitalized asset in all phases of its useful life, from the time the asset is delivered and accepted until disposal. All actions associated with capital assets must be monitored, tracked and recorded (including transfer between offices). Asset transfers must be initiated by the sending office and accordingly accepted by the receiving office.

- 22.5.3.3 IT hardware and General PP&E

- Capitalization of new assets and corresponding changes to capital assets should be recorded within 60 days from the invoice payment.
- Disposal records should comply with requirements under MS 511, Personal Property Management and include Personal Property Loss Report, certificate of destruction, or sales receipts. Disposals should be entered in Sunflower within 5 days of the disposal date.

- 22.5.5 Retention of Supporting Documentation

Although OCFO/AFR shall be the official record keeper of all PP&E or capital asset transactions, the Property Officer responsible for the asset should maintain supporting documentation for asset purchases, transfers, and disposals.

Examples of supporting documentation include the following:

- Obliging documents for item(s) and all associated in-service costs, e.g., contracts, purchase orders, travel authorizations
- Payment documents for item(s) and all associated in-service costs, e.g., invoices, payment vouchers
- Copy of signed receiving document
- Disposal documents for item(s), e.g., record of sale, report of loss or theft

- 22.5.6 Internal Control

The management controls for the PP&E process include the following:

Recordation of capital asset and changes to capital assets are verified by OCFO/AFR against acceptable backup documentation, such as copy of approved invoice, proceeds of sales information, Leasehold Tracking Spreadsheet, Labor Hours Tracking Spreadsheet, or disposal record.

MS 511, Personal Property Management states the following:

- 4.0 Property Asset System of Record

The Peace Corps has a single system of record to track and report on property Assets, called Sunflower. Sunflower is our system of record or asset management system. It is connected to the Peace Corps' purchasing system (Odyssey and FOR

## Appendix I – Significant Deficiencies

Post), online IT asset discovery systems (System Center and AirWatch) and the financial reporting system (Fixed Assets). These connections ensure property is managed and reported properly.

MS 511, Personal Property Management Handbook states the following:

- 15.0 Disposal of Personal Property

ALL Assets tracked in Sunflower, whether Accountable Assets or Locally Tracked, must follow these procedures, unless otherwise directed by the IMS or PAL.

Disposal methods may include:

- (a) Sale/Auction;
- (b) Abandon or Recycle;
- (c) Donation; or
- (d) External Transfer to another government agency.

The IMS approves Disposals. The IMS will consult with the Chief of M/AS/FMD and/or OCIO CAO to confirm approval for Assets valued at over \$1,000 for abandonment or donations.

When the IMS makes the request for Disposal of PCHQ Assets, the request must be approved or rejected by the Chief of M/AS/FMD

**Recommendations:** We recommend the Peace Corps:

1. Update policies and procedures to clarify the roles of all responsible offices and establish timelines for proper recording of additions and disposal of assets in Sunflower and the Fixed Asset Module.
2. Require all staff with responsibilities in acquiring and recording assets to take periodic training, no less than once per year, on the Sunflower processes and procedures. Specifically, the training should include information on how to:
  - Add, remove/dispose, and update assets in the system in a timely manner.
  - Identify and provide documentation on capitalized assets to the OCFO.
3. Perform a reconciliation of source systems and Odyssey Fixed Assets and when differences are identified, inquire and document reasoning for the difference within a timely manner.
4. Review clearing accounts monthly to ensure items are placed in service timely.

**C. Noncompliance with Laws, Regulations, Contracts, and Grant Agreements-FISMA (Updated, Repeat Finding)**

Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies and Offices of Inspectors General (OIG) are required to annually report on the effectiveness of the agencies' security programs.

As noted in its Assurance Statement included in its Agency Financial Report, the Peace Corps disclosed an instance of noncompliance with FISMA that is required to be reported under Government Auditing Standards and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*.

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

The OIG has provided the Peace Corps' management with a separate limited distribution report that further details the vulnerabilities in the Peace Corps' systems, and provides recommendations for improvement. Due to the sensitivity of the matters noted, we have not discussed those matters in this report.



### Appendix III - Status of Prior Year Findings and Recommendations

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

Prior Year Finding	Current Year Status
Information Technology Security (Significant Deficiency)	Open. Finding was updated and repeated as finding A in the Audit Report.
Inadequate Internal Controls over Property, Plant, and Equipment (Significant Deficiency)	Open. Finding was updated and repeated as finding B in the Audit Report.
FISMA (Noncompliance)	Open. Finding was updated and repeated as finding C in the Audit Report.



November 10, 2021

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

Dear Mr. Isiaq,

This letter represents the response of the Peace Corps to your draft Independent Auditor's Report, received November 5, 2021. We are pleased with your issuance of an unmodified (clean) audit opinion. The Peace Corps management reviewed the Notice of Findings and Recommendations for the two deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2021. We concur with the condition, criteria, and level of control deficiency identified. We have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2022, as we strive for an effective and efficient internal control environment.

### **Information Technology Security**

**Response:** Concur

In FY2021, the Office of the Chief Information Officer (OCIO) updated the Peace Corps' Information Security Program policy and in FY2022 will continue to execute Information Security Continuous Monitoring (ISCM) process, including the full development, integration, and implementation ISCM into the agency's risk management strategy. In addition, increased security resources will be put in place to ensure that Security Assessment and Authorization is performed in accordance with the risk management.

**Estimated Completion Date:** September 2022

### **Inadequate Internal Controls over Property, Plant, and Equipment**

**Response:** Concur

In FY2021, the Office of Chief Financial Officer (OCFO) updated its policy and procedures over the accounting and reporting of capitalized assets, while the Office of Management (M) strengthened its training to property owners over personal property. These improvements will continue into FY2022, to ensure that roles and responsibilities between OCFO, M, and OCIO, are clearly defined and assets' status are accurately reflected between Sunflower, the agency's property management system and Odyssey, the agency's financial system of record. In FY2022, M and OCFO will ensure that discrepancies between the two systems (Sunflower and Odyssey) are identified and resolved in a timely manner. OCFO will record assets within its established policy and procedure.

**Estimated Completion Date:** September 2022

Thank you and we appreciate the opportunity to respond to the draft Independent Auditor's Report pertaining to the FY 2021 Financial Statements Audit.

Sincerely,

Dinneen,  
Jackie

Jackie Dinneen  
Acting Chief of Staff

Digitally signed by  
Dinneen, Jackie  
Date: 2021.11.10  
14:10:05 -05'00'

Paul D. Coverdell Peace Corps Headquarters

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## MANAGEMENT LETTER

Acting Director  
United States Peace Corps

Inspector General  
United States Peace Corps

We have completed our audit of the financial statements of the Peace Corps as of and for the year then ended September 30, 2021 and have issued our Independent Auditor's Report thereon dated November 12, 2021.

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

In our fiscal year 2021 audit, we identified two significant deficiencies and one matter of noncompliance with laws, regulations, contracts, and grant agreements (noncompliance). We also identified two internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrant management's attention, which are provided in **Appendix A**. This Management Letter also includes the status of the prior year Management Letter control deficiency in **Appendix B**. We have discussed these comments and recommendations with Peace Corps personnel, and we will be pleased to discuss them in further detail at your convenience.

The Peace Corps has provided an official response to this Management Letter which we have included in **Appendix C**. We did not audit the Peace Corps' response, and, accordingly, we express no opinion on the response.

This management letter is intended solely for the information and use of Peace Corps management and the Peace Corps Office of Inspector General, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Williams, Adley & Company-DC, LLP*

Washington, D.C.  
November 12, 2021

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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## Appendix A

### Repeat Deficiencies Noted in FY 2021

The following are deficiencies noted during our audit of the Peace Corps' fiscal year (FY) 2021 financial statements.

#### I. Inadequate Controls Surrounding Processing of Personnel Actions

Agency management is responsible for the design and operation of the Personnel and Payroll internal control framework. This control framework should include policies, procedures, reviews, and approvals to ensure that personnel actions are properly and timely recorded. Absence of a comprehensive internal control framework may result in theft, lack of accountability, waste, fraud, abuse, and lack of responsiveness to changing risk and threats.

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

Personnel actions for newly hired and separated employees were not consistently approved in a timely manner. As part of our internal control testing, we selected 45 out of 128 individuals hired and 45 out of 139 individuals separated during the first three quarters of FY 2021 and noted the following issues:

- For three separated individuals and two newly hired individuals, the employee's Standard Form (SF) 50, *Notification of Personnel Action*, were approved between 1 and 10 days after their effective date.
- For one separated individual and one newly hired individual, we noted that the SF 52, *Request for Personnel Action*, were missing signatures by an appointed Human Resources Officer on line 2 of Part C.
- For four additional newly hired individuals and two separated individuals, the Peace Corps could not provide us with their SF 52, *Request for Personnel Action*.

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

Additionally, the Peace Corps lacks proper controls over document retention. Specifically, for the missing SF 52s, the Peace Corps indicated that the human resource assistant who processed the SF 52 was no longer with the agency and they were unable to locate the documents.

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

Due to lack of proper supporting documentation, we were unable to determine if six personnel actions were approved.

## Appendix A

### Repeat Deficiencies Noted in FY 2021

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

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

The Government Accountability Office (GAO), Standards for Internal Control in the Federal Government states:

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

**Recommendation:** We recommend the Peace Corps:

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

## II. Plan of Action and Milestones Deficiencies

Traditional systems of internal control rely on a plan of action and milestones for the information system to document the Peace Corps' planned remedial actions to correct weaknesses or deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system.

In FY 2020, the weaknesses identified in the Financial System Security Assessment Report (SAR) were not documented as a Plan of Action and Milestone (POA&M) within 30 days, as required by policy, until September 29, 2020, which was 97 days late.

In February 2021, the Peace Corps updated the ISSO Handbook (version 7.6) to include the newly defined process for managing POA&Ms. The Handbook mandates that a POA&M must be approved and uploaded into Cyber Security Assessment Management (CSAM) within 60 calendar days of receipt of the final SAR from the security control assessor. The Information System Security Officer (ISSO) must complete the Weakness Evaluation Report (WER) within 20 working days of receipt of the final SAR and the associate Corrective Action Plan (CAP) of the findings found in the SAR within 40 working days.

However, we were unable to evaluate whether the agency has implemented the defined process for creating POA&M because a security control assessment was not conducted for the Odyssey Financial System in FY 2021, as required.

## **Appendix A**

### **Repeat Deficiencies Noted in FY 2021**

Without updating and implementing policies and procedures that reflect current operations, agency systems could be exposed to critical undocumented security weaknesses that could put the confidentiality, integrity and availability of information contained in the agency system at risk.

As defined in the Plan of Action and Milestones Guide, a draft POA&M should be created in CSAM for identified security weakness within 30 days of discovery unless the weakness can be remediated within that 30-day period. In that draft POA&M, the weakness must be assessed, and the following values captured. Although the ISSO is tasked with drafting the POA&M, it should be undertaken in collaboration with the ISSM, SO, and other system stakeholders.

**Recommendation:** We recommend that Peace Corps implement updated policies and procedures regarding the POA&M process to reflect current operations.

**Appendix B**  
**Status of Prior Year Findings**

The following is the status of the prior year findings noted in the FY 2020 management letter.

<b>Prior Year Finding</b>	<b>Current Year Status</b>
Inadequate Controls Surrounding Processing of Personnel Actions	Open (NFR 2020-01)
Plan of Action and Milestones Deficiencies	Open (NFR 2020-02)
Inadequate Maintenance and Testing of the Financial System Contingency Plan	Closed

## Appendix C Official Management Response



December 16, 2021

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

Dear Mr. Isiaq,

This is the response of the Peace Corps to your draft Management Letter, received December 13, 2021. The Peace Corps management has reviewed the Notice of Findings and Recommendations for the two deficiencies issued by Williams Adley in connection with the audit of our financial statements for fiscal year (FY) 2021. We concur with the condition, criteria, and level of control deficiency identified. We have established corrective action plans to address the root cause of these audit findings. We are dedicated to resolving these issues in FY 2022, as we strive for an effective and efficient internal control environment.

### **Inadequate Controls Surrounding Processing of Personnel Actions**

Agency Response: Concur

The Office of Human Resource (OHR) will develop a quality assurance process for processing personnel actions and provide more effective training to its staff on policies and procedures. OHR will ensure that personnel records are maintained for record keeping.

Estimated Completion Date: September 2022

### **Plan of Action and Milestones Deficiencies Agency**

Response: Concur

The Office of Chief Information Officer (OCIO) will finalize and implement the procedures for documenting Plan of Action and Milestones (POA&M), based on current process, to address and document weaknesses identified from the agency's Security Assessment Report. The Office of the Chief Financial Officer (OCFO) shall follow the procedures per the published POA&M, if and when weaknesses are identified for the financial system.

Estimated Completion Date: September 2022

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

Sincerely,

Noble, Dave

Digitally signed by Noble,  
Dave  
Date: 2021.12.20  
12:37:28 -05'00'

Dave Noble  
Chief of Staff

Paul D. Coverdell Peace Corps Headquarters

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