Peace Corps

Agency Financial Report

Fiscal Year 2017

The Peace Corps

AGENCY FINANCIAL REPORT

Fiscal Year 2017

Peace Corps

Paul D. Coverdell Peace Corps Headquarters
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or to the mailing address above.

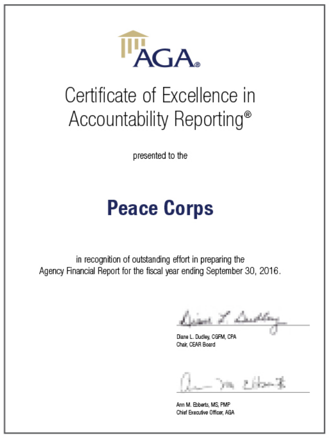
ABOUT THIS REPORT

The Peace Corps' publication of the Agency Financial Report (AFR) for fiscal year (FY) 2017 provides fiscal results and performance highlights to enable the president, Congress, and American public to assess our accomplishments for the reporting period beginning October 1, 2016 and ending September 30, 2017 to achieve our critical mission of promoting world peace and friendship through community-based development and cross-cultural understanding.

This report was prepared in accordance with Office of Management and Budget (OMB) Circulars A-11, Preparation, Submission, and Execution of the Budget; Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control; and Circular A-136, Financial Reporting Requirements. The AFR is one of the performance and financial reports required from federal agencies. The FY 2017 Annual Performance Report, along with the FY 2019 Annual Performance Plan (to be published with the FY 2019 Congressional Budget Justification) and this report will be online at peacecorps.gov/about/open-government/reports/.

AGA CERTIFICATE OF EXCELLENCE

The Peace Corps was awarded the Association of Government Accountants' Certificate of Excellence in Accountability and Reporting for the FY 2016 AFR. The agency is also the proud recipient of the Best in Class Award for Most Creative and Innovative Award, the first ever award given to an agency in this category.


AGA®

Certificate of Excellence in Accountability Reporting®

presented to the

Peace Corps

in recognition of outstanding effort in preparing the Agency Financial Report for the fiscal year ending September 30, 2016.

Diane L. Dudley, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA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BEST-IN-CLASS AWARD

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in the Agency Financial Report for the fiscal year ending September 30, 2016.

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HOW THIS REPORT IS ORGANIZED

The AFR presents the agency's performance highlights and accomplishments, fiscal accountability, and operational achievement and challenges for FY 2017. It begins with a message from the Peace Corps' Acting Director, Sheila Crowley, followed by the Management's Discussion and Analysis, Financial Section, Other Information, and Appendices.

Management's Discussion and Analysis

This section provides an overview of financial results, summary-level performance information, and management assurance regarding internal controls. It showcases the Peace Corps' mission, organizational structure, and the work of the Volunteers. Agency challenges and demands are also addressed in this section.

Financial Section

This section details the agency's financial position as of fiscal year ended September 30, 2017. The agency's FY 2017 financial statements and accompanying footnotes are presented in this section, along with the independent auditor's report.

Other Information

This section contains the Office of Inspector General's Management and Performance Challenges and a summary of financial statement audit and management assurances.

Appendices

This section provides additional information including a report on audit follow-up activity, verification and validation of performance data, and a glossary of abbreviations used throughout this report.

ABOUT THE PEACE CORPS

History

Officially Established:	March 1, 1961
Americans Who Have Served:	More than 230,000
Host Countries Served to Date:	141

Volunteers

Current Number of Volunteers and Trainees:	7,376
Gender:	63% female, 37% male
Marital Status:	98% single, 2% married
Average Age:	28
Over Age 50:	6%

Countries and Projects

Number of Countries Served in FY 2017:	61 posts, 65 countries

Volunteers by Work Area

Education:	41%
Health:	20%
Environment:	8%
Youth in Development:	11%
Community Economic Development:	8%
Agriculture:	8%
Peace Corps Response:	4%

Where Volunteers Serve

Africa:	46%
Central and South America:	18%
Eastern Europe/Central Asia:	13%
Asia:	11%
Pacific Islands:	5%
Caribbean:	4%
North Africa/Middle East:	3%

Budget

Fiscal Year 2017 Budget: $410 million

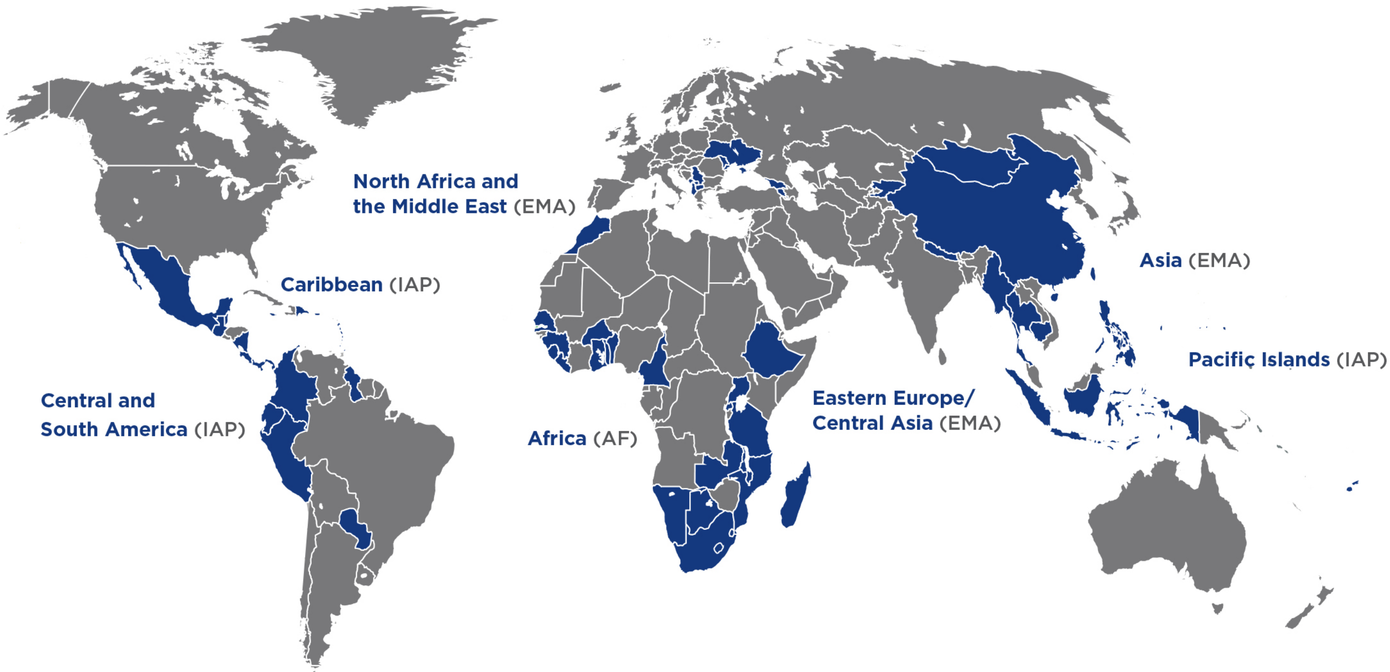
Peace Corps Director

Sheila Crowley (Returned Peace Corps Volunteer, Ukraine, 2001 to 2003), Acting Director since January 2017.

Toll-Free

855.855.1961	peacecorps.gov

WHERE PEACE CORPS VOLUNTEERS SERVED IN FY 2017



Caribbean
Dominican Republic
Eastern Caribbean:
- Dominica
- Grenada
- St. Lucia
- St. Vincent and the Grenadines

Jamaica

Central and South America
Belize
Colombia
Costa Rica
Ecuador
Guatemala
Guyana
Mexico
Nicaragua
Panama
Paraguay
Peru

North Africa and the Middle East
Morocco

Africa
Benin
Botswana
Burkina Faso
Cameroon
Comoros
Ethiopia
Ghana
Guinea
Lesotho
Liberia
Madagascar
Malawi
Mozambique
Namibia
Rwanda
Senegal
Sierra Leone
South Africa
Swaziland
Tanzania
The Gambia
Togo
Uganda
Zambia

Eastern Europe/Central Asia
Albania
Armenia
Georgia
Kosovo
Kyrgyz Republic
Macedonia
Moldova
Ukraine

Asia
Cambodia
China
Indonesia
Mongolia
Myanmar
Nepal
Philippines
Thailand
Timor-Leste

Pacific Islands
Federated States of Micronesia:
- Micronesia
- Palau

Fiji
Samoa
Tonga
Vanuatu

AF: Africa Region
EMA: Europe, Mediterranean, and Asia Region
IAP: Inter-America and Pacific Region

Countries With Volunteers as of September 30, 2017

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CONTENTS

DIRECTOR OF THE PEACE CORPS

I am pleased to present the FY 2017 Agency Financial Report of the Peace Corps on behalf of our Volunteers and staff around the world. This report presents the agency's financial information and demonstrates our accountability to goals and strategies that enable the president, Congress, and the public to assess the progress the Peace Corps has made over the past year.

The Peace Corps was established in 1961 with a mandate from Congress to build local capacity in developing nations, share American culture with other peoples, and bring the world back home. To date, more than 230,000 Americans from all 50 states have carried out that mandate, serving in 141 countries worldwide. Every day, the world becomes more complex and interconnected, making the Peace Corps' mission more vital than ever before. The American people recognize the importance of our mission and are applying to be Peace Corps Volunteers in record numbers.

The Peace Corps advances its mission through the work of Volunteers. Our Volunteers have demonstrated ingenuity, creativity, and resiliency to solve critical challenges alongside community leaders for more than five decades. Currently, 7,376 Volunteers serve in 65 countries promoting grassroots development and cross-cultural exchange. I invite you to read about the amazing work our Volunteers are doing and learn about the lasting impact they are making for the communities they serve at peacecorps.gov.

Our highest priority is always the health, safety, and security of our Volunteers. The Peace Corps continues to make improvements to the Sexual Assault Risk Reduction and Response program mandated by the Kate Puzey Volunteer Protection Act of 2011. In FY 2017, the agency worked closely with nationally recognized experts in the field of sexual assault to implement and evaluate major reforms and comprehensive policies. In addition, the Peace Corps enhanced support, prevention, and care through extensive training for all Volunteers and staff.

In FY 2017, the agency received $410 million from Congress. The agency continues to recruit, train, and champion the work of our extraordinary Volunteers in pursuit of Peace Corps' life-changing mission. We strive to maximize the efficiency of agency operations by strengthening functions and systems to support our core business. Highlights of FY 2017 agency operations are discussed in the Management's Discussion and Analysis section of this report.

This year, the agency developed its Four-Year Strategic Plan for fiscal years 2018–2022, which was provided to the Office of Management and Budget in September. Our plan for the next four years reflects our core values and is structured around key objectives: fostering sustainable change, increasing Volunteer effectiveness, strengthening Volunteer resilience, and building leaders of tomorrow. We employed a highly participatory process to develop a meaningful plan that will allow us to measure results on an on-going basis. Our focus was on consolidating, fine-tuning, and strengthening foundational business management to ensure the most effective use of agency resources, while maintaining the highest level of support to our Volunteers in the field.

I am pleased to report that for the eleventh consecutive year, the Peace Corps earned an unmodified (clean) opinion on its financial statements. The Independent Auditor's

Report identified no material weaknesses, two significant deficiencies, and one instance of noncompliance with laws and regulations. In addition, the Peace Corps provides reasonable assurance that the agency is in compliance with the Federal Manager's Financial Integrity Act, and that internal control over financial reporting is operating effectively to produce reliable financial reporting. The Peace Corps remains committed to accountability and transparency in all facets of our agency operations, and the financial and performance information presented in this report is reliable and complete.

The Peace Corps' Inspector General prevents fraud, waste, abuse and mismanagement within the agency. In an effort to promote effectiveness and efficiency in agency operations, the Inspector General identified management and performance challenges as reported in the section called Other Information. We acknowledge the recommendations, and our staff continues to work diligently to implement improvements in addressing the concerns.

I hope you find this report useful and I look forward with optimism to the challenges and opportunities ahead as we advance the vital work of the Peace Corps in the spirit of world peace and friendship.

Sheila M. Crowley

Sheila Crowley
Acting Director
November 7, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Peace Corps

MISSION AND OVERVIEW OF THE PEACE CORPS

OUR MISSION

To promote world peace and friendship through community based development and cross-cultural understanding.

OUR VISION

To be a dynamic, forward-leaning champion for international service, defined by our energy, innovation, and development impact.

WHO WE ARE

The Peace Corps has been a leader in international development and citizen diplomacy for over 56 years. In a profoundly interdependent world, we tackle challenges that know no borders—such as access to education, food security, environmental concerns, youth development, and gender disparities.

The Peace Corps was initially established by President John F. Kennedy by executive order on March 1, 1961, and was formally authorized by Congress on September 22, 1961, with the passage of the Peace Corps Act. The Peace Corps is an independent agency in the executive branch of the U.S. government.

The Peace Corps has been guided by a mission of world peace and friendship since its establishment in 1961. The agency exemplifies the best of the American spirit by making it possible for Americans to serve

around the world advancing development and building cross-cultural understanding. The Peace Corps is building strong relationships between our country and the people of our partner nations while making a difference in the overseas communities it serves, in the lives of its Volunteers, and back home in the United States through this unique approach to development. More than 230,000 Volunteers have served in 141 countries since 1961. They have left behind a legacy of friendship and enhanced their host countries' capacity for sustainable community-based development.

The Peace Corps conducts a strategic assessment through the Country Portfolio Review in order to respond most effectively to new requests for Volunteers, while also preserving and strengthening longstanding relationships with existing partners and host countries. Today, the Peace Corps is more vital than ever, working in collaboration with its partner organizations and using cutting-edge technologies and best practices to increase its development impact.

"The cure is care. Caring for others is the practice of peace."

—Sargent Shriver
at a 1981 reunion of Peace Corps Volunteers,
Founding Director of the Peace Corps,
1961 to 1966

PEACE CORPS FACTS

Historical

- **Officially Established:** March 1, 1961
- **Americans Who Have Served:** 230,000
- **Total Host Countries Served:** 141
- **Country That Has Hosted the Most Volunteers Historically:** Philippines (9,159)

Current

- **Host Countries:** 65
- **Total Volunteers:** 7,376
- **Largest Program:** Ukraine (342 Volunteers)

CORE VALUES AND ORGANIZATIONAL STRUCTURE

CORE VALUES

The Peace Corps advances its mission through the work of its Volunteers. The agency is structured to address the unique needs of Volunteers while they serve in local communities, often under conditions of hardship. The following core values shape and guide decisions at all levels in the agency to support the thousands of Volunteers serving around the world.

THE PEACE CORPS' CORE VALUES

Volunteer Well-Being	The Peace Corps works to provide a safe, healthy, and productive service for every Volunteer. The safety, security, and physical and emotional health of Volunteers are the agency's top priorities.
Quality and Impact	The Peace Corps pursues quality improvements to strengthen its programs while maintaining a meaningful global presence.
Commitment to National Service	The Peace Corps seeks to expand opportunities for Americans to serve their country by volunteering their time in the service of others.
Diversity and Inclusion	The Peace Corps actively supports a culture of inclusion that builds on the strengths of the diversity of the American public and of the countries in which we serve.
Evidence-Based Decisions	The Peace Corps uses high-quality data and evidence to focus resources on agency priorities, inform performance improvements both in the field and at headquarters, and promote institutional learning.
Innovation	The Peace Corps utilizes innovative approaches and technology to solve both persistent and emerging operational challenges and to advance local development.

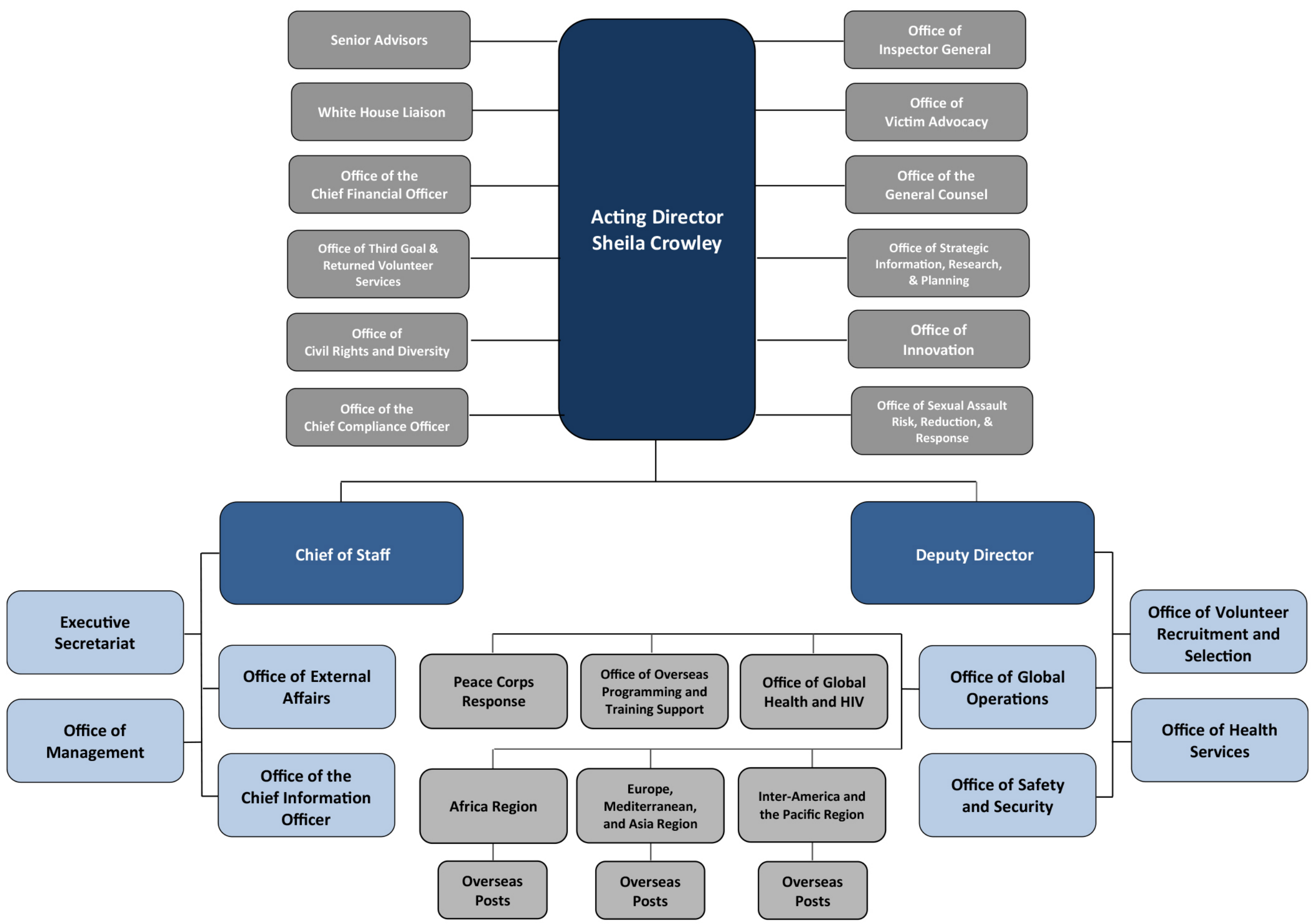
OUR ORGANIZATION

In FY 2017, the Peace Corps maintained active programs in 65 countries, administered by 61 overseas posts. Each post is led by a country director and supported by programming, training, safety and security, medical, financial, and administrative staff. Overseas posts are organized into three geographically based regions: Africa (AF); Europe, Mediterranean, and Asia (EMA); and Inter-America and the Pacific (IAP).

In addition to its Volunteers, the Peace Corps' greatest asset is its workforce, comprising of U.S direct hire staff and host country staff (including short-term language and cross-cultural training staff). The unique combination of domestic and overseas staff creates a flexible and vibrant workforce. The Peace Corps believes that having a diverse and inclusive agency is essential to advancing its mission. The Peace Corps is able to maximize Volunteer and staff skills, talent, and overall performance by developing a culture of inclusion and collaboration.

On April 12, 2017, OMB issued the Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce, M-17-22. This memorandum provides agencies guidance on fulfilling the requirements of the Hiring Freeze Presidential Memorandum and the Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch, while aligning those initiatives with the federal budget and performance planning processes. The Peace Corps has determined its mission-based workforce

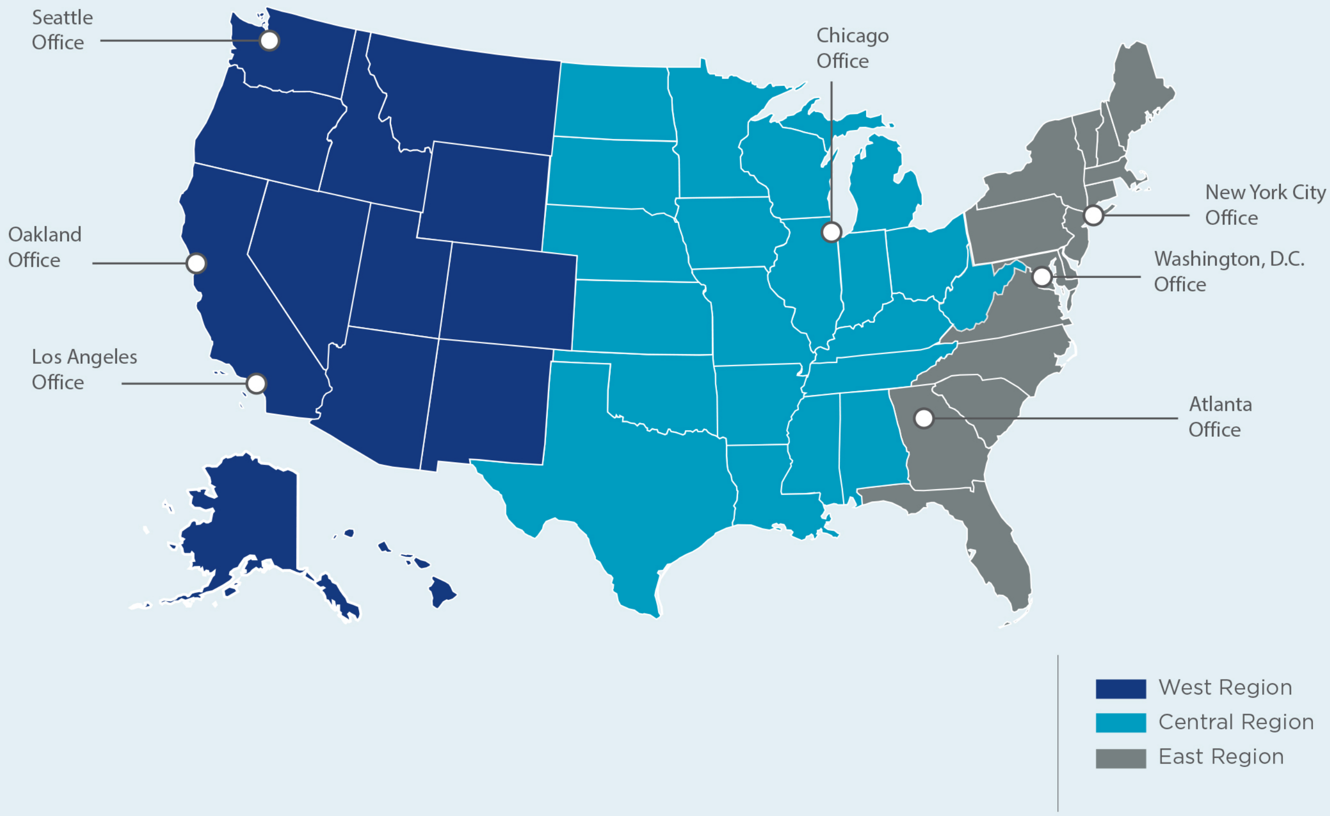
Peace Corps Organizational Chart



needs, defined its priorities, and applied available resources in order to best meet operational requirements. In response to OMB Memorandum M-17-22, the Peace Corps submitted an Agency Reform Plan, as well as a Long-Term Workforce Plan to guide its priorities over the next five years.

The Peace Corps is headquartered in Washington, D.C., with regional recruitment offices in Atlanta, Chicago, Los Angeles, New York City, Oakland, and Seattle.

REGIONAL OFFICE BREAKDOWN



WHAT WE DO

Volunteers live and work abroad to tackle the most urgent needs of people around the world. Rather than provide monetary assistance to countries, the Peace Corps sends Volunteers to share their skills and experience while living and working alongside local individuals and communities.

This unique community-based approach to development emphasizes intercultural understanding, capacity building, and sustainable results. Volunteers advance citizen diplomacy, build local capacity, and bring a wealth of experience back to the United States. Volunteers develop language, intercultural, technical, and entrepreneurial skills that prepare them for jobs in the 21st century through their overseas experiences. They bring these skills with them to their work in both the public and private sectors, sharing their global experiences and outlook with their colleagues, friends, and family. In turn, this helps to build a more competitive U.S. workforce.

THE PEACE CORPS' APPROACH TO DEVELOPMENT

Countries invite the Peace Corps to address their development goals. Volunteers are requested directly by local schools, government offices, and other organizations.

Volunteers live and work at the local, grassroots level.

Volunteers learn local languages and cultures. They build relationships and trust with people in their host communities.

Volunteers use their knowledge of the local context to collaborate with host country partners on projects that address community needs.

Volunteers strengthen the capacity of local individuals and communities to solve their own problems by working closely with host country counterparts.

Local conditions are improved and those improvements are sustained after Volunteers leave.

Volunteers advance grassroots development outcomes (Strategic Goal One) by working in partnership with local communities. In addition, Volunteers are tasked with building a better understanding of Americans in host country communities during their service (Strategic Goal Two). After their service abroad, Volunteers continue as cultural ambassadors and are charged with increasing Americans' knowledge of other cultures (Strategic Goal Three). Returned Volunteers continue their service as global citizens by seeking opportunities to engage in public service and foster intercultural understanding in the United States. The Peace Corps' three strategic goals are dependent upon and reinforce one another. Volunteers regularly contribute to each of the goals while working in their communities.

PEACE CORPS PROGRAMMATIC SECTORS

Volunteer projects vary across the world, since they are designed to respond to local needs. Volunteers' work falls within six programmatic sectors: Agriculture, Community Economic Development, Education, Environment, Health, and Youth in Development. In contrast to the two-year assignments of most Volunteers, Peace Corps Response Volunteers work on short-term, high-impact assignments that may be included in one or more of these sectors.

Education: Teaching lessons that last a lifetime.

Education is the Peace Corps' largest program area. Volunteers play an important role in creating links among schools, parents, and communities. They may work in elementary, secondary, or post-secondary schools, teaching subjects such as math, science, or conversational English; or as resource teachers or teacher trainers. Volunteers also develop libraries and technology resource centers. Volunteers can earn their Teaching English as a Foreign Language (TEFL) certificate through the Peace Corps.

TEFL Certificate Program

Health: Building healthy global communities.

Health Volunteers work within their communities to promote important topics such as nutrition, maternal and child health, basic hygiene, and water sanitation. Volunteers also work in HIV/AIDS education and prevention programs, where they train youth as peer educators, provide support to children orphaned by the disease, and create programs that provide emotional and financial support to families and communities affected by the HIV/AIDS epidemic.

Environment: Forging a global movement to protect the planet.

Volunteers lead grassroots efforts to protect the environment and strengthen understanding of environmental issues. They teach environmental awareness in schools and to local organizations, empowering communities to make their own decisions about how to conserve the local environment. Volunteers also address environmental degradation by promoting sustainable use of natural resources.

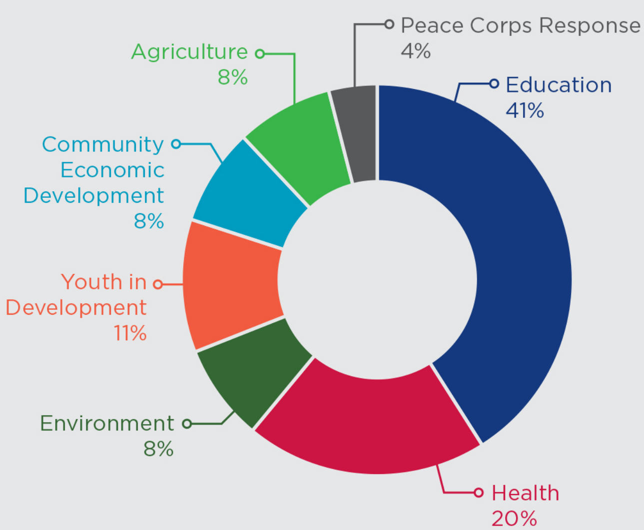
Youth in Development: Empowering the next generation of leaders.

Volunteers work with youth in communities to promote engagement and active citizenship, including gender awareness, employability, health and HIV/AIDS education, environmental awareness, sports and fitness programs, and information technology.

Community Economic Development: Helping communities lift themselves.

Volunteers work with development banks, nongovernmental organizations, and municipalities to encourage economic opportunities in communities. They frequently teach in classroom settings and work with entrepreneurs and business owners to develop and market their products. Some Volunteers also teach basic computer skills and help communities take advantage of technologies that connect them to the global marketplace.

VOLUNTEER SECTORS



Agriculture: Leading grassroots efforts to fight hunger.

Agriculture Volunteers work with small-scale farmers and families to increase food security and production and adapt to climate change while promoting environmental conservation. They introduce farmers to techniques that prevent soil erosion, reduce the use of harmful pesticides, and replenish the soil. They work alongside farmers on integrated projects that often combine vegetable gardening, livestock management, agroforestry, and nutrition education.

Additional information on the Peace Corps programmatic sectors can be found at peacecorps.gov.

STRATEGIC GOALS AND OBJECTIVES

The three goals outlined below are keys to advancing the Peace Corps' mission. These strategic goals are consistent with the three core goals articulated when the Peace Corps was first established in 1961 (The Peace Corps Act, Public Law (P.L.) 87-293–September 22, 1961).

STRATEGIC GOALS

1

BUILDING LOCAL CAPACITY

Advance local development by strengthening the capacity of local communities and individuals through the service of trained Volunteers.

2

SHARING AMERICA WITH THE WORLD

Promote a better understanding of Americans through Volunteers who live and work within local communities.

3

BRINGING THE WORLD BACK HOME

Increase Americans' awareness and knowledge of other cultures and global issues through Volunteers who share their Peace Corps experiences and continue to serve upon their return.

STRATEGIC OBJECTIVES

FY 2017 is the last year for reporting on the 11 strategic objectives outlined in the Peace Corps FY 2014–18 Strategic Plan and the 26 performance goals presented in the FY 2018 Annual Performance Plan. In FY 2018, the Peace Corps will report on new performance goals that align to four strategic objectives and two management objectives chartered in the draft FY 2018–22 Strategic Plan.

STRATEGIC OBJECTIVES IN THE FY 2014–18 STRATEGIC PLAN

1. Volunteer Well-Being
Enhance the safety, security, and health of Volunteers through rigorous prevention and response systems and high-quality medical and mental health services.

2. Service Opportunity of Choice
Position the Peace Corps as the top choice for talented Americans interested in service by reaching a new generation of potential Volunteers and streamlining the application process.

3. Development Impact

Advance community-based development by strengthening the capacity of local individuals and communities, focusing on highly effective technical interventions, and leveraging strategic partnerships.

4. Cross-Cultural Understanding
Build a deeper mutual understanding of other cultures by developing meaningful connections between American and host country individuals and communities.

5. Continuation of Service
Support returned Volunteers' continuation of service by fostering a vibrant alumni network, providing tools and resources to ease their transition after service, and offering opportunities for them to share their experiences.

6. Diversity and Inclusion
Actively recruit, support, and retain a diverse workforce and Volunteer corps and build an inclusive culture that encourages collaboration, flexibility, and fairness.

7. Site Development
Establish an environment conducive to Volunteer success through an integrated approach to developing effective projects, preparing work sites, and successfully collaborating with local partners.

8. Train Up
Develop a highly effective Volunteer corps through a continuum of learning throughout service.

9. High-Performing Learning Organization
Cultivate a high-performing learning organization by investing in professional development for staff, improving staff retention, and strengthening institutional memory.

10. Global Connectivity
Enable seamless communication and collaboration for all Volunteers and staff by modernizing and integrating information technology systems and leveraging the innovation of Volunteers and staff in the field.

11. Measurement for Results
Advance the agency's ability to measure progress, improve performance, and demonstrate impact through integrated monitoring, reporting, and evaluation practices.

PERFORMANCE OVERVIEW AND HIGHLIGHTS

PERFORMANCE IMPROVEMENT

The FY 2014–18 Strategic Plan charted the Peace Corps' path as a global leader in international development and cross-cultural understanding. The plan emphasized and achieved great advances in effective recruitment, diversity and inclusion, and bold communication and outreach. Building upon these reforms, the next FY 2018–22 Strategic Plan focuses on core business, the effective use of data, and the efficient use of resources.

The Peace Corps engages in transparent conversations about performance improvement. The agency uses an evidence-based approach to monitoring and assessing performance that utilizes data to identify the most effective strategies for the greatest impact. The result is an inclusive and participatory culture of performance improvement in which staff at all levels are invested in strengthening agency operations and contributing to the strategic plan.

The Peace Corps' performance improvement system has been institutionalized by a mutually reinforcing design that links agency policies and strategies, country-level strategic planning, project design and implementation, and monitoring and evaluation. The following three elements support this synergistic relationship and serve as the foundational framework for performance improvement at the Peace Corps:

- **Quarterly Performance Reviews:** The Peace Corps utilizes quarterly reviews as the primary mechanism for monitoring and assessing performance throughout the year. During these reviews, key staff from across the agency discuss

performance data from the past quarter and modify strategies to meet performance targets by the end of the fiscal year. In preparation for each review, the agency determines the status of each performance goal in the Annual Performance Plan based on quantitative and qualitative analyses. This quarterly assessment of progress allows the agency to focus on performance goals where there is the greatest need and opportunity for improvement.

- **Integrated Planning and Budget System (IPBS):** Headquarters offices and overseas posts develop operational plans that are consistent with the broader agency strategic plan. IPBS plans are developed during the agency's budget formulation process so that budgets are informed by the resource requirements of those plans. Through the IPBS, the agency is working to better link performance and budget processes to ensure that managers have a comprehensive view of the interconnected relationships and information they need to make program, policy, and budget decisions.

- **Annual Strategic Review:** Each year, the Peace Corps Director leads a forward-looking meeting with the active engagement of senior leadership from across the agency. The goal is to inform the development of the next Annual Performance Plan and IPBS operational plans. Prior to the meeting, lead offices identify challenges, opportunities, and possible realignments for agency

- **Annual Strategic Review: *(Continued)*** strategic objectives. Proposed action steps that emerge from the day's discussions are disseminated through a summary report, and select strategies are incorporated into the following year's Annual Performance Plan and the guidance for IPBS operational plans. This annual meeting is a key opportunity for senior leadership to take part in a comprehensive discussion of long-term courses of action that will maximize organizational collaboration, creativity, and efficiency.

These three foundational performance elements establish a cycle of continuous assessment, adaptation, and cross-office collaboration. The regularity and reliability of this performance cycle encourage an approach to annual budget and resource management decisions that is evidence-based. In the future, the agency plans to further improve its performance and accountability by strengthening the risk assessment tools and mitigation plans that address strengths and weaknesses of domestic and overseas operations.

Performance Goal Results for FY 2017

The Peace Corps' 11 strategic objectives, which contribute to the three interrelated strategic goals described on Page 13, are assessed through 26 measurable performance goals. Each performance goal includes a quantitative level of performance, or "target," to be accomplished within a specific timeframe.

FY 2017 RESULTS LEGEND:

Target met	*100 percent of the target set for FY 2017 was met.*
Slightly below target	*95 to 99 percent of the target set for FY 2017 was met.*
Target not met	*Below 95 percent of the target set for FY 2017 was met.*
Data not available	*Data not available at time of publication.*

Strategic Objective	Performance Goal		Past Performance Results				FY 2017	
			2013	2014	2015	2016	Result	Target
1. Volunteer Well-Being	1.1 Increase Volunteer Satisfaction With Safety and Security Support		*71%*	84%[1]	81%	80%	80%	**80%**
	1.2 Reduce Volunteer Dissatisfaction With Medical and Mental Health Support		*9%*	9%[1]	10%	10%	14%	**7%**
	1.3 Increase Volunteer Personal Safety		--	--	--	0%	41%	**35%**
2. Service Opportunity of Choice	2.1 Volunteer Requests Met		90%	98%	97%	94%	96%	**96-102%**
	2.2 Increase Service Opportunities		7,209	6,818	6,919	7,213	7,376	**9,400**
	2.3 Increase Applications		*10,118*	19,151[1]	24,848	23,987	22,645	**24,000**
3. Development Impact	3.1 Advance Community-Based Development Outcomes		--	76%	75%	76%	75%[2]	**85%**
	3.2 Strengthen Local Capacity		--	--	83%	86%	Data not available	**87%**
	3.3 Improve Feedback to Volunteers		*38%*	55%[1]	54%	57%	52%	**65%**
4. Cross-Cultural Understanding	4.1 Greater Understanding of Americans		--	94%	90%	91%	Data not available	**95%**
	4.2 Increase Cross-Cultural Connections		--	57%	57%	54%	49%	**67%**
5. Continuation of Service	5.1 Support Returned Volunteer Career Transition		--	2,649	2,831	4,116	3,818	**3,250**
	5.2 Increase Returned Volunteer Engagement		--	9,754	10,866	15,426	9,323	**14,000**
6. Diversity and Inclusion	6.1 Increase Applicant Diversity		30%	33%	35%	36%	36%	**35%**
	6.2 Build an Open and Inclusive Organizational Culture	U.S. direct hire staff	--	88%	83%	85%	82%	**90%[3]**
		Host country staff	--	89%	92%	90%	91%	
		Volunteers	--	80%	76%	71%	68%	
7. Site Development	7.1 Improve Site Development		*42%*	59%[1]	59%	62%	62%	**66%**
	7.2 Improve Counterpart Selection and Preparation		*32%*	53%[1]	51%	53%	52%	**59%**
8. Train Up	8.1 Improve Language Learning		--	63%	63%	58%	56%	**65%**
	8.2 Increase Effectiveness of Technical Training		*50%*	63%[1]	63%	64%	63%	**66%**
9. High-Performing Learning Organization	9.1 Improve Staff Training	U.S. direct hire staff	57%	55%	52%	53%	56%	**60%[3]**
		Host country staff	--	62%	66%	69%	72%	
	9.2 Increase Staff Tenure		4.5 years	4.0 years	4.2 years	3.3 years	3.2 years	**4 years**
10. Global Connectivity	10.1 Develop an Integrated Technology Platform		--	15%	45%	49%	79%	**70%**
	10.2 Facilitate Knowledge Sharing		--	77%	78%	77%	78%	**84%**
11. Measurement for Results	11.1 Conduct Baselines		--	0%	100%	100%	25%	**100%**
	11.2 Increase Evidence-Based Decisions		--	68%	86%	95%	84%	**100%**
	11.3 Using Evidence to Encourage Innovation		--	70%	43%	58%	50%	**100%**

[1] *Italicized results should not be compared with later years due to changes in measurement.*
[2] *Data as of Q3 of FY 2017. EOFY 2017 final data will be published in the FY 2017 Annual Performance Report.*
[3] *All listed population groups must reach the performance goal target in order for the goal to be shown as having met its target.*

FORWARD-LOOKING INFORMATION

The administration has set forth a directive for agencies to align the development of Agency Reform Plans with the performance planning requirements of the Government Performance and Results Act Modernization Act of 2010. In September 2017, the agency submitted its draft FY 2018–22 Strategic Plan and Agency Reform Plan as part of the FY 2019 budget submission to OMB. The Peace Corps carefully reviewed operating budgets and made a concerted effort to reduce spending by finding efficiencies in core business processes while maintaining quality support to its Volunteers.

With its mission statement and three strategic goals unchanged in the FY 2018–22 Strategic Plan, the Peace Corps is focused on sustaining core business processes and strengthening infrastructure. The Peace Corps' strategic and management objectives are consistent with the administration's efforts to make the government leaner, more accountable, and more efficient. The FY 2018–22 Strategic Plan has leveraged this transition period as an opportunity to focus on and streamline mission-critical operations. To that end, we have identified six priority areas for the new plan, which will begin measurement and implementation in FY 2018:

- Sustainable Change
- Volunteer Effectiveness
- Volunteer Resilience
- Building Leaders of Tomorrow
- Foundation Business Management
- Organizational Risk Management

Maintaining a strong Peace Corps is integral to U.S. diplomacy and international development. The Peace Corps delivers sustainable results with a comparatively small investment. The agency has undertaken comprehensive reform efforts to streamline and enhance the effectiveness of agency operations and intends to maintain the number of Volunteers in FY 2018 that was achieved in FY 2017. In response to Executive Order 13781: Comprehensive Plan for Reorganizing the Executive Branch and M-17-22: Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce, the agency completed a full review of its domestic positions and processes, determining where certain functions could be streamlined, optimized, or eliminated. In FY 2018, the agency will shift to a centralized salary model and enforce full-time equivalency caps for each office. This change will enable agency leadership to use administrative strategies that align with the Peace Corps' unique structure and appointment authorities to streamline operations while maintaining the agency's focus on its core mission.

The agency is well-positioned to further advance its mission of world peace and friendship through community-based development and cross-cultural understanding as it approaches its 56th anniversary.

ALWAYS HIGHEST PRIORITY: VOLUNTEER SUPPORT

The Peace Corps works in countries facing significant development obstacles and often elevated risks of crime, conflict, or disease. Therefore, many of the agency's performance challenges are defined by the ever-changing conditions of the countries where Volunteers serve. While operating in this complex global environment, the health, safety, and security of Volunteers remain the Peace Corps' highest priority.

Enhancing the agency's Sexual Assault Risk Reduction and Response program continues to be a major focus for the agency. Significant revisions to the agency's initial policy and procedures were finalized in FY 2016 and were successfully implemented in the field in FY 2017. These changes were based on data and experience over the first four years of the policy implementation and should result in additional improvements in the agency's response to Volunteers who are the victims of sexual assault.

The agency has worked closely with nationally recognized experts in the field of sexual assault to implement and evaluate major reforms and comprehensive policies. Our strategy incorporates more than 30 policy changes and extensive training of all Volunteers and staff. Volunteers now have access to the services of a victim advocate

> **"Flexibility, adaptability, and resourcefulness are woven into our DNA, along with the spirit of teamwork and collaboration that has always enabled our small agency to achieve such outsized impact."**
>
> *—Peace Corps Acting Director, Sheila Crowley*

and sexual assault response liaisons at each post; a 24-hour anonymous helpline that provides crisis support and information about the Peace Corps' sexual assault reporting and response procedures; and a new option to report incidents—restricted reporting—which strictly limits access to information about an assault to staff who are providing services requested by the Volunteer.

In FY 2017, the Office of Inspector General (OIG) submitted an assessment of the agency's implementation of the Kate Puzey Act. In response, the Peace Corps has given very careful consideration to the 36 recommendations in the report and has concurred with all of them. The agency is proud of the work done to establish the Sexual Assault Risk Reduction and Response Program as a vehicle to implement the Kate Puzey Act and recognizes that continued vigilance will be needed. The Peace Corps continues to use the findings of the OIG evaluation as a resource for identifying areas for lasting improvements in the care and support of Volunteers.

The Peace Corps also provides support to enhance risk-prevention strategies and safety planning to minimize vulnerable behaviors. Volunteers who engage in safety and security planning are better prepared and able to respond to challenges during service. In FY 2017, the Peace Corps made notable improvements to training and personal safety planning materials for Volunteers. Preliminary post-training assessments have shown that these improvements have enhanced Volunteer knowledge, skills, and self-efficacy for managing day-to-day risks. As of FY 2017/Q3, Volunteer survey respondents said that the agency's new MySafety Guide is a useful resource in helping them to understand the risks (94 percent) and develop strategies to handle the risks (89 percent) associated with Peace Corps service. Moving forward in FY 2018, pilot and control posts will continue to evaluate Volunteer assessments after pre-service and in-service training. The MySafety Guide resource will be revised based on the initial feedback from both Volunteers and staff, and a revised version will be released in FY 2018.

Additional information and continued updates on the agency's efforts to ensure the well-being of Volunteers can be found at peacecorps.gov/safety and at peacecorps.gov/about/inspector-general/kate-puzey-act-resources/.


THE NORTH FACE

ANALYSIS OF FINANCIAL STATEMENTS

Comparative Financial Position (In Thousands)				
	FY 2017	FY 2016	Change (in $)	Change (in %)
Fund Balance with Treasury	$225,766	$227,756	$(1,990)	-1%
Accounts Receivable	2,250	3,187	(937)	-29%
General Property, Plant, and Equipment	32,342	38,291	(5,949)	-16%
Prepaid Volunteer and Living Allowances	1,786	1,702	84	5%
Other Assets	4,847	4,183	664	16%
Total Assets	**$266,991**	**$275,119**	**$(8,128)**	**-3%**
Accounts Payable	15,339	11,321	4,018	35%
Federal Employee and Veteran Benefits	171,783	173,633	(1,850)	-1%
Foreign Service National (FSN) and Personal Service Contractors (PSC) Separation Liability	24,764	24,315	449	2%
Payroll Related Liability	22,787	21,956	831	4%
Non-Entity Funds	26,131	24,569	1,562	6%
Other Liability	59	75	(16)	-21%
Total Liabilities	**$260,863**	**$255,869**	**$4,994**	**2%**
Unexpended Appropriations	158,920	168,185	(9,265)	-6%
Cumulative Results of Operations	(152,792)	(148,935)	(3,857)	3%
Total Net Position	**$6,128**	**$19,250**	**$(13,122)**	**-68%**
Total Liabilities and Net Position	**$266,991**	**$275,119**	**$(8,128)**	**-3%**
Net Cost of Operations	**$433,708**	**$410,699**	**$23,009**	**6%**
Budgetary Resources	**$525,169**	**$519,929**	**$5,240**	**1%**

OVERVIEW OF FINANCIAL POSITION

In FY 2017, the Peace Corps received $410 million in appropriations to support the work of Volunteers and enhance agency operations in furthering its 11 strategic objectives. The Peace Corps operated 61 posts to support 65 countries and recorded transactions in over 70 currencies. Agency resources primarily consisted of funds appropriated by Congress, which provided the agency authority to obligate funds over a two-year period. Agency funding is administered by the U.S. Department of Treasury (Treasury). In addition to appropriated monies, the agency is also authorized to receive donations from the public under 22 U.S.C § 2509(a)(4) of the Peace Corps Act to help further its mission.

As highlighted in the combined FY 2014–18 Strategic Plan and FY 2018 Annual Performance Plan, the agency's 11 strategic objectives are cross-functional among the three strategic goals:

- Building Local Capacity through advancing local development by strengthening the capacity of local communities and individuals through the service of trained Volunteers;
- Sharing America With the World by promoting a better understanding of Americans through Volunteers who live and work within local communities; and
- Bringing the World Back Home and increasing Americans' awareness and knowledge of other culture and global issues through Volunteers who share Peace Corps experiences and continue to serve upon their return.

The agency continues to operate under one program as a result of the unique inter-dependencies of the Peace Corps' three goals to its 11 strategic objectives. As one program, the agency enhances the use of performance and cost information in budgetary decision making through the IPBS, in which headquarters and overseas posts develop strategic plans and resource requests to execute goals. The strategic review provides performance information as an input to the budget formulation process.

Agency activities are presented in the principal statements: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Agency management is accountable for the integrity of the information presented in the financial statements, which were prepared using the Peace Corps' books and records in accordance with the standards prescribed for federal agencies by the Federal Accounting Standards Advisory Board. These statements are audited by an independent certified public accounting firm, Kearney & Company, P.C. The Peace Corps earned an unmodified (clean) opinion on its financial statement for the eleventh consecutive year. The FY 2017 financial statements and accompanying footnote disclosures are presented in the Financial Section of this report.

BALANCE SHEET

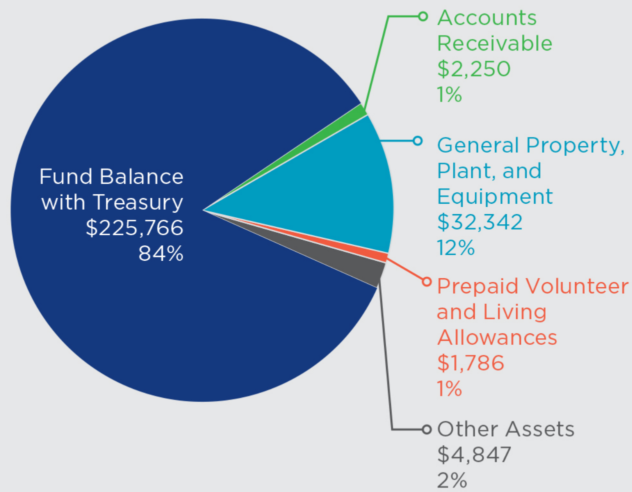
The Balance Sheet presents resources owned and managed by the Peace Corps that have future economic benefits (assets) and amounts owed by the agency that will require future payments (liabilities). The difference between assets and liabilities is the residual amount retained by the Peace Corps (net position) that is available for future programs and capital investments.

ASSETS: WHAT WE OWN

Assets are the amount of current and future economic benefits owned or managed by the Peace Corps to achieve its mission. Total Assets were at $267 million at the end of September 30, 2017, compared to $275 million from the prior year. Fund Balance with Treasury (FBWT) and Property, Plant, and Equipment (PP&E), accounted for 84 percent and 12 percent, respectively of overall agency assets in FY 2017. The FBWT represents monies held within Treasury available to use for appropriated purposes to make future expenditures and pay liabilities. PP&E is comprised of tangible assets, such as information technology hardware, internal-use software, and vehicles owned by the agency. Allocations between asset accounts remained consistent between FY 2017 and FY 2016. FBWT decreased by 1 percent from $227.8 million in FY 2016 to $225.8 million in FY 2017. For PP&E, the balance decreased by $6 million or 16 percent from $38.3 million in FY 2016 to $32.3 million in FY 2017 due to a lower rate of acquisitions for technology assets accompanied with a higher occurrence of retirements for the agency.

As of September 30, 2017, Accounts Receivable balance was as $2.3 million, down by less than $1 million from prior year's balance of $3.2 million. The 29 percent decrease in Accounts Receivable is a combination of the agency performing less work for other federal agencies and improvements in the monitoring and collection of public debt owed to the agency.

FY 2017 ASSET BREAKDOWN
(IN THOUSANDS)



The Peace Corps provides each Volunteer with housing and a living stipend that enables them to live in a manner similar to the people in their community of service. The stipends are paid in advance of the entitlement month to ensure that Volunteers do not incur a financial burden. The Prepaid Volunteer and Living Allowances account slightly increased in FY 2017 by 5 percent from $1.7 million in FY 2016 to $1.8 million in FY 2017. The Peace Corps' Other Assets accounted for 2 percent of the overall balance in FY 2017 amounting to $4.8 million. Other Assets consisted of non-Volunteer related prepayments for rent, prepaid Information Technology (IT) maintenance costs, and travel advances.

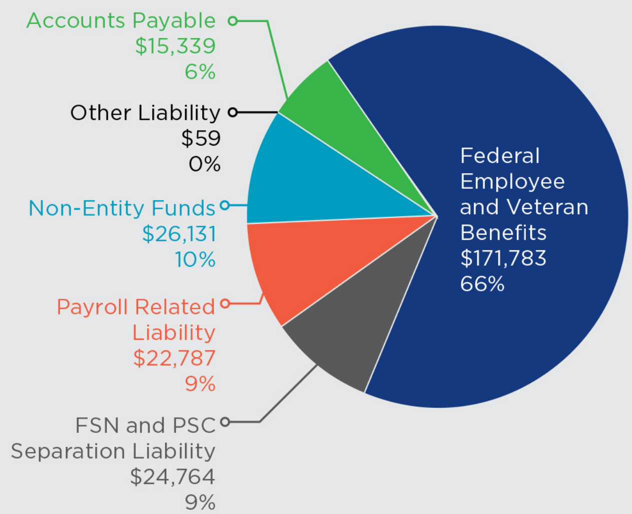
LIABILITIES: WHAT WE OWE

Liabilities are amounts owed by the Peace Corps for goods and services provided but not yet paid—specifically, monies owed to the public and other federal agencies. Total Liabilities remained steady between the two fiscal years, with only a 2 percent increase from FY 2017 to FY 2016. Total Liabilities in FY 2017 were $260.9 million, $5 million higher than the FY 2016 balance of $255.9 million. Sixty-six percent of the agency's liabilities in FY 2017 were Federal Employee and Veteran Benefits to cover worker's compensation benefits to Peace Corps Volunteers and employees who are injured or develop conditions while on duty with the agency. This cost, also known as Federal Employees' Compensation Act (FECA) is the workers' compensation program for federal employees that is administered by the Department of Labor (DOL). The FY 2017 balance of $171.8 million, slightly decreased by $1.8 million from $173.6 million in FY 2016. This represents a 1 percent decrease as a result of fewer claims paid by DOL on behalf of the Peace Corps.

The diverse Peace Corps workforce consists of U.S. direct hire staff and host country staff, comprised of Foreign Service Nationals (FSN) and Personal Service Contractors (PSC). The agency is liable for severance and post-retirement benefits to eligible PSC and FSN who work in countries that require such payments under the country's local labor laws; the liability accrued for these hires comprised 9 percent of overall liabilities as of September 30, 2017. In FY 2017, the agency's liability was $24.8 million. The 2 percent increase from FY 2016 balance of $24.3 million is due to sustained length of service and retention rates of PSC and FSN at their posts, which proportionately increases the effective future liability.

Non-Entity Funds constituted 10 percent of Total Liabilities at the end of FY 2017. Non-Entity Funds are assets held by the Peace Corps that are unavailable for operations use, and for which a liability has been recorded. In FY 2017, Non-Entity Funds were comprised of future liability for the readjustment allowance due to the Volunteer upon completion of Peace Corps service. This allowance helps Volunteers in their transition from the Peace Corps to other endeavors. Non-Entity Funds were higher by 6 percent to $26.1 million in FY 2017 due to the increased number of Volunteers; the FY 2016 balance was $24.6 million.

FY 2017 LIABILITIES BREAKDOWN
(IN THOUSANDS)



NET POSITION: WHAT WE HAVE DONE OVER TIME

Net position comprises Unexpended Appropriations and Cumulative Results of Operations. The Peace Corps net position decreased by $13.1 million, from $19.2 million in FY 2016 to $6.1 million at September 30, 2017.

STATEMENT OF NET COST

The Statement of Net Cost reports the agency's net cost of operations for a given fiscal year. Net cost of operations is the difference between the costs incurred minus earned revenue. The agency's cost of operations increased from $410.7 million in FY 2016 to $433.7 million in FY 2017. The variance of $23 million was due to higher costs incurred in enriching agency operations both at headquarters and at the posts. Expenses were attributable to Volunteer costs and support, strategic programs enhancement, and employee payroll and benefits.

STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) summarizes how varying sources of budgetary funding were made available during the year and their status by the end of the fiscal year. The agency ended the year with Budgetary Resources of $525.2 million in comparison to $519.9 million in FY 2016. Appropriations received by the agency remained the same between FY 2016 and FY 2017 at $410 million. The agency also received $3.4 million in donations or dedicated collections, which were accounted for in a separate fund account to be used for purposes instructed by the donor.

The Peace Corps collections is comprised of reimbursable work that the agency performs on behalf of other federal agencies. In FY 2017, the Peace Corps performed work for the U.S. Agency for International Development, amounting to $6.8 million for programming on Feed the Future, Global Education, and Maternal and Child Health programs. The agency also performed work on behalf of the Department of State through an allocation transfer for President's Emergency Plan for AIDS Relief (PEPFAR). PEPFAR funds of $39 million are not reflected in these financial statements as this amount is reported by the Department of State.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Peace Corps, pursuant to the requirements of 31 United States Code (U.S.C) 3515(b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Peace Corps performs an assessment of internal controls designed to support compliance with the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control. In compliance with the new requirement to OMB A-123, under M-16-17, dated July 2016, the Peace Corps selected a team of individuals from various offices to collaborate in the development and implementation of a risk governance structure for the agency. As part of the FY 2018-22 Strategic Plan, Organization Risk Management was established as one of the six key priority areas for improvement over the next four years for the agency. With the combined efforts to implement ERM and future improvements in internal control program, the Peace Corps can proactively address key risks areas and improve operational efficiency and effectiveness.

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT

FMFIA mandates that agencies establish effective internal control to provide reasonable assurance that (1) obligations and costs are in compliance with applicable law; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

FMFIA requires agencies to establish accounting and administrative controls to include program, operational, administrative areas, and accounting and financial management. It also requires standards to ensure the prompt resolution of all audit

findings. This act directs agency heads to annually evaluate and report in an assurance statement on the adequacy of internal and administrative controls (Section 2) and on conformance of systems with government-wide standards (Section 4).

INTERNAL CONTROL GUIDANCE AND IMPLEMENTATION OF THE FMFIA

Guidance for implementing FMFIA (31 U.S.C. 3512) is provided through OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, that further defines management's internal control responsibilities in federal agencies, including the financial management systems. The Peace Corps Manual Section 784, Internal Control System, sets out the policies and procedures for establishing, assessing, correcting, and reporting on internal control. The FY 2017 unmodified management assurance statement follows later in this section.

INTERNAL CONTROL OPERATIONS

During the FY 2017 financial statement audit, the agency achieved an unmodified (clean) audit opinion on the financial statements. Legal compliance was addressed through auditor testing of selected laws and regulations. Two significant deficiencies and one instance of noncompliance with laws and regulations were found with no material weaknesses identified. See Appendix 1 for the planned timeframes for correcting FY 2017 audit findings.

Monitoring the effectiveness of internal control occurs in the normal course of conducting agency business. Each year, associate and regional directors are required to perform an internal risk assessment of their program, and sign an assurance of compliance on internal controls. The reviews conducted during FY 2017 by each office revealed internal controls issues and risks, but none that would rise to a level of a material weakness. Risks identified were addressed by the Senior Assessment Team and improvements to mitigate vulnerabilities will be put in place and monitored closely within the agency in FY 2018.

In summary, the agency's internal control program is designed to ensure compliance with the requirements of FMFIA and other federal regulations.

IMPROPER PAYMENTS INFORMATION ACT

The Peace Corps is a small agency with only one program and has no activities that are risk-susceptible to the threshold amounts in Memorandum M-15-02, OMB Circular A-123's Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments. This circular implements the Improper Payments Elimination and Recovery Act of 2010, which amended the Improper Payments Information Act of 2002. Significant improper payments are defined as gross annual improper payments exceeding both 1.5 percent of program outlays and $10 million of all program or activity made during the fiscal year reported or $100 million (regardless of the improper payment percentage of total program outlays). While not rising to the level of the improper payment thresholds above, agency payments were reviewed during FY 2017 based on different dollar values, and those payments in the amount of $250,000 and above were subjected to an extensive review through a semiannual system-generated report. Further, the Peace Corps is a full participant in the Treasury's "Do Not Pay" program operating through the Treasury Do Not Pay Business Center. Payees under consideration for payment are reviewed for eligibility through the pre-award component of the business center, payments then are re-verified in the pre-payment component, followed by post-payment data matching reviews.

DEBT MANAGEMENT CONTROLS

The Peace Corps manages a limited amount of debt under the provisions of the Debt Collection Improvement Act of 1996, OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, the Controller Alert, Improving Collection of Delinquent Debt issued January 4, 2013, and other laws. The agency focused on a more effective method of collecting debt and maintaining low receivable balances, resulting in a 30 percent decrease in public receivables as of September 30, 2017. In FY 2017, the agency wrote off uncollectable debts and delinquent balances older than two years in the amount of $13,272 and submitted quarterly reports through the Treasury Report on Receivables.

DATA ACT

Digital Accountability and Transparency Act of 2014 (DATA Act) (P.L. 113-101) was signed into law in May 2014 to establish government-wide financial data standards and increase the availability, accuracy, and usefulness of Federal spending information. DATA Act implementation, which is being led by Treasury and OMB, mandates federal agencies to report on procurement data to bring awareness on federal spending. Pursuant to the statutory reporting requirements under DATA Act, the Peace Corps submitted award-level information for posting on USASpending.gov using the required standard data exchange called the DATA Act Schema by the prescribed due date of May 9, 2017. As additionally required under DATA Act, the OIG contracted Kearney and Company, P.C. to conduct a performance audit over the Peace Corps' implementation of this federal mandate. The OIG's report on the completeness, timeliness, quality, and accuracy of data sampled for this audit and the implementation and use of government-wide financial data standards by the agency can be found in PeaceCorps.gov.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

The Peace Corps strives to maintain and enhance financial management systems, processes, and controls that ensure financial accountability and transparency, provide financial management data and information to decision makers, and comply with Federal laws, regulations, and policy. Oracle E-Business Suite (also known as Odyssey) is the agency's system of record and is integrated with various end-user applications to help capture all financial transaction activities of the agency.

To ensure compliance with new federal mandates and regulations, several application upgrades were accomplished during the fiscal year; Odyssey to comply with the DATA Act and Compuseach PRISM, used for acquisition and contract management, to adhere with new Federal Procurement Database System reporting requirements. As part of the agency's strategy to improve efficiency in operations, the Peace Corps virtualized all the financial system databases and application servers. This effort will produce future costs savings and flexibility and ease of future necessary upgrades.

In FY 2017, the agency completed in-house development for the custom financial application, FOR Post Web, used for overseas budget execution, cashiering, and financial reporting. FOR Post Web was successfully implemented in eighty percent of field offices. Upgrade for the remaining Posts will be completed by the December, 2017. FOR Post Web improves financial processing and reporting overseas and streamlines the integration with Odyssey. Additionally, the Peace Corps new Volunteer Delivery System, DOVE, the official system of record for all Peace Corps Volunteers, was integrated with Odyssey. Integration of the two systems improves the tracking and reporting of Volunteer information.

The FMFIA Unmodified Management Assurance Statement that follows is consistent with the FY 2017 financial statement audit report.

FY 2017 FMFIA UNMODIFIED MANAGEMENT ASSURANCE STATEMENT

Management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). We assessed the effectiveness of internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations in accordance with FMFIA Section 2 and Office of Management and Budget (OMB) Circular A-123. Relying on this assessment, the Peace Corps can provide reasonable assurance for FY 2017 that its internal control over the effectiveness and efficiency of operations and financial reporting was operating effectively. No material weaknesses were found in the design or operation of the internal controls. No instance of noncompliance with applicable laws and regulations were identified.

The Peace Corps conducted its assessment of whether the financial management systems conform to government-wide financial systems requirements in accordance with FMFIA Section 4. Based on this assessment, the Peace Corps can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of FMFIA Section 4 and OMB Circular A-123 for FY 2017 with the exception of one nonconformance with Federal Information Security Modernization Act of 2014 (FISMA). In accordance with OMB Bulletin No. 17-03, this is not considered a material weakness. Details of the FISMA nonconformance are in Appendix 1.

Sheila Crowley
Acting Director
November 7, 2017

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FINANCIAL SECTION

Peace Corps

FINANCIAL STATEMENTS

Peace Corps
Consolidated Balance Sheets
As of September 30, 2017 and 2016
(In Thousands)

	2017	2016
Assets		
Intragovernmental		
Fund Balance with Treasury (Notes 2 and 3)	$ 225,766	$ 227,756
Accounts Receivable (Note 4)	1,822	2,572
Total Intragovernmental	227,588	230,328
Accounts Receivable, Net (Note 4)	428	615
General Property, Plant, and Equipment, Net (Note 5)	32,342	38,291
Other		
Prepaid Volunteer Living Allowances (Note 6)	1,786	1,702
Other Assets (Note 7)	4,847	4,183
Total Assets	$ 266,991	$ 275,119
Liabilities		
Intragovernmental		
Accounts Payable	$ 5,783	$ 1,929
Other		
Unfunded FECA Liability (Note 8)	30,206	29,973
Other Liabilities (Notes 8 and 9)	59	72
Total Intragovernmental	36,048	31,974
Accounts Payable	9,556	9,392
Federal Employee and Veteran Benefits (Note 8)	141,577	143,660
Other		
Other Unfunded Employment Related Liability (Note 8)	5,614	5,009
Liability for Non-Entity Assets (Notes 2 and 8)	26,131	24,569
Accrued Funded Payroll and Leave	5,164	5,143
Unfunded Annual Leave (Note 8)	12,009	11,804
FSN and PSC Separation Liability (Note 9)	24,764	24,315
Contingent Liability (Notes 9 and 11)	-	3
Total Liabilities	$ 260,863	$ 255,869
Commitments and Contingencies (Note 11)		
Net Position		
Unexpended Appropriations	158,920	168,185
Cumulative Results of Operations	(152,792)	(148,935)
Total Net Position	$ 6,128	$ 19,250
Total Liabilities and Net Position	$ 266,991	$ 275,119

The accompanying notes are an integral part of these statements.

Peace Corps
Consolidated Statements of Net Cost
For the Years Ended September 30, 2017 and 2016
(In Thousands)

	2017	2016
Gross Program Costs		
Gross Costs	$ 440,798	$ 419,689
Less: Earned Revenue (Note 12)	(7,090)	(8,990)
Net Cost of Operations	$ 433,708	$ 410,699

The accompanying notes are an integral part of these statements.

Peace Corps
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2017 and 2016
(In Thousands)

	2017	2016
Cumulative Results of Operations		
Beginning Balances	$ (148,935)	$ (150,510)
Budgetary Financing Sources		
Appropriations Used	417,717	397,783
Donations and Forfeitures of Cash and Cash Equivalents	3,383	3,179
Other Financing Sources (Nonexchange)		
Transfers In/Out Without Reimbursement	485	771
Imputed Financing (Note 18)	4,713	7,341
Other	3,553	3,200
Total Financing Sources	429,851	412,274
Net Cost of Operations	433,708	410,699
Net Change	(3,857)	1,575
Cumulative Results of Operations	(152,792)	(148,935)
Unexpended Appropriations		
Beginning Balance	168,185	157,215
Budgetary Financing Sources		
Appropriations Received	410,000	410,000
Other Adjustments	(1,548)	(1,247)
Appropriations Used	(417,717)	(397,783)
Total Budgetary Financing Sources	(9,265)	10,970
Total Unexpended Appropriations	158,920	168,185
Net Position	$ 6,128	$ 19,250

The accompanying notes are an integral part of these statements.

Peace Corps
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(In Thousands)

	2017	2016
Budgetary Resources		
Unobligated Balance Brought Forward, Oct 1	$ 82,670	$ 69,526
Recoveries of Unpaid Prior Year Obligations	14,122	22,724
Other Changes in Unobligated Balance	1,571	3,634
Unobligated Balance from Prior Year Budget Authority, Net	98,363	95,884
Appropriations (Discretionary and Mandatory)	416,923	416,380
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	9,883	7,665
Total Budgetary Resources	$ 525,169	$ 519,929
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total) (Note 13)	$ 474,117	$ 437,259
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	32,682	67,046
Exempt from Apportionment, Unexpired Accounts	3,859	2,605
Unapportioned, Unexpired Accounts	6,387	5,510
Unexpired Unobligated Balance, End of Year	42,928	75,161
Expired Unobligated Balance, End of Year	8,124	7,509
Unobligated Balance, End of Year (Total)	51,052	82,670
Total Budgetary Resources	$ 525,169	$ 519,929
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, Oct 1	$ 125,248	$ 125,430
New Obligations and Upward Adjustments	474,117	437,259
Outlays (Gross)	(431,903)	(414,717)
Recoveries of Prior Year Unpaid Obligations	(14,122)	(22,724)
Unpaid Obligations, End of Year	153,340	125,248
Uncollected Payments:		
Uncollected Pymts, Fed Sources, Brought Forward, Oct 1	(4,731)	(9,392)
Change in Uncollected Pymts, Fed Sources	(23)	4,661
Uncollected Pymts, Fed Sources, End of Year	(4,754)	(4,731)
Memorandum (non-add) Entries:		
Obligated Balance, Start of year	$ 120,517	$ 116,038
Obligated Balance, End of year	$ 148,586	$ 120,517
Budget Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	$ 426,806	$ 424,045
Actual Offsetting Collections (Discretionary and Mandatory)	(12,979)	(17,207)
Change in Uncollected Pymts, Fed Sources (Discretionary and Mandatory)	(23)	4,661
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	3,119	4,881
Budget Authority, Net (Total) (Discretionary and Mandatory)	$ 416,923	$ 416,380
Outlays, Gross (Discretionary and Mandatory)	$ 431,903	$ 414,717
Actual Offsetting Collections (Discretionary and Mandatory)	(12,979)	(17,207)
Outlays, Net (Total) (Discretionary and Mandatory)	418,924	397,510
Distributed Offsetting Receipts	(2,719)	(2,746)
Agency Outlays, Net (Discretionary and Mandatory)	$ 416,205	$ 394,764

The accompanying notes are an integral part of these statements.

FINANCIAL STATEMENTS (FOOTNOTES)

Note 1 Significant Accounting Policies

a) Reporting Entity

The Peace Corps was initially established by President John F. Kennedy pursuant to Executive Order 10924 on March 1, 1961, and was subsequently formalized by the Peace Corps Act of 1961. The Peace Corps is an independent agency within the executive branch of the United States government.

Peace Corps' core mission is to promote world peace and friendship by fulfilling three goals: 1) To help the people of interested countries in meeting their needs for trained Volunteers; 2) To help promote a better understanding of Americans on the part of the peoples served; and, 3) To help promote a better understanding of other peoples on the part of Americans.

b) Basis of Presentation

The financial statements present the financial position, the net cost of operations, and changes in net position, along with budgetary resources activities of the agency pursuant to the requirements of 31 U.S.C. 3515(b). They have been prepared using the Peace Corps' books and records in accordance with agency accounting policies, the most significant of which are summarized in this note. The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements are presented in accordance with the applicable form and content requirements of OMB Circular A-136, Financial Reporting Requirements, issued August 15, 2017. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

The financial activities of the agency are categorized between entity and non-entity assets and reported and non-reported balances. Entity assets are those assets which the agency has authority to use in its operations, while non-entity assets are assets that are currently held by the Peace Corps but are not available for use by the agency. Although both entity and non-entity assets are in the custody and management of the agency, they are reported but segregated for presentation purposes.

The Peace Corps' accounting policies follow Federal Accounting Standards Advisory Board standards and other generally accepted accounting principles for the United States federal government.

The financial statements represent intragovernmental and public activities. The intragovernmental balances, revenues, and costs reflect financial transactions between the Peace Corps and other federal agencies. Public activities are those with non-governmental customers, including Volunteers, contributors, employees, contractors, and vendors.

Federal Financial Statements	
Statement	**Federal Objective**
Balance Sheet	Reflects the agency's financial position as of the statement date. The assets are the amount of current and future economic benefits owned or managed by the agency. The liabilities are amounts owed by the agency.
Statement of Net Cost	Shows separately the components of the net cost of the agency's operations for the period. Net cost is equal to the gross cost incurred by the agency, less any exchange revenue from its activities.
Statement of Changes in Net Position	Explains how the net cost of the agency's operations was funded, and reports other changes in the equity that are not included in the Statement of Net Cost. It reflects the changes in both the proprietary and the budgetary activities through the respective components: Cumulative Results of Operations and Unexpended Appropriations.
Statement of Budgetary Resources	Provides information about how the budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the agency's budgetary general ledger in accordance with budgetary accounting rules.

c) Basis of Accounting

Accounting principles encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Under the budgetary basis fund availability is recorded based upon legal considerations and constraints. The agency receives financing sources through direct appropriations from the general fund of the U.S. Treasury and offsetting collections to support its operations. "Appropriations Used" recognizes that appropriation authority has been applied against received goods and services.

d) Fund Accounting Structure

The agency's financial activities are accounted for by the U.S. Treasury Appropriation Fund Symbols. They include accounts for appropriated funds and other fund groups described below for which the Peace Corps maintains financial records.

General Funds - These funds consist of the receipts and expenditures by the Peace Corps that are not earmarked by law for a specific purpose and used to fund agency operations and capital expenditures.

Special or Trust Funds - These funds consist of receipts and expenditures by the Peace Corps for carrying out specific purposes and programs in accordance with terms of the statute that designates the fund as a special fund or trust fund.

Deposit Funds - These funds consist of monies held temporarily by the Peace Corps as an agent for others. These include allowance and allotment accounts for employees and Volunteers. The balances in these funds are non-entity assets and are only reported on the face of the Balance Sheet.

General Fund Receipt Accounts - These funds consist of monies collected by the Peace Corps that are returned to the U.S. Treasury and not available for the Peace Corps' use. The balances in these funds are excluded from the financial statements.

e) Budget Authority

Congress annually passes multi-year appropriations that provide the agency with authority to obligate funds over a two-year period for necessary expenses to carry out operations. After the right to create new obligations has expired, this two-year budget authority is available for five additional years for adjusting obligations and for completing the liquidation of open obligations, advances, and receivables. After the five-year period, all open transactions for the respective fiscal year will be cancelled and funds will be returned to the U.S. Treasury. Any valid claims associated with these funds after closure must be processed against current year appropriations.

In addition, Congress enacts no-year appropriations that are available until expended. All appropriations are subject to OMB apportionment as well as Congressional restrictions. The agency places internal restrictions to ensure the efficient and proper use of all funds.

The Peace Corps has discretionary and mandatory spending of its budget authority. The general funds, which are funded by multi-year appropriations from Congress, are discretionary. The special and trust funds, which were authorized by permanent laws, are considered mandatory spending for donations received from the private entities and to account for retirement and separation of Host Country Resident Personal Services Contractors and Foreign Service Nationals*.*

f) Revenues and Other Financing Sources

The Peace Corps' operations are financed through appropriations, proceeds from the sale of property, and inter-agency agreements. For financial statement purposes, appropriations are recorded as a financing source and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures.

g) Fund Balance with Treasury

Fund Balance with Treasury consists of general, special, and trust funds that are available to pay current liabilities and finance authorized purchase commitments, and special funds that periodically are direct-financing reimbursements to the appropriated funds.

The agency does not maintain agency cash in commercial bank accounts. All cash receipts and disbursements are processed by the U.S. Treasury or the Department of State (DOS).

The funds that make up post cashiers' imprest funds belong to the U.S. Treasury through DOS's accountability.

These funds are routinely used to pay for low value purchases of goods and services and are also used to make an occasional emergency payment. Per agreement with DOS, the Peace Corps is responsible for any losses incurred by the cashiers. All international payments made by DOS on behalf of the Peace Corps are charged to the Peace Corps and reduce the applicable Peace Corps' fund balance in U.S. Treasury records.

Fund Balance with Treasury is carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

h) Foreign Currency

Accounting records for the agency are maintained in U.S. dollars, while a significant amount of the overseas expenditures are in foreign currencies. For accounting purposes, overseas obligations and disbursements are recorded in U.S. dollar equivalents, based on the budgeted rate of exchange as of the date of the transaction. U.S. disbursing officers located at the Global Financial Services centers in Charleston, South Carolina and Bangkok, Thailand make foreign currency payments.

i) Accounts Receivable

Accounts receivable includes amounts due from other federal entities and from current and former employees and Volunteers. Annually, a determination of the amount of the Allowance for Doubtful Accounts will be established for material amounts of non-federal (public) debt exceeding $30,000. The agency recognizes an Allowance for Doubtful Accounts when it is determined that the amounts are not likely to be collected. Accounts with approved payment plans in place and for which the debtor is meeting the terms of the plan are exceptions to this write-off policy.

j) Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expenses when the related goods and services are received. Advances are made principally to agency employees for official travel and prepayments to Volunteers for living allowances.

Pursuant to Section 5(b) of the Peace Corps Act, Peace Corps Volunteers are entitled to a living allowance in order that they may serve effectively and safely overseas. Living allowances are paid to Volunteers to provide support while in their country of assignment. Allowances are based on local living standards and costs, including food, clothing, household items, rent, utilities, and local transportation.

k) Property, Plant, and Equipment (PP&E)

The agency capitalizes Property, Plant, and Equipment that has an individual acquisition cost of $25,000 or greater, has a useful life of two years or more, is not intended for sale in the ordinary course of business, and is intended to be used or available for use by the entity. Aggregate purchases of General Property, Plant, and Equipment in the amount of $100,000 or greater are capitalized. Costs incurred for major building rehabilitations of $25,000 or greater are initially recorded as Construction in Progress, then after project completion are capitalized as transferred to Leasehold Improvements and amortized over the remaining life of the lease. Software purchased for $25,000 or developed for internal use at a cost of $25,000 or greater is capitalized and amortized over its expected life (currently two to nine years). IT hardware is capitalized and amortized over its expected life of three to fifteen years. Vehicles in the amount of $10,000 and over are capitalized over their useful life of five years for assets acquired in FY 2013 and prior and six years for purchases made in or after FY 2014. The agency uses an estimated salvage value of 40 percent for vehicles. Land and anything attached to it, such as buildings located overseas, are capitalized at their fair market value at the time of transfer, regardless of their acquisition cost. Buildings are depreciated with a ten year useful asset life. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method.

l) Accounts Payable and Other Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted.

m) Employee Benefits

I. *Federal Employees' Compensation Act (FECA) Accrued Claims* - FECA provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases through the DOL. The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the Peace Corps. The Peace Corps reimburses DOL as funds are appropriated for this purpose, generally resulting in a two-year lag in payment. This is the liability for the actual claims paid by DOL to be reimbursed by the Peace Corps.

II. *Future Workers Compensation Benefits* - The second component of FECA is the estimated actuarial liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. DOL determines this component annually as of September 30, and the Peace Corps recognizes an unfunded liability to DOL for estimated future payments.

III. *Accrued Leave* - A liability for annual leave is accrued as leave is earned and paid when leave is taken or employment terminates. Accrued annual leave is paid from future funding sources and is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

IV. *Employee Health Benefits and Life Insurance* - The agency's employees are eligible to participate in the contributory Federal Employees Health Benefit Program and the Federal Employees Group Life Insurance Program. The agency contributes to each program to pay for current benefits.

V. *Post-Retirement Health Benefits and Life Insurance* - Agency employees who may be eligible to participate in the Federal Employees Health Benefit Program and the Federal Employees Group Life Insurance Program could continue to do so during retirement. The Office of Personnel Management (OPM) has provided the agency with cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The agency recognizes a current cost for these and other retirement benefits at the time of employment with the agency. The other retirement benefit expense is financed by OPM and offset by the agency through the recognition of an imputed financing source on the Statement of Changes in Net Position.

VI. *Employee Retirement Benefits* - Peace Corps direct hire employees participate in one of three retirement systems: Civil Service Retirement System, Federal Employees Retirement System, or the Foreign Service Retirement and Disability System. Foreign Service National (FSN) employees at overseas posts who were hired prior to January 1, 1984, are covered under the Civil Service Retirement System. FSNs hired after that date, as well as most host country residential personal services contractors (PSC), are covered under a variety of local compensation plans in compliance with the host country's local laws and regulations.

    The Peace Corps recognizes its share of the cost of providing future pension benefits to eligible employees throughout their period of employment. The pension expense not covered by budgetary resources is calculated using actuarial factors provided by OPM and is considered imputed cost to the agency.

VII. *Valuation of Host Country Resident Personal Services Contractor Separation Liability* - The Peace Corps is generally liable for separation or retirement payments to eligible PSCs in countries that require payments under local labor laws. The estimate of the current and future costs of the separation and retirement liability is determined quarterly.

VIII. *Valuation of Foreign Service National Liability* - The Peace Corps is generally liable for separation or retirement payments to FSNs who are employed by the agency in countries that require payments under local labor laws. The estimate of the current and future costs of the separation and retirement liability is determined quarterly.

n) Commitments and Contingencies

The agency is involved in various administrative proceedings, legal actions, and claims arising in the ordinary course of executing the Peace Corps mission. Contingencies are recognized as a liability when a future outflow or other sacrifice of resources is probable and measurable.

o) Funds from Dedicated Collections

Under 22 U.S.C § 2509(a)(4) of the Peace Corps Act, the agency is authorized to accept gifts of voluntary service, money, or property, for use in the furtherance of the purposes of its mission. The donated monies received by the agency from non-federal sources meet the prescribed criteria of Funds from Dedicated Collections. The amount of donations received was $3,385,312 as of September 30, 2017 and $3,150,201 as of September 30, 2016.

p) Use of Estimates

The preparation of financial statements required management to make some estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates.

q) Interest on Late Payments

Occasionally, the agency incurs interest penalties on late payments. Such interest penalties are paid to the respective vendor in accordance with the guidelines mandated by the Prompt Payment Act of 1985, P.L. 97–177, as amended.

r) Intragovernmental Net Costs

The Statement of Net Cost is consolidated for the agency using a budget functional classification code. This code is used to classify budget resources presented in the budget of the United States government per OMB. The agency is categorized under budget functional classification code number 150—International Affairs. Gross cost and earned revenues from other intragovernmental agencies (reimbursable agreements) fall under this code.

s) Adjustments to Maintain Inherent Account Relationship Integrity

The agency performs analytical tie-points to maintain inherent accounts relationships between proprietary and budgetary accounts, in compliance with United States Standard General Ledger posting logic. Adjustments are made at the appropriation fund code level prior to the submission of the agency's monthly trial balance via Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System.

t) Allocation Transfer

The Peace Corps is a party to allocation transfers with the DOS as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U. S. Treasury as a subset of the parent fund account (DOS) for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity (the Peace Corps) are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived.

u) Fiduciary Activities

Fiduciary activities consist of Host Country Contributions provided to the Peace Corps by the host country government which are accepted under the authority of Section 22 U.S.C. 2509(a)(4) of the Peace Corps Act. These contributions provide host country support for the Peace Corps and help defray expenses, enabling the agency to use its budget more effectively. The host country retains ownership though the funds are deposited in special foreign currency accounts in the U.S. Treasury. As such, these funds are not reported on the Balance Sheet. Any funds not used are returned to the host country.

v) Reclassifications

Certain amounts in the prior year's SBR have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported SBR.

Note 2 Non-Entity Assets

Non-entity assets are composed of a deposit fund and clearing accounts. These funds are not available for the use of the Peace Corps and are not part of the Peace Corps' resources. The Peace Corps monitors collections, status, and distribution. Below are the U.S. Treasury fund balances of non-entity assets which are non-governmental.

Non-Entity Assets	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Deposit Fund	$ 26,018	$ 23,838
Clearing Accounts	113	731
Total Non-Entity Assets	26,131	24,569
Total Entity Assets	240,860	250,550
Total Assets	**$ 266,991**	**$ 275,119**

Deposit Fund - The deposit fund is comprised of the Volunteer readjustment allowance earned by Volunteers for each month of satisfactory service and payable upon their return to the United States.

Clearing Accounts - The proceeds of sales funds represent cash received from the sale of assets, primarily vehicles, and are available once transferred to Peace Corps appropriated funds to be reinvested in a like-kind replacement purchase (e.g., proceeds from vehicle sales used to purchase replacement vehicles).

Note 3 Fund Balance with Treasury		
Fund Balances	**September 30, 2017** *(In Thousands)*	**September 30, 2016** *(In Thousands)*
Appropriated Funds	$ 170,919	$ 176,154
Special Funds	22,130	21,161
Trust Funds	6,586	5,872
Non-Entity Assets (Note 2)	26,131	24,569
Total	**$ 225,766**	**$ 227,756**
Status of Fund Balance with Treasury	**September 30, 2017** *(In Thousands)*	**September 30, 2016** *(In Thousands)*
Unobligated Balance		
Available	$ 36,541	$ 69,562
Unavailable	14,511	13,019
Obligated Balance Not Yet Disbursed	148,583	120,516
Non-Budgetary FBWT	26,131	24,569
Total	**$ 225,766**	**$ 227,756**

Fund Balance with Treasury is equal to the unobligated balance of funds plus the obligated balance not yet disbursed.

Available Unobligated Balance - Composed of apportionments available for allotment plus allotments available for commitment or obligation.

Unavailable Unobligated Balance - Composed of unapportioned authority plus unobligated appropriation authority from prior years that is no longer available for new obligations. This latter authority is only available for adjustments to existing obligations.

Non-Budgetary Fund Balance with Treasury - This represents non-entity assets of the agency.

Note 4 Accounts Receivable, Net			
Accounts Receivable as of September 30, 2017 (In Thousands)	**Accounts Receivable, Gross**	**Allowance for Doubtful Accounts**	**Accounts Receivable, Net**
Intragovernmental	$ 1,822	$ -	$ 1,822
Other	428	-	428
Total	**$ 2,250**	**$ -**	**$ 2,250**
Accounts Receivable as of September 30, 2016 (In Thousands)	**Accounts Receivable, Gross**	**Allowance for Doubtful Accounts**	**Accounts Receivable, Net**
Intragovernmental	$ 2,572	$ -	$ 2,572
Other	615	-	615
Total	**$ 3,187**	**$ -**	**$ 3,187**

Intragovernmental receivables are due from other federal agencies for services provided under reimbursable agreements. Other accounts receivable are due from non-federal entities, consisting primarily of receivables from employees. Based upon the agency's policy, it was determined that the establishment of an Allowance for Doubtful Accounts was not necessary as of September 30, 2017 and September 30, 2016.

Note 5 General Property, Plant, and Equipment, Net

Components of General Property, Plant, and Equipment as of September 30, 2017 (In Thousands)	Useful Life in Years	Cost	Accumulated Depreciation	Net Book Value
Land		$ 43	$ -	$ 43
Buildings	10	463	303	160
Construction in Progress		-	-	-
General Property, Plant, and Equipment	5-10	4,381	2,709	1,672
Vehicles	5-6	24,166	7,008	17,158
IT Hardware	3-15	14,346	12,042	2,304
Leasehold Improvements	2-10	9,466	7,426	2,040
Internal-Use Software in Development		-	-	-
Internal-Use Software	3-9	48,018	39,053	8,965
Total		**$100,883**	**$ 68,541**	**$ 32,342**

Components of General Property, Plant, and Equipment as of September 30, 2016 (In Thousands)	Useful Life in Years	Cost	Accumulated Depreciation	Net Book Value
Land		$ 43	$ -	$ 43
Buildings	10	463	241	222
Construction in Progress		15	-	15
Equipment and Furniture	5-10	4,657	2,458	2,199
Vehicles	5-6	24,857	7,845	17,012
IT Hardware	3-15	16,061	11,328	4,733
Leasehold Improvements	2-10	9,104	5,661	3,443
Internal Use Software in Development		5,526	-	5,526
Internal Use Software	3-9	41,728	36,630	5,098
Total		**$102,454**	**$ 64,163**	**$ 38,291**

General Property, Plant, and Equipment (PP&E), as of September 30, 2017 consists of land, buildings, construction in progress, equipment and furniture, vehicles, IT hardware, leasehold improvements, internal use software in development, and internal use software. These assets are located at Washington, D.C. headquarters, regional offices, and overseas posts. The asset value includes ancillary costs incurred to bring assets to a form and location suitable for their intended use. The vehicles category reflects new vehicles added and retired in FY17. Internal use software in development and internal use software represent software that was either developed internally or purchased from vendors off-the-shelf.

Note 6 Prepaid Volunteer Living Allowances

	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Prepaid Volunteer Living Allowances	**$ 1,786**	**$ 1,702**

Payments of Volunteer living allowances are made prior to the entitlement month so the posts can ensure timely payments of the allowances to the Volunteers. These payments are pre-positioned so that Volunteers will not incur a financial burden for their living costs.

Note 7 Other Assets		
	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Travel Advances to Employees	$ 355	$ 646
Relocation Advances to Employees	36	37
Prepaid Rent	3,678	3,397
Other Advances	778	103
Total Other Assets	**$ 4,847**	**$ 4,183**

Travel Advances to Employees - Travel advances are provided to employees when appropriate. Advances remain in the financial records until they are offset against travel entitlements or collected.

Relocation Advances to Employees - Direct-hire employees are provided a relocation advance when appropriate.

Prepaid Rent - Prepaid Rent includes the advance payment for some of the residential and commercial office spaces in support of overseas operations.

Other Advances – Other Advances includes PSC payroll and prepayments of expenses for IT costs.

Note 8 Liabilities Not Covered by Budgetary Resources		
	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 30,206	$ 29,973
Other Unfunded Employment Related Liability	59	72
Public Liabilities		
Unfunded Annual Leave	12,009	11,804
Other Unfunded Employment Related Liability	5,614	5,009
Federal Employee and Veteran Benefits	141,577	143,660
Liability for Non-Entity Assets	26,131	24,569
Total Liabilities Not Covered by Budgetary Resources	**$ 215,596**	**$ 215,087**
Total Liabilities Covered by Budgetary Resources	**$ 45,267**	**$ 40,782**
Total Liabilities	**$260,863**	**$255,869**

Unfunded FECA Liability – A liability for the direct dollar costs of compensation and medical benefits paid on the agency's behalf by DOL. Since the agency is dependent on annual appropriation, it will include the amount billed for the direct costs in its budget request two years later.

Unfunded Annual Leave – A liability for annual leave is accrued as leave is earned and paid when leave is taken or when the individual terminates. The balance represents the estimated value of annual leave earned but not taken as of September 30, 2017 for direct hire employees. The valuation of the accrued annual leave for FSN employees and the foreign national PSCs has been estimated for this financial statement. There were 74 FSNs and 2,132 foreign national PSCs working for the Peace Corps at the end of September 30, 2017. Annual leave earned is based on local labor law requirements. Annual leave is paid out of current appropriations when taken.

Unfunded Employment Related Liability – A liability for the estimated separation of foreign national PSCs. Lump-sum payments are generally made to eligible international long-term personal services contractors based on local labor law requirements for separation. These payments are made when the individual terminates and are paid out of current appropriations.

Federal Employee and Veteran Benefits – A liability for the actuarial value of future payments for FECA as estimated by DOL for the agency.

Liabilities Covered by Budgetary Resources – Liabilities covered by budgetary resources include accounts payable for goods and service received by the agency, liability for the separation and retirement payments for eligible foreign service PSCs and FSNs, and other liabilities as shown in Note 9.

Note 9 Other Liabilities

	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Intragovernmental		
Advances from Others	$ -	$ -
Other Liabilities		
Contingent Liability (Note 11)	-	3
FSN and PSC Separation Liability	24,764	24,315
Total Other Liabilities	**$ 24,764**	**$ 24,318**

Advances from Others - The balance of amounts advanced by other federal entities for goods and services to be furnished (e.g., advance for the Small Project Assistance programs). All advances from others are considered current liabilities.

FSN and PSC Separation Liability - The estimated future liability cost to be paid to eligible FSNs and foreign national PSCs upon separation from the agency. FSN and PSC Separation Liability is considered a non-current liability.

Note 10 Leases

For overseas operations, Peace Corps rents office space, residences, and training facilities. Leases overseas contain a termination clause, allowing the agency to terminate any lease with a 30-90 day notice. Peace Corps leases are all operating leases and are considered cancellable.

The agency enters into Occupancy Agreements with the General Services Administration (GSA) for its building in Washington, DC and its regional recruiting offices throughout the continental U.S. GSA leases commercial facilities and provides spaces in federal buildings for occupancy by the agency. Occupational Agreements range from five to ten year terms, however, leased spaces can be vacated with a 120 day notice to GSA. Future operating lease payments for domestic leases are depicted below:

Fiscal Year	Future Lease Payments *(In Thousands)*
Fiscal Year 2018	$ 8,030
Fiscal Year 2019	9,942
Fiscal Year 2020	9,931
Fiscal Year 2021	6,832
Fiscal Year 2022	559
After Fiscal Year 2022	2,121
Total Future Lease Payments	**$ 37,415**

Note 11 Commitments and Contingencies

In the opinion of the management and legal counsel, the agency is liable for contingent liabilities related to administrative proceedings, legal actions, or claims associated with employee grievances that are probable and measurable in the amount of $0 as of September 30, 2017. These contingencies are considered current liabilities.

Disclosure is required if there is a reasonable possibility that a loss may be incurred. The likelihood of a reasonable possibility of a loss related to administrative proceedings, legal actions, or claims related to employee grievances are estimated to be $200,000 as of September 30, 2017.

Note 12 Intragovernmental Costs and Exchange Revenue

	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Intragovernmental Costs	$ 81,032	$ 79,406
Intragovernmental Earned Revenue	(6,802)	(8,786)
Total Intragovernmental	**$ 74,230**	**$ 70,620**
Public Costs	$ 359,766	$ 340,283
Public Earned Revenue	(288)	(204)
Total Public	**$ 359,478**	**$340,079**
Total Net Cost	**$ 433,708**	**$ 410,699**

Intragovernmental activity represents the costs of goods and services provided to other federal agencies. Costs of goods and services and any revenue earned from outside federal sources are classified as public costs.

Exchange revenues represent revenue from services provided. This includes reimbursable agreements from other government agencies such as U.S. Agency for International Development sponsored HIV/AIDS education, prevention, and mitigation activities; and umbrella programs covering environment, health, youth, micro-enterprise, and Small Project Assistance.

Note 13 Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable

	September 30, 2017 *(In Thousands)*		September 30, 2016 *(In Thousands)*	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 460,711	$ 7,347	$ 421,692	$ 9,050
Exempt from Apportionment	6,059	-	6,517	-
Total Obligations Incurred	**$ 466,770**	**$ 7,347**	**$ 428,209**	**$ 9,050**

All obligations incurred are Category A or Exempt from Apportionment.

Note 14 Undelivered Orders at the End of the Period

	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Undelivered Orders – End of Period	**$ 114,703**	**$ 90,353**

The undelivered orders are budgetary obligations with and without advances/prepayments placed against federal budget authority where goods or services have yet to be received.

Note 15	Explanation of Differences between the SBR and the Budget of the U.S. Government		
(In Millions)	Budgetary Resources FY 2016	Obligations Incurred FY 2016	Net Outlays FY2016
Combined Statement of Budgetary Resources	$ 520	$ 437	$ 395
Budget of the U.S. Government	513	437	397
Difference	$ 7	$ -	$ (2)

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2017 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2018, and can be located at the OMB website https://www.whitehouse.gov/omb/budget and will be available from the U.S. Government Printing Office. The above chart displays the differences between the Combined SBR in the FY 2016 Agency Financial Report and the actual FY 2016 balances included in the FY 2018 President's Budget. The differences are attributable to activities associated with expired funds that are excluded from the President's Budget.

Note 16 Fiduciary Activities				
Schedule of Fiduciary Activity *(In Thousands)*	HCC Cash 2017	HCC Cash 2016	HCC In-Kind 2017	HCC In-Kind 2016
Fiduciary Net Assets, Beginning	$ 756	$ 817	$ -	$ -
Contributions	526	539	3,110	3,053
Disbursements	(881)	(600)	(3,110)	(3,053)
Increase/(Decrease) in Fiduciary Net Assets	(355)	(61)	-	-
Fiduciary Net Assets, Ending	**$ 401**	**$ 756**	**$ -**	**$ -**

Schedule of Fiduciary Net Assets *(In Thousands)*	HCC Cash 2017	HCC Cash 2016	HCC In-Kind 2017	HCC In-Kind 2016
Fiduciary Net Assets				
Cash and Cash Equivalents	$ 402	$ 763	$ -	$ -
Less: Liabilities	1	7	-	-
Total Fiduciary Net Assets	**$ 401**	**$ 756**	**$ -**	**$ -**

Host Country Contributions (HCC) are provided to the Peace Corps by the host government and are accepted under the authority of Section 22 U.S.C. 2509(a)(4) of the Peace Corps Act. These contributions indicate host country support for the Peace Corps and help defray expenses, enabling the agency to use its budget more effectively. The host country retains ownership though the funds are deposited to special foreign currency accounts in the U.S. Treasury. In the event the funds are not used, funds are returned to the host country. The agency receives cash and in-kind contributions from host countries for services, supplies, equipment, and facilities.

Note 17 Reconciliation of Net Cost of Operations (Proprietary) to Budget

	September 30, 2017 (In Thousands)	September 30, 2016 (In Thousands)
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 474,117	$ 437,259
Less: Spending Authority from Offsetting Collections and Recoveries	(24,005)	(30,389)
Less: Offsetting Receipts	(2,719)	(2,746)
Net Obligations	**447,393**	**404,124**
Transfers In/Out Without Reimbursement (+/-)	485	771
Imputed Financing from Costs Absorbed by Others	4,713	7,341
Total Resources Used to Finance Activities	**452,591**	**412,236**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Resources Obligated for Future Costs - Goods Ordered but Not Yet Provided	(23,553)	2,159
Resources that Finance the Acquisition of Assets	(5,877)	(10,696)
Other (+/-)	(165)	(110)
Total Resources Used to Finance Items Not Part of the Net Cost	**(29,595)**	**(8,647)**
Total resources used to finance the net cost of operations	**422,996**	**403,589**
Components of Net Cost that Will Not Require or Generate Resources in the Current Period:		
Increase (decrease) in Actuarial Liability	(2,084)	(2,297)
Depreciation and Amortization	9,604	9,257
Other (+/-)	3,192	150
Total Components of Net Cost that will not require or generate resources	10,712	7,110
Net Cost of Operations	$ 433,708	$ 410,699

The reconciliation of Net Cost of Operations (Proprietary) to Budget reflects the budgetary and non-budgetary sources that fund the Net Cost of Operations for the agency.

Note 18 Imputed Financing

	September 30, 2017 *(In Thousands)*	September 30, 2016 *(In Thousands)*
Federal Employees Health Benefit Program	$ 5,615	$ 6,497
Federal Employees Group Life Insurance	17	19
Civil Service Retirement System	253	1,376
Federal Employees Retirement System	(1,190)	(569)
Foreign Service Retirement and Disability System	18	18
Total Imputed Costs	**$ 4,713**	**$ 7,341**

Imputed financing recognizes actual costs of future benefits which include the Federal Employees Health Benefit Program, Federal Employees Group Life Insurance Program, and pension benefits paid by other federal entities.

INSPECTOR GENERAL'S AUDIT TRANSMITTAL LETTER

Office of Inspector General

To: Sheila Crowley, Acting Peace Corps Director

From: Kathy A. Buller, Inspector General

Date: November 7, 2017

Subject: Audit of the Peace Corps' Fiscal Year 2017 Financial Statements

This letter transmits the reports of Kearney & Company, P.C. (Kearney) on its financial statement audit of the Peace Corps' Fiscal Year (FY) 2017 Financial Statements. As required by the Accountability of Tax Dollars Act of 2002, the Peace Corps prepared consolidated financial statements in accordance with 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 Kearney, an independent certified public accounting firm, to audit the Peace Corps' consolidated financial statements as of September 30, 2017 and 2016. The audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Kearney's reports for FY 2017 include: (1) an opinion on the financial statements, and (2) conclusions on internal control over financial reporting, and compliance with laws, regulations, contracts, and grant agreements. In its audit of the Peace Corps, Kearney found:

- The financial statements were fairly presented, in all material respects, in conformity with GAGAS principles.
- There were no material weaknesses in internal control.[1]
- Two significant deficiencies related to internal control were disclosed by Kearney:[2]

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

- *Lack of effective information technology security.* Kearney cited continuous monitoring and the agency's risk management program as areas needing improvement.
- *Improper and untimely processing of personnel actions.* Kearney cited a lack of proper oversight and controls.

- One instance of reportable noncompliance was found relating to compliance with applicable provisions of laws, regulations, contracts, and grant agreements which are required to be reported under GAGAS or OMB guidance. Kearney found that the Peace Corps did not fully comply with:

    - The Federal Information Security Modernization Act of 2014 pertaining to continuous monitoring and the agency's risk management program.

<u>OIG Evaluation of Kearney's Audit Performance</u>

In connection with the contract, we reviewed Kearney's reports 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' consolidated financial statements or conclusions about the effectiveness of internal control or compliance with laws, regulations, contracts, and grant agreements. Kearney is responsible for the attached auditor's reports dated November 7, 2017 and the auditor's conclusions expressed in the reports. However, our review disclosed no instances where Kearney did not comply in all material respects with GAGAS.

We would like to express our appreciation to the Peace Corps staff involved in working with the auditors and issuing the financial statements within the established OMB milestones. Their professionalism, cooperation, and timely responsiveness allowed us to overcome the challenges associated with performance of the audit and our oversight of the audit process. If you or a member of the Peace Corps staff has any questions about Kearney's audit or our oversight please contact me, or Assistant Inspector General for Audit Judy Leonhardt at 202-692-2914.

Attachment

cc: Kathy Stroker, Acting Deputy Director
Carl Sosebee, Acting Chief of Staff
Andrew Pierce, Acting Chief Financial Officer
Rick Endres, Chief Information Officer
Angela Kissel, Acting Chief Compliance Officer

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Acting Director and Inspector General of the United States Peace Corps

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Peace Corps (Peace Corps), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Peace Corps as of September 30, 2017 and 2016 and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Other Information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued a report, dated November 7, 2017, on our consideration of the Peace Corps' internal control over financial reporting and on our tests of the Peace Corps' compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters, for the year ended September 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 7, 2017

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Acting Director and Inspector General of the United States Peace Corps

We have audited the consolidated financial statements of the United States Peace Corps (Peace Corps) as of and for the year ended September 30, 2017, and we have issued our report thereon dated November 7, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Peace Corps' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peace Corps' internal control. Accordingly, we do not express an opinion on the effectiveness of the Peace Corps' internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain

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deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to the Peace Corps' management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Peace Corps' consolidated financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of consolidated financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Peace Corps. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings.

The Peace Corps' Response to Findings

The Peace Corps' response to the findings identified in our audit is presented in the Agency Financial Report's "Financial Section" in the *Agency Comments to the Independent Auditor's Report*. The Peace Corps' reviewed our report, concurs with the findings in the report, and established corrective actions for execution in fiscal year (FY) 2018. The Peace Corps' response was not subjected to the auditing procedures applied in our audit of the consolidated financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, as well as the results of that testing, and not to provide an opinion on the effectiveness of the Peace Corps' internal control or on compliance and other matters. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2017

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Schedule of Findings

Significant Deficiencies

I. Information Technology Security (Repeat Condition)

The United States Peace Corps' (Peace Corps) information technology (IT) internal control structure did not include a comprehensive risk analysis, proof of effective monitoring of design and performance, or evidence of the ability to identify and respond to changing risk profiles. The Peace Corps' IT control environment included design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below:

- During FY 2017, the Office of the Chief Information Officer (OCIO) continued the process of implementing a Continuous Monitoring Program. However, the OCIO was not able to fully implement it at the information system level in accordance with the current Information Security Continuous Monitoring (ISCM) strategy. The Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Team identified the following control deficiencies:
  - The Peace Corps does not have a defined ISCM strategy
  - The Peace Corps has not developed ISCM policies and procedures to support the ISCM strategy
  - The Peace Corps has not defined roles and responsibilities of ISCM stakeholders
  - The Peace Corps has not defined metrics specifically to measure the effectiveness of its ISCM Program
- The Peace Corps does not have a robust agency-wide Risk Management Program to manage information security risks. While the OCIO formalized an overall risk management strategy in February 2014, the FISMA Evaluation Team found no evidence demonstrating that the agency was able to identify, assess, respond to, and monitor information security risk at the enterprise or business process levels. Furthermore, the Peace Corps' risk management strategy did not define the agency's information security risk profile, risk appetite, risk tolerance, and the process for communicating risks to all necessary internal and external stakeholders. Although the Senior Assessment Team (SAT) held meetings with the Chief Information Officer (CIO) and Risk Executive, these meetings were neither formalized nor consistently performed during the review period. Specifically, the FISMA Evaluation Team identified the following control deficiencies:
  - The Peace Corps did not fully maintain current authorization and assessment packages for two of the information systems tested
  - The Peace Corps has not identified and defined its requirements for an automated solution to provide a centralized, enterprise-wide (portfolio) view of risks across the organization, including risk control and remediation activities, dependencies, risk scores/levels, and management dashboards
  - The Peace Corps did not define an information security architecture that is integrated with the risk management strategy

- The Peace Corps did not maintain a formal process to perform e-authentication risk assessments according to the guidelines in Office of Management and Budget (OMB) Memorandum M-04-04, *E-Authentication Guidance for Federal Agencies*.

As defined in Generally Accepted Government Auditing Standards (GAGAS), information system controls consist of those internal controls that are dependent on information systems processing and include general and application controls. General and application controls, while effective, may not be sufficient to address and minimize the risks due to weaknesses in the Peace Corps' Information Security Program. Information Security Program policies and procedures apply to most, if not all, of the Peace Corps' information systems. The effectiveness of these procedures is a significant factor in determining the confidentiality, integrity, and availability of the information contained in the applications.

The lack of a comprehensive Continuous Monitoring Program prevents the Peace Corps from clearly understanding the security state of all of its systems over time. This also prevents the agency from effectively monitoring a dynamic IT environment with changing threats, vulnerabilities, technologies, business processes/functions, and critical missions. Without a fully implemented Continuous Monitoring Program, agency systems could incur potential damage, including system downtime, unauthorized access, changes to data, data loss, or operational failure.

Without effectively implementing a comprehensive risk management process at the agency level, the Peace Corps may be unable to address the root causes associated with existing information security risks. In addition, appropriate resources may not be effectively assigned to make the correct risk decisions to ensure the results align with the agency's business priorities.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that:

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

6. The OCIO develop and implement procedures for performing e-authentication risk assessments on systems according to the guidelines in OMB Memorandum M-04-04, *E-Authentication Guidance for Federal Agencies*.

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

The Peace Corps processes personnel actions when an employee is hired or an existing employee experiences a change in personnel status, such as resignation, retirement, or promotion. These personnel actions are documented either on the Standard Form (SF)-50, *Notification of Personnel Action*, or the Joint Form (JF)-62A, *Personal Services Contracting Action*. Failure to process these without approved supporting documentation timely and accurately can result in erroneous compensation payments and violations of labor hours.

The Office of Personnel Management's (OPM) authority to prescribe reporting requirements covering personnel actions can be found in Section 2951, Title 5, United States Code (U.S.C.), *Reports to the OPM*. In addition, Executive Order (EO) 12107, *Relating to the Civil Service Commission and labor-management in the Federal Service*, delegates the authority to OPM to prescribe regulations relating to the establishment, maintenance, and transfer of official personnel folders.

For each processed personnel action, there will be an SF-52, *Request for Personnel Action*, or a similar agency form approved by OPM as an exception to the SF-52. The SF-52 is usually initiated by the office or supervisor who wants to create a personnel action, such as the appointment of an employee; occasionally, the Human Resource (HR) Management, Office of Management initiates the form. The requesting office completes one part of SF-52 and forwards it to others (e.g., the Budget Office) whose approval is required by the agency. The form is then sent to the Personnel Office for review and clearance by classification, staffing, and other personnel specialists, as well as for signature by the individual(s) to whom authority to approve personnel actions (appointing authority) has been delegated.

Kearney selected a sample of 23 new hire personnel actions out of a population of 160 and noted the following untimely or improperly approved actions:

- Based on our review of the SF-50, 14 employees were entered into the HR Entry, Processing, Inquiry, and Correction (EPIC) system and approved by the Director of HR after their effective date of employment. These delays ranged from one to 11 days. Details of the testing are summarized in the ***Table 1*** below. For these 14 new hire employees, we requested SF-52s and noted the following:
    - Two of the 14 SF-52s requested were not provided by HR
    - One out of 12 SF-52 Part C-1 was missing the required Budget Office approval
    - Ten out of 12 SF-52s Part C-2 were not approved by the appointed officer
    - Two of the 12 SF-52s Part C-2 were approved after the effective date by the appointed officer.

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Table 1: New Hire Personnel Actions Testing Details

Sample	Effective Date of Employment	SF-52	SF-50
		Supervisor Approval Date	Director of HR Approval Date
Employee #2	January 8, 2017	September 19, 2016	January 12, 2017
Employee #3	October 16, 2016	Not provided	October 20, 2016
Employee #5	January 08, 2017	July 15, 2016	January 17, 2016
Employee #6	January 17, 2017	Not provided	January 18, 2017
Employee #7	January 08, 2017	December 14, 2016	January 18, 2017
Employee #8	December 11, 2016	October 14, 2016	December 20, 2016
Employee #9	April 16, 2017	March 1, 2017	April 21, 2017
Employee #11	October 30, 2016	October 14, 2016	November 02, 2016
Employee #14	January 15, 2017	February 11, 2016	January 17, 2017
Employee #18	December 13, 2016	October 20, 2016	December 22, 2016
Employee #19	October 30, 2016	October 7, 2016	November 7, 2016
Employee #20	October 16, 2016	April 5, 2016	October 25, 2016
Employee #22	October 2, 2016	August 5, 2016	October 13, 2016
Employee #23	January 22, 2017	December 21, 2016	January 25, 2017

Of the 14 untimely approvals by the Director of HR, 11 employees were compensated for working prior to the HR Director approval. These delays ranged from three to nine days. Details of the testing are summarized in ***Table 2*** below.

Table 2: Untimely Approval Testing Details

Sample	Effective Date of Employment	SF-52	SF-50	Pay Period Paid	Pay Period Approved	Number of Days Paid w/o Approval
		Supervisor Approval Date	Director of HR Approval Date			
Employee #2	January 8, 2017	September 19, 2016	January 12, 2017	01	01	03
Employee #3	October 16, 2016	Not provided	October 20, 2016	21	21	03
Employee #5	January 08, 2017	July 15, 2016	January 17, 2016	01	01	07
Employee #7	January 8, 2017	December 14, 2016	January 18, 2017	01	01	08
Employee #9	April 16, 2017	March 1, 2017	April 21, 2017	08	08	05
Employee #11	October 30, 2016	October 14, 2016	November 02, 2016	25	25	06
Employee #18	December 13, 2016	October 14, 2016	December 20, 2016	25	25	06
Employee #19	October 30, 2016	October 7, 2016	November 7, 2016	22	22	06

Sample	Effective Date of Employment	SF-52	SF-50	Pay Period Paid	Pay Period Approved	Number of Days Paid w/o Approval
		Supervisor Approval Date	Director of HR Approval Date			
Employee #20	October 16, 2016	April 5, 2016	October 25, 2016	21	21	08
Employee #22	October 2, 2016	August 5, 2016	October 13, 2016	20	20	09
Employee #23	January 22, 2017	December 21, 2016	January 25, 2017	02	02	03

Additionally, Kearney selected a sample of 24 separated personnel actions out of a population of 184. Specifically, we noted the following untimely or improperly approved actions:

- Based on our review of the SF-50s, 13 employees were entered into the EPIC system and approved by the Director of HR after their effective date of separation. Details of the testing are summarized in ***Table 3*** below. For these 13 separated employees, we requested their SF-52s and noted the following:
  - One of the 13 SF-52s requested was not provided by HR
  - Twelve out of 12 SF-52s Part C-2 did not have the current approving official's signature
  - Two out of 12 SF-52s Part C-1 did not have the Budget Office approval
  - Nine out of 12 SF-52s were not approved by the Director of HR until after their effective date of separation.

Table 3: Separated Personnel Actions Testing Details

Sample	Effective Date of Separation	SF-52	SF-50
		Supervisor Approval Date	Director of HR Approval Date
Employee #2	April 7, 2017	March 23, 2017	Not provided
Employee #4	December 10, 2016	December 6, 2016	Not provided
Employee #5	October 15, 2016	October 3, 2016	December 5, 2016
Employee #7	February 18, 2017	February 1, 2017	Not provided
Employee #9	May 13, 2017	April 17, 2017	May 18, 2017
Employee #10	October 29, 2016	October 3, 2016	November 1, 2016
Employee #11	January 7, 2017	January 4, 2017	January 23, 2017
Employee #12	October 21, 2016	October 28, 2016	November 2, 2016
Employee #13	May 13, 2017	April 27, 2017	June 2, 2017
Employee #15	October 15, 2016	October 11, 2016	November 2, 2016
Employee #19	December 24, 2016	December 12, 2016	Not provided
Employee #21	October 29, 2016	October 27, 2016	November 8, 2016
Employee #22	January 14, 2017	Not provided	January 26, 2017

Recommendations: Kearney recommends that the Peace Corps:

7. Develop monitoring procedures that will ensure accurate processing of personnel actions, including periodic reviews of documentation.
8. Provide training to HR staff on policies and procedures related to the entry of employees into EPIC.

* * * * *

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Noncompliance and Other Matters

III. FISMA (Repeat Condition)

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

As noted in its Assurance Statement, the Peace Corps disclosed an instance of noncompliance with FISMA that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03, *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.

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APPENDIX A: STATUS OF PRIOR YEAR DEFICIENCIES

Three issues were noted relating to internal control over financial reporting in the *Independent Auditor's Report on Internal Control over Financial Reporting and Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements* on the Peace Corps' FY 2016 consolidated financial statements.[1] ***Table 4*** presents a summary of the current-year status of these issues.

Table 4: Prior-Year Deficiencies

Deficiency	2017 Status	2016 Status
IT Internal Control Environment	Significant Deficiency	Significant Deficiency
Improper and Untimely Processing of Personnel Actions	Significant Deficiency	Significant Deficiency
Property, Plant, and Equipment (PP&E)	Closed	Significant Deficiency

[1] *Independent Auditor's Report on the Peace Corps' 2016 and 2015 Financial Statements*

AGENCY COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT

The Peace Corps has reviewed the Independent Auditor's Report and concurs with the findings in the report. Management is committed to addressing the recommendations provided in the Independent Auditor's Report; corrective actions have been established for execution in FY 2018.

OTHER INFORMATION

Peace Corps

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Management and Performance Challenges

Fiscal Year 2017

These challenges illustrate the most significant areas the Office of Inspector General (OIG) believes need improvement for the Peace Corps to effectively manage its resources and minimize the potential for fraud, waste, and abuse occurring in its operations. Addressing the issues related to these challenge areas will enable the agency to increase operational efficiencies and improve mission effectiveness.

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting what it has determined to be the most significant management and performance challenges facing the Peace Corps. The challenges discussed in the attachment to this memo are to be included in the Agency Financial Report for Fiscal Year 2017. The IG's management challenges are observations of the IG based on the work performed by the OIG as well as information uncovered during the performance of our oversight responsibilities.

Significant management challenges facing the Peace Corps:

- **Information Technology Security Management**
- **Planning and Implementation**
- **Human Capital Management**
- **Compliance**
- **Volunteer Health and Safety**

Challenge: Information Technology Security Management

Why This Is a Challenge

Effective information technology (IT) security programs help protect agency data from being misused by both internal and external sources, and minimize the risk of having sensitive data compromised. Federal laws and regulations governing IT security are designed to strengthen an agency's management of its operations. They also provide significant guidance to help prevent serious information security incidents. The Federal Information Security Management Act of 2002 (FISMA), as amended, is central to the Federal IT security program.[1] The objective of FISMA is to develop a comprehensive framework to protect government information, operations, and assets.

OIG is concerned about the quality of the agency's IT security program, especially considering the sensitive data that the Peace Corps maintains about Volunteers, such as health records and sexual assault incident information. Since FY 2009, we have reported in our management and performance challenges that the Peace Corps has not achieved full compliance with FISMA or fully implemented an effective IT security program.[2] Some of the identified issues have been outstanding for over 7 years, and the agency has struggled to implement corrective actions. Year after year, our results demonstrate that the Peace Corps lacks an effective information security program because of problems related to people, processes, technology, and culture.

One of the main drivers of the agency's immature IT security program is that the Peace Corps has not fully implemented a comprehensive agency-wide risk management program that is effective in monitoring, identifying, and assessing security weaknesses and resolving related problems at the entity, business process, and information system levels. While the agency has taken steps to strengthen its risk program at the information system level, it lacks full agency commitment and alignment with the National Institute of Standards and Technology Risk Management Framework. Without a robust risk management process, the Peace Corps is exposed to attacks, environmental disruptions, and business failures due to human error.

Since the Peace Corps does not foster a risk-based culture, it allows offices to disregard the agency's responsibility to protect its most sensitive data by introducing many information systems to the network without having the proper security assessments and approvals. Further, the agency lacks a comprehensive continuous monitoring program that documents all agency systems and their associated risks. The Peace Corps process is ad-hoc, reactive, and does not allow the agency to effectively monitor and protect its dynamic IT environment.

Progress in Addressing the Challenge

Peace Corps management has made some progress in strengthening IT security management programs and FISMA compliance. For example, the agency's chief information security officer has remained with the agency for more than a year. This is important because the agency has struggled to hire and maintain qualified staff in this role over the last 4 years. Additionally, the agency has developed and implemented user security awareness training and has begun implementing

1 FISMA was amended in December 2014 by the Federal Information Security Modernization Act of 2014 (Pub. L. No. 113-283).

2 Review of Peace Corps' Information Security Program (2016)

multi-factor authentication for network logins. However, a number of FISMA issue areas discussed in prior years' challenge statements have not been fully resolved and require full agency involvement to complete.

What Needs to Be Done

In order to ensure the agency's information, operations, and assets are protected, it is critical that the Peace Corps achieve full compliance with FISMA and other federal laws and regulations that apply to managing its IT security infrastructure.

The Peace Corps needs to embrace a risk-based culture and place greater emphasis on improving its information security program, including accomplishing greater FISMA compliance and timely remediation of IT security weaknesses that have been identified internally and through the annual FISMA audit and other reviews. Further, emphasizing a risk-based culture can help the agency better ensure that all decisions the agency makes are aligned with its priorities. The agency has made a committment to implement an Enterprise Risk Management framework in its 2018-2022 Strategic Plan. However, the agency will need to dedicate resources and develop comprehensive policies to fully achieve this objective.

The Peace Corps will need to focus on improving its IT security program by involving senior leadership, ensuring agency policies are comprehensive, and prioritizing the time and resources necessary to become fully FISMA compliant and eliminate weaknesses. Focusing on the implementation of the Risk Management Framework will facilitate tailoring an information security program that meets the Peace Corps' mission and business needs across a decentralized organization.

Key OIG Resources

Review of Peace Corps' Information Security Program (2016)

Peace Corps' FY 2016 Performance and Accountability Report

Report on Protecting Sensitive Information in Peace Corps Computer Systems (2016)

Management Advisory Report: The Peace Corps' Cloud Computing Pilot Program (2015)

Challenge: Planning and Implementation

Why This Is a Challenge

Although the Peace Corps continues to improve key business processes and critical Volunteer support functions, as well as streamline its operations, it is constrained by decentralized processes and a lack of modern systems. Often, the agency does not apply sufficient time and resources to its planning and implementation processes.

The Peace Corps has difficulties planning and coordinating the implementation of new initiatives. For example, the Peace Corps made significant commitments to a version of cloud technology without first appropriately researching new platforms and including the Office of the Chief Information Officer (OCIO) in those decisions. In 2014, the agency entered into an agreement to provide a cloud-supported network that did not meet Federal computer security requirements and placed sensitive agency information in that environment.[3] Before making such a move, the agency should have consulted with multiple offices to ensure that needs requirements were fully assessed and that all federal requirements were addressed. In another example from our country program evaluation of Peace Corps/Kosovo[4], we found that the post did not have an adequate amount of time to onboard and train new staff and prepare for Volunteers. According to OIG's 2014 report on new country entries, New Country Entries: Lessons Learned[5], an inadequate time frame for opening a post can result in a number of problems, including inadequate Volunteer training, poorly developed sites, and an uneven quality in staff hiring or training—all of which OIG observed in Peace Corps/Kosovo. Retroactively addressing poor implementation can cost the agency undue time, money, and effort.

Effective implementation of initiatives requires fully developed policies, procedures, and guidance to support critical changes, especially for new systems. While the agency has a dedicated committee and process to develop policy, including procedures and other internal controls, it struggles to effectively coordinate, implement, and manage these rules. For example, the Peace Corps implemented a new property management system (Sunflower) in 2015, but did not document important controls residing in the system and how they should be applied until 2017. For 2 years the property control procedures on record related only to the defunct system. In addition, the agency did not change relevant policies or procedures governing employee time and attendance in anticipation of implementing a new timekeeping system. Instead the agency switched its time and attendance system first and is still working to change its relevant guidance. This change impacted all staff because the system is tied to payroll. While training was provided to staff and supervisors at rollout, such trainings cannot supplant well considered policies, procedures, and guidance. Additional planning should occur during the initial phases of the project to ensure that users are prepared and that related reference materials are sufficient and readily available after roll-out. Planning and implementation is further hampered by the lack of a centralized system whereby a headquarters office can ensure that other offices update previous guidance according to new agency-wide policies or initiatives.

Moreover, although the Peace Corps is working to modernize its businesses processes, OIG audits and evaluations

3 Management Advisory Report: The Peace Corps' Cloud Computing Pilot Program (2015)
4 Evaluation of Peace Corps/Kosovo (2017)
5 New Country Entries: Lessons Learned

have found that several essential business functions remain largely paper-based, including processes for travel, medical supply management, payment vouchers, purchase card logs, contract files, and several human resource functions including performance appraisals, employee off-boarding, and training records. Recently, when the agency switched its human resources system, it actually replaced certain automated HR functions with paper processes. Lack of automation makes planning and implementation more challenging and impacts data reliability, as manual data processes are more prone to error.

Progress in Addressing the Challenge

The Peace Corps established initiatives to better manage certain programs and changes in the agency. The Office of the Chief Information Officer launched the Business Advocacy Manager Program in early FY 2017. The program pairs an IT liaison with each agency office to facilitate collaboration, fulfill requests, and advocate during IT project planning. To manage workforce reduction requirements, the agency established a task force that develops processes, guidance, and communications on all hiring actions, reassignments, and reorganizations. The processes established by the task force will "standardize personnel actions and allow for strategic decision-making by supervisors, managers, and senior leadership."

The agency continues to utilize the recommendations of a field advisory board, which is comprised of post leadership from across regions. The agency established the board to determine the most prominent issues among posts and recommend policies and actions for the agency to address these concerns. Office heads work with the board to communicate updates on new policies and initiatives as well as progress on prior recommendations.

The senior policy committee continues to work to improve communication and coordination in this area. The agency has updated internal guidance for a number of policies related to new systems or programs, such as those for the website and direct hire duty hours. These policies are scheduled to be issued pending approval of their implementing procedures.

What Needs to Be Done

The agency needs to assign overall responsibility for planning, coordinating, and implementing agency-wide policies or initiatives. The agency should ensure that responsible program offices regularly review agency policy under their purview and assist the senior policy committee in making and communicating appropriate changes. It should continue to assess its operations and modernize its business processes, including ensuring that new processes and initiatives related to essential business functions are automated. The agency also needs to ensure that these modernization efforts are appropriately planned and that their implementation into agency policies and procedures is timely and fully integrated. Furthermore, agency business processes must support effective internal controls by ensuring continuity and accountability. As automated systems are introduced in the Peace Corps environment, the agency must be diligent in ensuring that proper IT security controls are in place, as IT security has been a reported challenge area since 2009. See the Management Challenge section titled Information Technology Security Management.

Key OIG Resources

Evaluation of Peace Corps/Kosovo (2017)

OIG's FY 2017 Annual Plan

Management Advisory Report: The Peace Corps' Cloud Computing Pilot Program (2015)

Recurring Issues Report: Common Challenges Facing Peace Corps Posts, FYs 2012-2015

Final Audit Report: Peace Corps Applicant Screening Process (2014)

New Country Entries: Lessons Learned (2014)

Management Advisory Report: Certification of Volunteer Payments (2013)

Final Audit Report: Peace Corps Overseas Staffing (2013)

Final Program Evaluation Report: Follow-up Evaluation of the Volunteer Delivery System (2010)

Challenge: Human Capital Management

Why This is a Challenge

Key pillars of human capital management include hiring, recruitment, training, and knowledge management. In performing oversight over agency operations, OIG has highlighted areas of concern in all four sectors. Most importantly, we have noted how excessive personnel turnover has substantially exacerbated these challenges.

Hiring and Recruitment

Nearly all Peace Corps U.S. direct hire staff are subject to a 5 year term limit called the "five-year rule" (FYR). Congress enacted the FYR in 1965 to create a constant flow of new employees including returned Peace Corps Volunteers, avoid the inflexibility associated with the civil service system, and prevent employees from working their entire career at the Peace Corps. However, when OIG analyzed the impact of the FYR in June 2012, we found that between 2005 and 2009 the annual pace of employee turnover was between 25 percent and 38 percent, quadruple the average turnover rate in the Federal government. OIG estimated that excessive turnover driven by the FYR accounted for approximately 60 percent of $20.7 million in total turnover management costs.

In July 2017, OIG issued "Management Implication Report – Challenges Associated with Staff Turnover" to the acting Director. This report outlined the negative effects of staff turnover on the agency's ability to maintain high quality Volunteer support and improve core business functions, illustrating that high staff turnover is a persistent challenge for the agency that spans multiple levels and areas of operation.

Almost all leadership positions at the Peace Corps, both at headquarters and overseas, are subject to the FYR. Since these positions directly impact the agency's operations, recruiting and hiring skilled personnel to fill these vacancies is critical. In 2013, OIG reported on these challenges in our audit of Peace Corps overseas staffing. We found that the agency struggled to maintain a robust pool of qualified applicants and ensure positions were filled in a timely manner. It had difficulty managing hiring and administrative timelines for open positions, maintaining consistency in the interview and hiring process, planning for transfers, and dealing with unexpected vacancies. These challenges were aggravated by the agency's accelerated rate of overseas staff turnover.

Headquarters personnel recruitment is similarly difficult because many of the positions require specialized knowledge and the ability to perform governmental budgeting, payment, and contracting. We found that the FYR exacerbated the agency's challenges in attracting and retaining qualified personnel and contributed to an abbreviated average tenure of about 3 years. Specifically, the agency has struggled to recruit qualified staff in acquisition and contract management, and short tenures have compromised the agency's ability to conduct adequate acquisition planning. In our 2016 audit of Peace Corps' healthcare benefits administration contract, we identified that inexperienced staff and insufficient planning contributed to instances of the agency's non-compliance with the Federal Acquisition Regulations and other complex rules associated with soliciting, awarding, and administering contracts or procurements. This is particularly concerning due to the large sums of money processed in contracting and acquisitions.

Training and Knowledge Management

Training and knowledge management are also important aspects of human capital management. Effective staff training is essential in core volunteer support functions to help ensure the health, safety, and security of volunteers. Knowledge management, the systematic documentation and maintenance of information, is necessary for the agency to operate efficiently and achieve goals. Further, it is important that training and knowledge databases are accessible by the right people at the right times and are consistently updated.

In FY 2014, OIG evaluated the Peace Corps' training of overseas staff and uncovered a number of challenges.[6] The agency's primary training and orientation program for overseas staff members was not available to all of them, and the agency lacked an alternate mechanism for orienting new overseas staff members. In the absence of a comprehensive, standardized orientation and training program for all overseas staff, each post decided what information would be provided to new staff. This created variability in the quality of staff training, and there was no assurance that new staff was properly trained on important policies and procedures. Further, in both the 2013[7] and 2016[8] evaluation reports on the Peace Corps Sexual Assault Risk Reduction and Response (SARRR) program, OIG again found that there was inconsistent onboarding and continuing education processes for critical staff positions which deliver safety, security and medical support to volunteers. The Peace Corps' high turnover rate exacerbates training challenges by simultaneously creating a larger burden for staff charged with employee training responsibilities and a larger need to effectively train incoming staff.

The agency's lack of centralized training records and a robust learning management system, further complicate its ability to effectively and efficiently train staff. In the aforementioned FY 2013, 2014, and 2016 evaluation reports, OIG found that the agency could not identify everyone who needed to take certain trainings, nor track training completion. During fieldwork in 2016, OIG could not verify that all overseas staff had received the mandatory SARRR training required by the Kate Puzey Peace Corps Volunteer Protection Act of 2011; nor could we identify the population of overseas staff required to take these trainings. Constant turnover and insufficient training records challenge the agency's ability to ensure that employees receive training on mandatory and job-essential topics.

The importance of knowledge management has been highlighted in several internal and external evaluations of the FYR. Our 2012 FYR report and 2017 management implication report illustrate the importance of knowledge management and highlight how excessive turnover makes this process simultaneously more difficult, and more critical to ensure continuity of operations. Shortened tenures contribute to insufficient institutional memory. With high turnover, the Peace Corps must rely on its policies, reports, and other office-level operating procedures to act as its centralized source of knowledge and agency history. However, as identified in the "Planning and Implementation" section of this report, Peace Corps has struggled with systematically recording, maintaining, and propagating such guidance. For example, during fieldwork for the 2016 SARRR program report, OIG found that the Office of Victim Advocacy had very few written operating procedures to orient the new director. In addition, the Peace Corps' online manual and intranet

6 Final Report on the Program Evaluation if the Peace Corps' Training of Overseas Staff (2014)

7 Evaluation of the Peace Corps Volunteer Sexual Assault Policy (2013)

8 Final Evaluation Report on the Peace Corps Sexual Assault Risk Reduction and Response Program (2016)

has been incomplete for an extended period of time due to site upgrades.

Progress in Addressing the Challenge

Hiring and Recruitment

The agency has made improvements to hiring and recruiting in an attempt to limit the turnover of critical Peace Corps positions. Accomplishments include recruiting intermittent experts and rovers to ensure adequate coverage of unexpected senior post staff vacancies; developing a master calendar of all known upcoming vacancies; and holding monthly coordination meetings through which key offices can give feedback on the qualifications needed to fill upcoming vacancies.

Furthermore, the Peace Corps has revised its acquisition and contracting policies and procedures with the goal of assuring timely contract awards and improving its process for selecting and designating contracting officer representatives.

On May 1, 2017, Congressman Ted Poe introduced H.R. 2259, the "Sam Farr Peace Corps Enhancement Act." That bill would allow the Director to exempt certain positions from the FYR if they require specialized technical or professional skills and knowledge of Peace Corps operations, such as those relating to Volunteer health services, financial management, information technology, procurement, personnel, legal services, or safety and security. That provision is supported by agency management.

Training and Knowledge Management

Since the agency established an Office of Staff Learning and Development (OSLD) in 2015, this office has worked to define learning and development needs at specific phases in each employee's tenure, including trainings needed to comply with federal laws and communicated the importance of SARRR training to staff. OSLD has also worked to purchase a new learning management tool to help manage training requirements and completions; however, this system is still in development.

What Needs To Be Done

Hiring and Recruitment

The agency still needs to address two open recommendations (recommendations 2 and 3) from our 2012 FYR report relating to better management of turnover and acquisition and retention of qualified personnel in core business functions. In addition, the agency should take action to improve how it hires certain overseas staff, such as by developing (1) policies and procedures for hiring overseas staff management positions, and (2) a set schedule for maintaining rosters of eligible candidates for these positions.

Training and Knowledge Management

The agency needs to act on many recommendations related to training and knowledge management. Specifically, the agency needs to address the systemic issues uncovered during our 2014 evaluation, including creating a training needs assessment process, a standardized training program for new overseas staff, and an improved learning management system. In addition, the agency still needs to develop, communicate, and track expectations and results for how headquarters and overseas staff comply with training-related laws and policies.

The agency must devote resources to formalize knowledge management practices related to recording institutional memory, transferring knowledge to new hires, and ensuring accessibility. The agency must also establish a process to monitor and evaluate the success of the newly acquired learning management system.

Key OIG Resources

Management Implication Report: Challenges Associated with Staff Turnover (2017)

Final Evaluation Report on the Peace Corps Sexual Assault Risk Reduction and Response Program (2016)

Final Audit Report: Peace Corps' Volunteer Healthcare Benefits Administration Contract (2016)

Final Report on the Program Evaluation if the Peace Corps' Training of Overseas Staff (2014)

Final Audit Report: Peace Corps Overseas Staffing (2013)

Evaluation of the Peace Corps Volunteer Sexual Assault Policy (2013)

Final Evaluation Report: Impacts of the Five-Year Rule on Operations of the Peace Corps (2012)

Recurring Issues: OIG Post Audits and Evaluations FY 2009-2011 (2012)

Challenge: Compliance

Why This Is a Challenge

The Peace Corps is a small agency that finds itself challenged to meet its global mission while at the same time complying with all of the requirements of a Federal agency. While the Peace Corps has shaped its core values around Volunteer wellbeing, commitment to national service, and other areas related to quality programming, diversity, and innovation, the agency has not made complying with Federal laws, regulations, and other requirements a priority. Compliance is a significant objective in the government sector, and management should comprehensively consider the controls needed to effectively comply with relevant requirements.[9] There is no centralized responsibility for identifying and understanding which Federal laws and regulations apply to the Peace Corps or for ensuring that the agency works towards compliance. The agency lacks an effective coordinating mechanism that supports implementation. Currently, individual offices and staff members are responsible for knowing what has been passed and working with their respective offices to meet requirements. OIG reports have noted challenges in compliance in numerous operational areas. Non-compliance with IT security requirements has been covered in the Information Technology Security Management, as that is a particularly sensitive and far-reaching problem.

Drug Free Workplace

In September 1986, Executive Order 12564 mandated a drug-free federal workplace and required formal agency programs and employee drug testing for those serving in sensitive positions. While the agency initially issued a plan in 1991, it did not update, maintain, or develop procedures in this plan. OIG issued a report in 2012 informing the agency of its noncompliance and need to review and follow a formal drug-free workplace plan.[10] It then took four more years for the agency to issue an updated comprehensive drug-free workplace plan, policy, and implementing procedures; list testing-designated positions; and begin random drug testing for headquarters designated positions.

Accessibility of Electronic and Information Technology

The Rehabilitation Act of 1973 was amended in 1998 to require Federal agencies to make their electronic and information technology accessible to people with disabilities. The law requires that technologies such as websites, phone systems, hardware, and software be available for both members of the public and Federal employees with physical, sensory, or cognitive disabilities. However, the Peace Corps has not ensured its public-facing website is in full compliance. A subpage states that users can request a reasonable accommodation to access a portion of the website and provides an email address and phone number to make this request.

Records Management Requirements

In August 2012, the Office of Management and Budget and the National Archives and Records Administration issued a directive providing a robust records management framework and requiring agencies to eliminate paper and use electronic recordkeeping to the fullest

9 See GAO Green Book Section OV2.16-OV2.25 for agency management guidance for establishing objectives.

10 Management Advisory Report: Peace Corps Drug-Free Workplace Plan (2012)

extent possible by December 2016. Despite initially budgeting and allocating funds to implement such a system, the agency has not fully complied. In February 2017, the Peace Corps reported that it had defunded the records management program and had no plans to fund it moving forward. It is relying on individual users to save their electronic records appropriately. In this report, the agency also stated that the cause of non-compliance was that "almost 50 years of records mismanagement cannot be reversed quickly…."[11]

Whistleblower Protection Act

A 2014 memorandum issued by the White House Chief Technology Officer required agencies to participate in the U.S. Office of Special Counsel's Whistleblower Protection Act certification program. Under Title 5 of U.S. Code, Section 2302(c), agencies must inform employees of their rights under the Civil Service Reform Act, the Whistleblower Protection Act, the Whistleblower Protection Enhancement Act, and related laws. The agency began to implement a program in August 2016 and submitted an application to begin the process of obtaining certification for their Whistleblower program on July 16, 2017. However, the agency has not yet received its compliance certification for this important program.

Federal Requirements for Access

Homeland Security Presidential Directive 12 (signed August 27, 2004) was a strategic initiative requiring a government-wide standard for secure and reliable forms of identification for Federal employees and contractors. This directive led to a requirement issued by Office of Management and Budget instructing agencies to upgrade their physical and logical access systems by FY 2012 to require the use of Personal Identity Verification cards. Through our review work of Peace Corps' information security program, we have been reporting the agency's non-compliance with this requirement since 2013.[12] After years of refusing to implement the requirement, new leadership in the OCIO made the decision to begin efforts to comply in FY 2016. The agency is beginning to implement logical access controls at headquarters, but is still struggling with full agency implementation.

Federal Acquisition Regulations

During our audit work on the Peace Corps' largest contract, we noted significant non-compliance with Federal Acquisition Regulation (FAR) requirements.[13] This included failing to incorporate proper contract clauses, misclassifying the type of contract issued, and extending the existing contract non-competitively over a long period of time. By incorrectly applying the FAR, the Peace Corps failed to best protect the government's interests and appropriately emphasize oversight of the contract.

Progress in Addressing the Challenge

The agency has taken steps to develop formalized drug-free workplace and whistleblower programs. However, neither of these programs are in full compliance yet. Specifically, the drug-free workplace program does not include any sensitive senior agency managers who are located overseas and the whistleblower program is still pending approval and certification. Based on the recommendations in our review of the agency's largest contract, the Peace Corps appropriately planned for, competed, and awarded a replacement contract vehicle with the correct clauses and sufficient oversight mechanisms included.

11 Peace Corps Senior Agency Official for Records Management 2016 Annual Report (2017)

12 Review of Peace Corps' Information Security Program (2016)

13 Final Audit Report: Peace Corps' Volunteer Healthcare Benefits Administration Contract (2016)

The agency's Office of Civil Rights and Diversity has started a task force to alert certain senior managers to accessibility requirements and recently assigned an accessibility coordinator to help with these efforts.

What Needs to Be Done

While the Peace Corps has taken recent steps to address specific Federal requirements, the agency lacks an overall program to ensure Federal compliance. The agency should establish this role and give it the appropriate authority to ensure identification, coordination, and implementation of federal requirements. This mechanism will help the agency prioritize compliance. Through OIG work and informal discussions with the agency, we have stressed the importance of complying with Federal laws; however the agency has defunded or assigned resources to other areas and has not taken responsibility or accountability seriously. As the Federal government continues to face spending cutbacks and the agency streamlines operations to focus on Volunteer support, the Peace Corps must adopt a deliberate and comprehensive approach to ensure compliance with Federal rules and regulations.

Key OIG Resources

Review of Peace Corps' Information Security Program (2016)

Agency Financial Report FY 2016

Final Audit Report: Peace Corps' Volunteer Healthcare Benefits Administration Contract (2016)

Management Advisory Report: Peace Corps' Volunteer Health Care Administration Contract (2015)

Management Advisory Report: Peace Corps Drug-Free Workplace Plan (2012)

Peace Corps Senior Agency Official for Records Management 2016 Annual Report (2017)

Challenge: Volunteer Health and Safety

Why This Is a Challenge

While the Peace Corps works to prioritize the safety, security, and physical and mental health of its Volunteers, OIG country program evaluations and audits have identified aspects of the agency's safety and security and Volunteer medical care programs that present management challenges. Specifically, these challenges relate to the Volunteer health care program, processes for selecting and approving sites for Volunteers, procedures and documents that prepare the agency to respond to emergencies, and sexual assault risk reduction and response.

Volunteer Health Care

In 2010, OIG reviewed the medical care provided to Volunteers following the death of a Volunteer in Morocco.[14] The review found that the methods used to measure and monitor the quality of Volunteer health care were insufficient. A follow-up review released in March 2016 found that the agency enhanced the Volunteer health program with regard to our 2010 findings, but further improvements were still needed.[15] Specifically, overseas health units had experienced turnover and staffing gaps that resulted in poor transfer of patient information and documentation which can put Volunteers' health and safety at risk.

We also found that while the agency had established a policy to identify root causes of sentinel events, defined as unfortunate or unexpected events, the reviews had not resulted in any systemic change. The process was ineffective because the agency categorized too many events as sentinel to review them effectively, sentinel event committee members often had conflicts of interest with the cases, and root cause analyses were not comprehensive.

In OIG's recent country program evaluation of Peace Corps/South Africa, we found that the process for placing Volunteers with medical accommodations in South Africa was insufficient.[16] We recommended that the agency take into account the nature of service as well as the availability of support services in the country when making decisions about placing Volunteers with medical accommodations, especially those with mental health accommodations. Beyond considering the availability of health services in the country, the agency did not have a process to determine what types of medical accommodations might be reasonable in South Africa, which was an exceptionally challenging post for Volunteers to serve in. The agency stated that it lacked sufficient and defensible data to make these considerations. OIG had previously recommended in a 2010 report on the Volunteer delivery system that the agency collect and analyze data to determine to what extent Volunteer medical accommodations pose an undue hardship on the operations of Peace Corps, and that recommendation remains open.

Volunteer Site Selection and Approval

OIG found issues with site development at a number of posts. The agency requires that posts maintain site history files with relevant safety and security information, and that post staff review these files when considering Volunteer site placement. However, between 2012 and 2016, OIG

14 Death Inquiry and Assessment of Medical Care in Peace Corps Morocco (2010)

15 Final Program Evaluation: Follow-Up Evaluation of Issues Identified in the 2010 Peace Corps/Morocco Assessment of Medical Care (2016)

16 Final Country Program Evaluation: Peace Corps/South Africa (2017)

found site history files were incomplete, insufficiently organized, or not being used to inform site selection in multiple posts and regions. OIG also found that several posts did not comply with their self-identified housing criteria, and appropriate staff (including the safety and security manager) were not always sufficiently included in the site development process. Without housing checks and proper site development, the agency may inadvertently place Volunteers in houses and sites that impose increased safety and security risks.

Emergency Preparedness

During emergencies, posts' ability to locate Volunteers, maintain detailed emergency plans, and communicate those plans to Volunteers is critical. However, more than half the posts evaluated between 2012 and 2015 did not maintain complete and accurate site locator forms, which contain contact information and site location details needed to locate Volunteers in an emergency.

In addition, OIG evaluations identified five posts with emergency action plans that were not up to date and accessible to Volunteers. At approximately half of the posts that were evaluated from 2012 to 2015, Volunteers were unaware of their emergency consolidation points. Outdated emergency action plans and a lack of communication to Volunteers about the plans and consolidation points increased the risk that Volunteers would be unable to respond quickly and appropriately in an emergency.

We further found gaps in medical emergency preparedness at posts. Medical action plans were often incomplete and missing important information that could be necessary in an emergency. This was partly due to a lack of awareness by country directors concerning their health unit oversight responsibilities. In turn, the agency did not complete all required activities, such as carrying out medical emergency preparedness drills, ensuring that Peace Corps medical officers have assessed local health facilities, and conducting site visits to Volunteers.

Sexual Assault Risk Reduction and Response

In November 2016, OIG issued a report on the Peace Corps' Sexual Assault Risk Reduction and Response (SARRR) program as required by the Kate Puzey Peace Corps Volunteer Protection Act of 2011.[17] We found that SARRR policies and procedures focused on responding to victims of assault, but risk reduction strategies were less prevalent. We also identified problems with the Peace Corps' SARRR training program for both Volunteers and staff. These issues reduced the agency's effectiveness in teaching Volunteers important program information and providing all resources intended by the program.

Progress in Addressing the Challenge

In response to our 2016 evaluation of Volunteer health care the agency has clarified guidance to medical staff, including the role of regional medical officers; how frequently posts should review in-country medical facilities and providers; its expectations for the training and use of back-up medical providers; and how to conduct an annual medical emergency drill. The agency also updated its guidance and procedures on patient safety events to focus on systemic causes. In 2016, the Office of Health Services delivered a training to all medical officers to encourage the reporting of mistakes so that the agency can better understand errors and fix systemic issues. In addition, the agency has taken steps to update its guidance on Volunteer site development procedures and requirements for medical action plans.

17 Evaluation of the Peace Corps' Sexual Assault Risk Reduction and Response Program (2016)

In response to our SARRR program evaluation, the agency has worked to strengthen their program. Specifically, it filled a new position for a permanent SARRR program director to provide oversight, coordination, and better communication for the program. The agency has also worked to improve both Volunteer and staff related trainings. It has created a new safety and security assessment to help posts better understand Volunteer comprehension of SARRR training, and issued guidance to posts clarifying expectations regarding SARRR training both for permanent staff and temporary staff serving in senior leadership positions.

What Needs to Be Done

Volunteer Health Care

The agency should strive to improve their sentinel review process, since this process will better ensure that the Peace Corps continuously learns how to better support Volunteer health and safety. Specifically, the agency should ensure reviews include key components like root cause identification and a focus on addressing systemic issues. The agency also needs to provide sufficient and appropriate staffing for case reviews.

In addition, the Peace Corps should put in place more systematic data collection and analysis in order to determine to what extent Volunteer medical accommodations pose an undue hardship on its operations.

Site Selection and Approval

In order to reduce safety and security risks to Volunteers, the agency should develop stronger oversight, clearer guidance, and an electronic system to manage site history files. Additionally, it is critical that proper housing checks with the involvement of appropriate staff occur during the site selection process. Furthermore, posts need to conduct housing checks in a way that is consistent with their specified housing criteria.

Sexual Assault Risk Reduction and Response

The agency needs to continue to focus on improving the SARRR program. It must ensure Volunteer trainings are specific to the countries of service and address risks to male and LGBTQ Volunteers. These trainings should continue throughout a Volunteer's service, not only at the beginning of service. The agency also needs to clarify roles and responsibilities of all post and headquarters offices involved with the program. The agency should focus efforts on better including risk reduction aspects such as implementing guidance to help staff talk sensitively and candidly about risk reduction, and developing a plan to improve collection of feedback on the effectiveness of the sexual assault risk reduction and response program.

Key OIG Resources:

Final Country Program Evaluation: Peace Corps/South Africa (2017)

Management Advisory Report: Site History Files (2016)

Recurring Issues Report: Common Challenges Facing Peace Corps Posts, FYs 2012-2015 (2016)

Final Program Evaluation: Follow-Up Evaluation of Issues Identified in the 2010 Peace Corps/Morocco Assessment of Medical Care (2016)

Evaluation of the Peace Corps' Sexual Assault Risk Reduction and Response Program (2016)

Death Inquiry and Assessment of Medical Care in Peace Corps Morocco (2010)

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conforms to Financial Management System Requirements					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FISMA	1	0	0	0	0	1
Total Non-Conformance	1	0	0	0	0	1

Definition of Terms

Beginning Balance: The number of issues at the beginning of the fiscal year. The beginning balance must agree with the ending balance of material weaknesses from the prior year fiscal year.

New: The number of material weaknesses identified by the auditors during the current fiscal year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current fiscal year.

Consolidated: The combining of two or more findings.

Reassessed: The removal of any finding not attributed to the corrective actions (e.g. management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., Section 2 to a Section 4 and vice versa).

Ending Balance: The number of issues at the ending of the fiscal year.

APPENDICES

Peace Corps

APPENDIX 1
STATUS OF AUDIT WEAKNESSES

PART I - SIGNIFICANT DEFICIENCY FINDINGS	STATUS AS OF FY 2017	PROJECTED RESOLUTION DATE
INFORMATION TECHNOLOGY SECURITY	OPEN AS PROJECTED	SEPTEMBER 2018

FY 2017 Completed Corrective Actions

1. Continued the process of implementing the ISCM Program.
2. Improved the Risk Management framework to effectively identify and assess security at the business process level.

FY 2018 Planned Corrective Actions

1. Develop and Implement ERM Strategy.
2. Develop comprehensive Continuous Monitoring Program that includes information security policies and procedures; define roles and metrics to measure effectiveness.
3. Review all components of the SA&A of FISMA reportable systems.
4. Develop and implement procedures for performing e-authentication in accordance with OMB Memorandum M-04-04 guidelines.

UNTIMELY PROCESSING OF PERSONNEL ACTIONS	OPEN (DELAYED RESOLUTION)	SEPTEMBER 2018

FY 2017 Completed Corrective Action

1. Ensured that only valid authorization officials exist in EPIC to electronically sign on SF-50, Notification of Personnel Actions.

FY 2018 Planned Corrective Actions

1. Develop monitoring procedures that will ensure accurate processing of personnel actions, including periodic reviews of documentation.
2. Provide training to HR staff on policies and procedures related to the entry of personnel actions into EPIC.

PART II - NONCOMPLIANCE FINDINGS	STATUS AS OF FY 2017	PROJECTED RESOLUTION DATE
FISMA	OPEN AS PROJECTED	SEPTEMBER 2018

FY 2017 Completed Corrective Actions

1. Completed the identification and analysis of all external connections.
2. Continued to implement risk management strategies consistent with FISMA requirements and NIST Special Publications.

FY 2018 Planned Corrective Actions

1. Develop procedures to improve identity and credentialing processes; integrating systems, human resources and personnel security.
2. Continue to implement risk management strategies consistent with FISMA requirements and NIST Special Publications

APPENDIX 2
VERIFICATION AND VALIDATION OF DATA

Data collection and reporting consistency are supported by the use of detailed performance goal data reference sheets, which include operational definitions, data sources, and a comprehensive methodology for measuring each performance goal. The agency ensures the data are complete and accurate through oversight and review by the Office of Strategic Information, Research, and Planning. The major data sources that are available to agency staff for assessing performance goals are detailed below.

Peace Corps Databases

The Peace Corps maintains several database systems to collect Volunteer and program information. In order to maintain data integrity and ensure that the appropriate data entry methodology is followed, only authorized staff who have been properly trained can access key systems. Routine reconciliation processes among agency units enable users to verify and test performance data as well as to isolate and correct data entry or transfer errors. Internal, automated system processes also ensure data is appropriately transferred among different applications. The required level of accuracy to provide current and historical information about programs and Volunteers is met through database rules and business processes. Where data limitations do exist, largely due to data-entry compliance in isolated systems, they are noted in the appropriate performance goal section.

Volunteer Reporting Tool

Since FY 2008, Volunteers have been reporting on their work and the progress they are making toward their project outcomes through the Volunteer Reporting Tool (VRT). The VRT is also utilized to report on Volunteers' contributions to agency strategic partners, such as the PEPFAR and Feed the Future.

Since the development of the first version of the VRT, the agency has made numerous enhancements to improve the user experience, reduce data entry errors, and improve reporting. Volunteer reports are submitted to overseas post staff through the VRT on a quarterly or semiannual basis. Staff review all reports and work with Volunteers to verify data and correct anomalies prior to end-of-year analysis. The agency provides in-depth VRT training and support to Volunteers and staff to ensure data are collected, analyzed, and reported properly. The agency also developed data collection tools to standardize the methods that Volunteers use to collect data.

The primary data quality challenge that remains is ensuring that an adequate percentage of Volunteers report on the project indicators. The agency is addressing this challenge by working with overseas posts to encourage higher reporting rates and by appropriately documenting and considering reporting rates when conducting analyses.

Peace Corps Administrative Records

For some performance goals, the Peace Corps collects annual data from headquarters offices and overseas posts through an online data call (survey). Responses are housed in an external, electronic database. Data cleaning procedures are applied to the dataset prior to analysis. Staff in positions of leadership or designated delegates at all overseas posts and headquarters offices are required to complete the survey. The survey is designed with clear logic and data validation rules to minimize data entry error. The data is independently reviewed by the Office of Strategic Information, Research, and Planning, and anomalies are addressed to improve data quality. Other data is individually collected from specific headquarters offices.

These administrative records do not have the benefit of the verification and validation standards executed in Peace Corps database systems, but the agency is able to ensure a high level of accuracy by working with individual offices and posts to develop reliable data collection and analysis procedures.

Annual Volunteer Survey

The Annual Volunteer Survey (AVS) is a confidential, voluntary online survey of all currently serving, two-year Volunteer terms. This comprehensive survey provides Volunteers' assessments of the effectiveness of Peace Corps training, in-country staff support, their personal health and safety, and their overall service experience.

In FY 2014, the agency substantially redesigned the survey questionnaire to improve data quality by reducing measurement error, strengthening respondent confidentiality, and shortening the survey by half. By maintaining these improvements through FY 2017, the agency is well on its way to being able to provide truly comparable, multiyear trend data to internal and external stakeholders. The agency has gained a more accurate understanding of the perspectives of Volunteers as a result of these enhancements to the AVS.

The 2017 AVS was fielded from June 19–August 11 directly to currently serving Volunteers; 88 percent of them completed the survey. The high response rate in combination with data verification and validation measures minimize total survey error at the global level. The survey is not, however, administered to a random sample of Volunteers. As with other non-randomized surveys, The AVS is subject to non-response bias just like other non-randomized surveys.

Survey respondents in FY 2017 reflected the Peace Corps' overall composition by gender, age, geographic location, and length of service. Responses to all AVS questions were directly provided by the Volunteers and housed in an external, electronic survey database. Rigorous data cleaning procedures are applied to the dataset prior to analysis to ensure data quality. The results are then used to inform agency leadership about the Volunteers' perspectives on key issues.

It is worth noting that, like any survey, the AVS reflects the experiences and opinions of Volunteers at a fixed point in time and can be influenced by various factors, such as major external events or the ability to recall information. The agency takes into consideration both statistical and practical significance to account for variation in AVS results from year to year. Thus, nominal percentage point movements may not be practically meaningful or significant. In using AVS results, the agency reviews longer-term trends to account for normal, expected variations in responses.

Global Counterpart Survey

First launched in FY 2014, the Global Counterpart Survey is designed to provide information on the impact of Volunteers from the perspectives of the individuals with whom Volunteers work most closely. The second and third Global Counterpart Surveys in FY 2015 and FY 2016 consisted of a short interview of Volunteers' primary work partners administered by overseas staff. The survey has now shifted to a biannual data collection instrument. The next iteration is planned for late FY 2018.

This survey is administered either over the phone or in person. Global results are drawn from a randomly selected group of 400 respondents that represent all counterparts. Data quality challenges include potential interviewer error and ambiguity in the

total survey population. The interviews are conducted by staff experienced in project fieldwork and counterpart communication, but who may not have extensive experience in survey interviewing or data collection. Issues of translation, variation in interview styles, and accuracy of coding may have unpredictable influences on the results. The agency is addressing this challenge by providing extensive tools, training, and support to staff and by closely monitoring survey results to identify inconsistencies. Training sessions are conducted via WebEx for interested post staff prior to initiating the interviews. The agency also provided translations of the survey in French and Spanish.

Determining the survey population is a challenge. Volunteers are used as a selection proxy for the counterparts who make up the random sample since no direct sampling frame exists that lists all Volunteer counterparts at all posts. In this survey, the agency defined counterpart as the Volunteer's primary work partner as reflected in post records for his or her primary project. In cases where a Volunteer no longer has any working relationship with their post-assigned counterpart, the Volunteer is asked to identify their primary work partner.

Employee Viewpoint Survey

The Employee Viewpoint Survey is administered annually to all U.S. direct hire staff. The survey measures employees' perceptions about how effectively the agency is managing its workforce. The agency utilizes the survey results to compare working conditions at the Peace Corps with other federal government agencies and to identify opportunities to improve workforce management.

The demographic profile of survey respondents is consistently representative of the U.S. direct hire staff. The survey is administered electronically, and with very few exceptions that are related to the Peace

Corps' performance goals, most questions are identical to the Federal Employee Viewpoint Survey fielded each year across the federal government by the Office of Personnel Management.

The survey is not administered to a random sample of Peace Corps employees; as a result, the survey is subject to nonresponse bias. Additionally, the survey represents the views of employees at a fixed point in time and can be influenced by external factors. The agency accounts for these data limitations by drawing conclusions from multiyear trends and by comparing the results with those of other federal agencies.

Host Country Staff Survey

This survey has been fielded every year since FY 2014 to systematically gather perspectives from host country staff. It is a short, confidential, voluntary survey designed to learn more about the agency's impact in the posts where it operates by gathering input from host country staff, and documenting achievements in the Peace Corps' Goals One and Two. The survey was administered online from August 21 to September 15, 2017. The survey comprises 17 questions covering the following: diversity and inclusion, staff training, contributions to the Peace Corps' goals, development impact, job satisfaction, and comparability to other available jobs.

The primary data quality challenge with this survey is the development of the sampling frame. Identifying and contacting all host country staff is difficult due to the fact that some staff members in administrative or support positions do not have official email addresses. Due to this challenge, the sampling frame consists of the host country staff who can be reached via email. Overall, 74 percent of all eligible host country staff responded to the survey in FY 2017. Additionally, while the Host Country Staff Survey is offered in English, French, and Spanish, limited literacy in those languages and factors such as lack of computer access or familiarity with online survey tools for some staff may contribute to nonresponse bias.

APPENDIX 3
GLOSSARY OF ACRONYMS

AF	Africa Region
AFR	Agency Financial Report
AVS	Annual Volunteer Survey
CIO	Chief Information Officer
DATA Act	Digital Accountability and Transparency Act of 2014
DOL	Department of Labor
DOS	Department of State
EMA	Europe, Mediterranean, and Asia Region
EO	Executive Order
EPIC	Entry, Processing, Inquiry, and Correction
ERM	Enterprise Risk Management
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act
FSN	Foreign Service National
FY	Fiscal Year
FYR	Five-Year Rule
GAGAS	Generally Accepted Government Auditing Standards
GSA	General Services Administration
HCC	Host Country Contributions
HR	Human Resources
IAP	Inter-America and the Pacific Region
IPBS	Integrated Planning and Budget System
ISCM	Information Security Continuous Monitoring
IT	Information Technology
OCIO	Office of Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSLD	Office of Staff Learning and Development
PEPFAR	President's Emergency Plan for AIDS Relief
PL	Public Law
PP&E	Property, Plant, and Equipment
PSC	Personal Services Contractor
SA&A	Security Assessment and Authorization
SARRR	Sexual Assault Risk Reduction and Response Program
SBR	Statement of Budgetary Resources
SF	Standard Form
TEFL	Teaching English as a Foreign Language
USC	United States Code
VRT	Volunteer Reporting Tool

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