PERFORMANCE AND ACCOUNTABILITY REPORT

PEACE CORPS | 2005

FISCAL YEAR 2005

THE PEACE CORPS

PERFORMANCE AND ACCOUNTABILITY REPORT

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*The **vision** of the Peace Corps—to promote world peace and friendship by providing Americans of all backgrounds, who wish to serve, a quality Volunteer experience in a safe and secure manner as they help host communities meet their needs, and then return to advance a better understanding of the countries in which they served.*

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THE DIRECTOR OF THE PEACE CORPS

WASHINGTON, D.C.

On behalf of the more than 7,800 Americans currently serving in 77 countries through 71 posts around the world as Peace Corps Volunteers, I am pleased to present the Peace Corps' Performance and Accountability Report (PAR) for fiscal year 2005. This report summarizes the agency's achievements, measures its performance against pre-established objectives, and includes the financial results of its operations during the past year.

Since its inception in 1961, the Peace Corps has sent more than 182,000 Volunteers to serve in 138 countries around the globe—from Azerbaijan to Zambia—promoting the Peace Corps' mission of world peace and friendship. Volunteers share their time and talents by serving as teachers, business advisors, information technology consultants, agriculture and environmental specialists, and health and HIV/AIDS educators carrying out the agency's three goals:

1) to help the people of interested countries in meeting their need for trained men and women;

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.

As of the end fiscal year (FY) 2005, 7,810 Volunteers were serving in the Peace Corps—the largest number of Volunteers since 1974.[1] The interest among Americans to serve in the Peace Corps continued with applications up by 48 percent since October 2001. The Volunteers serving in FY 2005 provided 6,411 years of effort, which reflects their commitment to live in and integrate with the communities at their sites of assignment.[2] The Peace Corps returned to China in FY 2005 with 40 English language teachers; the newest group of over 50 trainees was sworn in as Volunteers in September 2005. In addition, Crisis Corps Volunteers were deployed to Southeast Asia to help in recovery and rebuilding efforts following the devastating tsunami.

Additionally, 131 Crisis Corps Volunteers, through a coordinated effort with Federal Emergency Management Agency (FEMA), responded to the call to assist fellow Americans in the aftermath of Hurricanes Katrina and Rita—the first time ever that Volunteers have been deployed domestically.

Also, the Peace Corps has expanded its role in the President's Emergency Plan for AIDS Relief (Emergency Plan), fielding an additional 56 Volunteers, and now has direct involvement in the Emergency Plan in the nine focus countries where the Peace Corps is working.[3] Additionally, the Peace Corps developed Emergency Plan programs in nine other countries.[4]

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[1] *This 7,810 is an "on-board" count of all Peace Corps Volunteers and trainees, Crisis Corps Volunteers, and United Nations Volunteers serving under the Peace Corps. On September 6, 2005, FEMA requested 400 Volunteers and the agency deployed 131 Volunteers by September 30; through the Emergency Plan, the agency deployed 56 Volunteers. In total, under these various federally funded programs, 7,997 Volunteers were deployed under the administration and support of the Peace Corps.*

[2] *This measure reflects that Volunteers are engaged in their assignments 24 hours a day, seven days a week.*

[3] *These countries include: Botswana, Guyana, Kenya, Mozambique, Namibia, South Africa, Tanzania, Uganda, and Zambia.*

[4] *These countries include: Malawi, Lesotho, Swaziland, Dominican Republic, Eastern Caribbean, Panama, Ukraine, Morocco, and Thailand.*

Recognizing the important role that the Peace Corps has in the global fight against HIV/AIDS, the agency established a Global AIDS office within the Office of the Director. This new office will provide agency-level policy; overall leadership; and general supervision, direction, and coordination of all HIV/AIDS activities relating to the operations of the Peace Corps. This office will work to leverage the unique niche of the Peace Corps and Volunteers working with communities and local organizations to take the agency's already successful HIV/AIDS efforts to new levels.

Volunteer safety and security remains the agency's highest priority. The Peace Corps' approach to safety and security acknowledges that Volunteer service has inherent risks, but emphasizes that the agency will do its part to ensure that safety and security systems and support are in place while the Volunteer also agrees to assume personal accountability. The safest and most secure Volunteers are those who take personal responsibility for their behavior and who are well-known in their communities and integrated into the culture. The Peace Corps ensures that safety and security information is fully incorporated in all aspects of Volunteer recruitment, training, and service. Staff continually track and study Volunteer crime- and safety-related incidents, and these data analyses are used to generate annual safety reports that identify and analyze trends in safety conditions among in-service Volunteers and to enhance existing policies or to develop new policies and procedures, as needed. The Peace Corps' Volunteer safety and security support system is managed by the associate director for safety and security, a crime statistics and analysis unit, and a Volunteer Safety and Overseas Security Division with nine regional safety and security officers stationed overseas. Additionally, there is a safety and security coordinator at every post and each region has three headquarters-based safety and security desk officers.

For the first time in its 44-year history, the Peace Corps has prepared comparative financial statements in a timely manner that comply, to the extent possible, with OMB guidelines and the Accountability of Tax Dollars Act of 2002.[5]

Where possible, the accompanying financial statements conform to the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board; Office of Management and Budget (OMB) Circular A-136, and the Department of the Treasury's *Treasury Financial Manual* and related bulletins. The agency is committed to the principles and objectives of the Chief Financial Officers Act of 1990 and the Accountability of Tax Dollars Act of 2002.

The accompanying statements summarize the agency's financial position; disclose the net cost of operations and changes in net position; and provide information on budgetary resources and financing for fiscal years ended September 30, 2005, and 2004. These statements reflect activity of appropriated funds, with footnote recognition for those Trust Fund and Special Fund Receipt accounts over which the agency has fiduciary stewardship.

Summary of Asset Balances	September 30, 2005	September 30, 2004
Fund Balance with Treasury	$128 Million	$121 Million
Property, Plant, and Equipment	$ 42 Million	Not Reported
Total Assets	$176 Million	$126 Million

Summary of Revenue	2005	2004
Appropriations	$317 Million	$308 Million
Total Financing Sources	$320 Million	$323 Million

[5] *The statements should be read with the realization that they are a component of the overall statements of the U.S. government.*

The agency had total assets of $176 million as of September 30, 2005, and $126 million as of September 30, 2004. In FY 2005, the agency established values for property, plant, and equipment, and recorded such values as of September 30, 2005.

Financing sources totaled $320 million in FY 2005 and $323 million in FY 2004, of which appropriated funds (net of recission) totaled $317 million and $308 million, respectively, and are available for use by the agency.

The Peace Corps continues, with OMB approval, to fine-tune the performance plan that established performance indicators for fiscal years 2004–2006. These indicators helped ensure achievement of the agency's strategic goals and were based on past experience with the previous strategic plan. The Peace Corps is now reviewing its strategic goals to ensure that they match the outcome-based evaluations of the updated strategic plan. The agency's FY 2005 performance plan results are based on reliable, actual data and/or a combination of actual data through most of the year with an estimate of results for the last quarter of the fiscal year.

The financial statements are generally complete and reliable to the best of the agency's knowledge, except for those items mentioned in the CFO letter. Details of corrective actions to be taken are stated in the CFO letter and related appendices. The Peace Corps' financial systems conform to government-wide standards in most material aspects. An upgrade in January 2006 will enable the agency to charge interest on delinquent advances and receivables. The agency will continue to use the Peace Corps Financial Statement Generator to produce its financial statements until such time as Oracle software will produce them directly from the General Ledger.

The agency has established a policy for an internal management controls system. Generally, this system institutes fiscal and programmatic accountability through an integrated planning and budgeting system. Under this policy and system, the agency has appointed a chief compliance officer and a director of performance reporting and compliance. As the agency develops a contiguous monitoring system, it will conduct an overall assessment of these controls. After this overall assessment has been conducted, the agency hopes to be in a position to provide a statement of assurance as required by the Federal Managers' Financial Integrity Act.

The Peace Corps looks forward to continuing its mission by sending men and women who represent America's rich diversity to promote peace and friendship around the world. These dedicated Americans will serve in distant communities, sharing their skills and their own experiences, and then bring their experiences back home to educate others about the people and cultures in which they have served.

GADDI H. VASQUEZ
DIRECTOR

The agency's focus will be to strengthen public awareness of the work of Volunteers and of the Peace Corps' long-term sustainability.

OVERVIEW | CORE ISSUES

The Peace Corps is pleased to be able to carry out President Bush's call to public service and his goal to expand the number of Peace Corps Volunteers serving in the field. At the end of fiscal year 2005, 7,810 Volunteers were serving in the Peace Corps—the largest number of Volunteers since 1974—in the areas of agriculture, business development, education, the environment, health and HIV/AIDS education and prevention, and youth development.[6] In addition to these major sectors, Volunteers work to introduce information technology into their projects.

Currently, about 20 percent of Volunteers are serving in nations with predominantly Muslim populations in West and North Africa, the Middle East, Europe, and Central Asia. However, the Peace Corps' mission and efforts in these regions are the same as in other areas of the world. Host communities experience positive and personal images of Americans, and returning Volunteers share their new understanding of these different cultures with friends, family, and communities back home.

At the end of FY 2004, more than 3,100 Peace Corps Volunteers were engaged in HIV/AIDS activities, assisting nearly 815,000 people in areas of prevention and care. By knowing local cultures and languages, Peace Corps Volunteers are uniquely positioned to focus on this presidential priority at the grass-roots level. All Volunteers who serve in African nations—regardless of their program sector—are trained to provide HIV/AIDS prevention and education. Fighting the HIV/AIDS pandemic is paramount to the survival of people across the globe, and it is an important mission of the Peace Corps. To that end, the Peace Corps established a Global AIDS office within the Office of the Director to provide an even greater focus to the agency's efforts. This new office will coordinate HIV/AIDS efforts throughout the Peace Corps to help ensure the agency plans and implements effective programs. The office is also responsible for coordinating programs with the President's Emergency Plan for AIDS Relief and its focused efforts to stem the tide of this disease.

The safety and security of Peace Corps Volunteers continues to be the agency's top priority. As the number of Volunteers in the field expands, the Peace Corps remains committed to providing the optimum conditions for all Volunteers, including a safe and secure environment and quality programming and training. The work of past, present, and future Peace Corps Volunteers remains critical. The Peace Corps is well-positioned to safely expand and build upon the successes of the past 44 years.

The creation of a global AIDS office places the Peace Corps squarely in the middle of this historic effort, and it is the first of many steps the Peace Corps will take to enhance and sustain its involvement in this critical issue over the long term.

6 *See Note 1.*

OVERVIEW | MISSION

The Peace Corps' mission is to promote world peace and friendship by assisting interested countries while providing an effective and satisfying Volunteer experience for a diverse group of Americans in a safe and secure environment, and by building an operational infrastructure that efficiently and effectively supports the Peace Corps Volunteer in the 21st century.

Development indicators suggest that nations on all continents face significant challenges to improve development, information technology, agriculture, education, sanitation and environment, health, and business.

The Peace Corps provides practical assistance to developing countries by sharing America's most precious resource — its people. The Peace Corps combines development with people-to-people relationships that Volunteers forge with host country colleagues and communities. This serves as a crucial foundation for peace and friendship for generations to come.

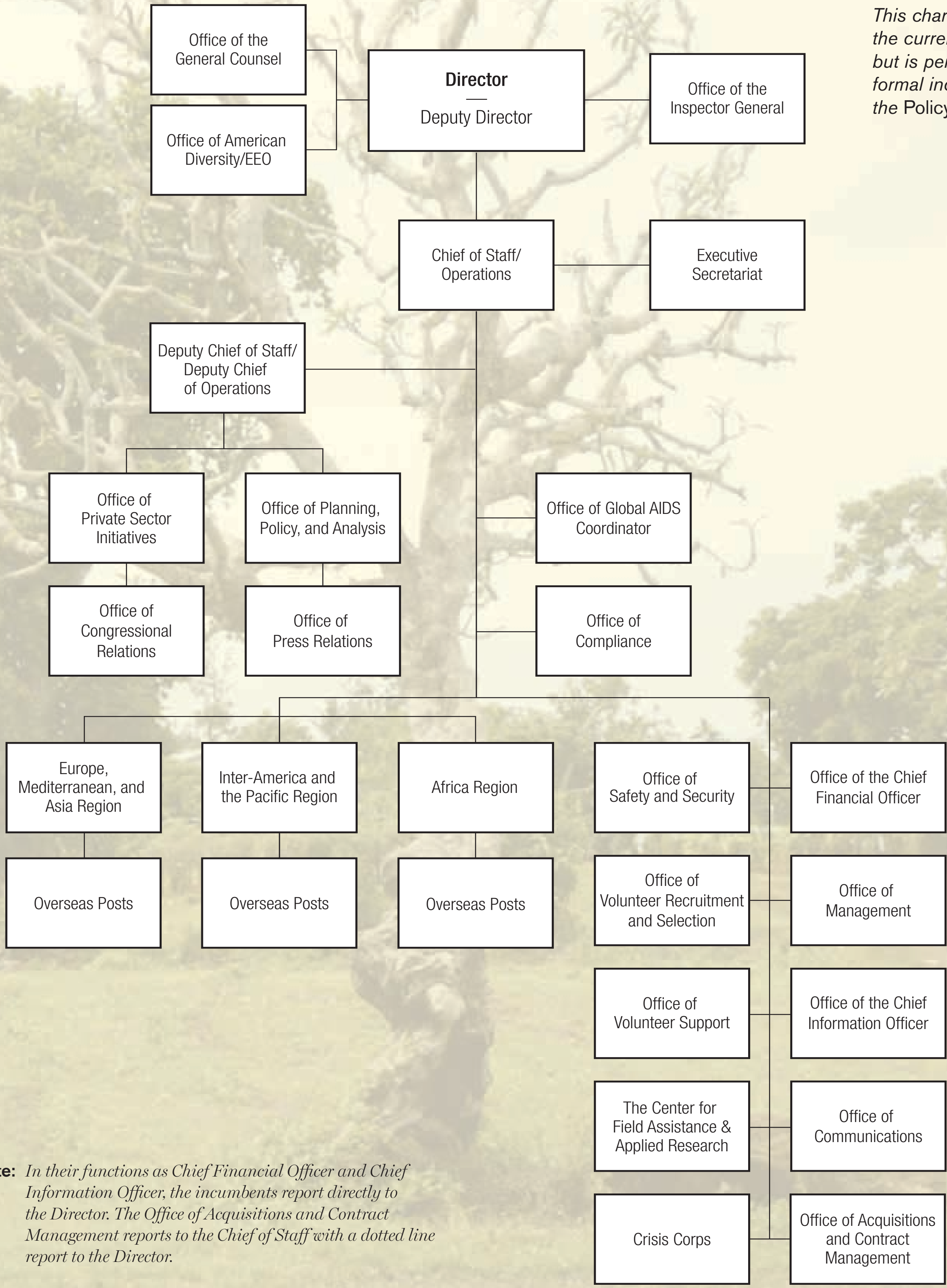
Americans remain eager to serve their country through the Peace Corps. This year, the Peace Corps achieved a historic high in the number of Volunteers meeting the needs of communities around the world. The agency continues to receive high numbers of applicants for a limited number of opportunities. Interest in the Peace Corps at home continues to grow with visits to the website increasing by over 8 percent, for a total of 7.9 million visitor sessions. The Peace Corps also continues to be in high demand. Countries with established Peace Corps programs regularly seek to expand the total number of Volunteers serving, and the Peace Corps has received dozens of requests to establish or re-establish programs. In FY 2005, the Peace Corps established a Crisis Corps program in Sri Lanka, and conducted assessments in Cambodia, Chile, and Ethiopia.

The core values of the Peace Corps since it was established on March 1, 1961, remain relevant, vital, and strong. During the past 44 years, more than 182,000 Americans have served as Peace Corps Volunteers and promoted the agency's mission of world peace and friendship. Volunteers have helped dispel misconceptions about Americans; assisted in fostering positive relationships with host country nationals; promoted sustainable development; and returned back home with messages to share about life overseas, the people they have served, and the cultures they have experienced. While much has changed since the Peace Corps' founding in 1961, its mission has not. Throughout the world, Peace Corps Volunteers continue to bring a spirit of hope and optimism to the struggle for progress and human dignity.

Education Volunteer teaches young schoolchildren in Paraguay

OVERVIEW | PEACE CORPS ORGANIZATION

This chart reflects the current status, but is pending formal inclusion in the Policy Manual



Note: *In their functions as Chief Financial Officer and Chief Information Officer, the incumbents report directly to the Director. The Office of Acquisitions and Contract Management reports to the Chief of Staff with a dotted line report to the Director.*

OVERVIEW | MOST IMPORTANT PERFORMANCE GOALS AND RESULTS

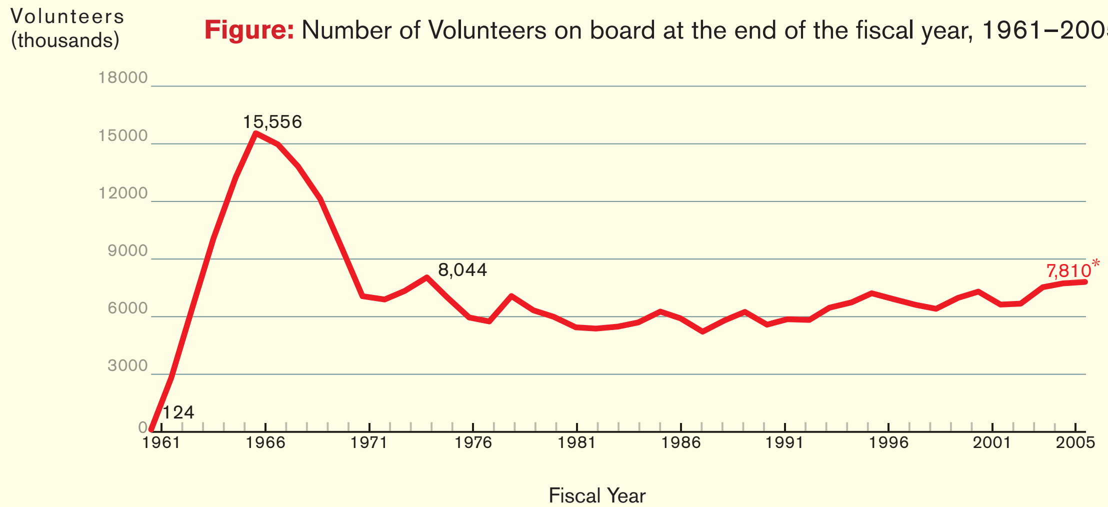
The current Peace Corps strategic plan was developed in 2003 for FY 2003–2008. The plan continues to reflect the agency's long-standing commitment to the unique role that its Volunteers perform to further the three goals set forth in the Peace Corps Act. In response to the President's challenge for the Peace Corps, the agency is focusing on gradual expansion while providing a positive experience for all Volunteers in a safe and secure environment.

The Peace Corps completed the Program Assessment Rating Tools (PARTs) for the first time this year, enabling the agency to look critically at the four strategic goals to ensure they are an accurate measure of Volunteer work in the field and at home. The PART results gave the Peace Corps an 81 percent rating, which is very good for its first-ever PART. At the same time, the Peace Corps discovered the need to adjust several goals and indicators to better enable the agency to measure outcomes. OMB has endorsed this effort, and it will be completed by the end of November 2005. However, the current goals and results are based on the strategic plan prior to needed modifications.

Overall, the most important goals come from the strategic plan. Each strategic outcome goal is a key measure of the agency's overall performance. During FY 2005, the Peace Corps successfully met most of these goals. The first goal—increasing the number of Volunteers in the field—positioned the Peace Corps to grow at a rate consistent with the strategic plan. The goal for FY 2005 was to have 7,803 Peace Corps Volunteers in the field, and the agency surpassed the goal with 7,810 Volunteers serving all around the world—7,997 including Volunteers sponsored by FEMA and the President's Emergency Plan. This historic high is a tremendous achievement for the agency and is the result of previous years of work toward realizing this goal.

Furthermore, the agency was able to respond in strong measure to humanitarian crises that took place in FY 2005. 82 Crisis Corps Volunteers were deployed to serve throughout the world, including in the Southeast Asia region for recovery and rebuilding efforts for those devastated by the tsunami. Crisis Corps Volunteers also assisted in short-term assignments fighting the AIDS pandemic in Africa. An additional 134 Crisis Corps Volunteers, funded through FEMA, mobilized domestically to help fellow Americans deal with the aftermath of Hurricanes Katrina and Rita in the Gulf Coast region.[7]

Figure: Number of Volunteers on board at the end of the fiscal year, 1961–2005



**7,997 including CCVs and PVCs through FEMA and the Emergency Plan*

[7] *At the end of FY 2005, a total of 131 Crisis Corps Volunteers were "on board." Also see note 1.*

Reacquainting the American People with the Peace Corps

The Peace Corps continues to reacquaint the American people with its mission and ask new waves of Americans to apply to serve overseas. While the Peace Corps continues to receive a strong interest from Americans wanting to serve, applications made online were lower than targeted, concomitant with an overall decline in applications received during FY 2005. However, the Peace Corps reached its important goal of increasing underrepresented ethnic and age group applicants, surpassing the FY 2005 goal of 21 percent with a 24.5 percent total.

The Peace Corps continues to reach wide audiences with its marketing campaign, *Life is calling. How far will you go?* The campaign has surpassed the previous recruitment campaigns' three-year-total donated media in half the time. The "out-of-home" public service announcements (PSAs) have appeared on billboards on highways, and on posters in train stations, metro-rail cars, and buses. This new way to reach mass audiences is also helping the Peace Corps target diverse neighborhoods and colleges. Among the campaign's many awards to date is the prestigious Gold EFFIE from the American Marketing Association, awarded for most effective recruitment results and creative execution.

Another key indicator of Volunteer overall satisfaction of safety and security is the early termination (ET) rate. The FY 2005 ET rate remained at a relatively low rate compared to the historical average, but did not meet the performance goal.[8] The Peace Corps has developed a new way to capture specific feedback to provide valuable insight from Volunteers and staff on the reasons behind ETs, and this information will help shape Peace Corps efforts effectively. The agency plans to review the methodology for determining the ET rate to ensure the data collected provide a meaningful basis for analysis.

The Peace Corps had an increased number of returned Peace Corps Volunteers (RPCVs) visiting schools and organizations around the country and significantly surpassed its FY 2005 goal. Improved data collection allowed the agency to better track the multitude of interactions that took place, though efforts will continue to improve the agency's ability to capture the interactions that remain unreported. While the number of RPCVs participating in Peace Corps Week (the main project whereby RPCVs visit schools) was at a record high, the total fell short of the performance goal.

Last year, the Peace Corps discovered that the timing of several data-producing efforts, including the biennial Volunteer survey and the project status reports, are out of sync with the timing of the PAR. While the agency has adjusted the timing of future Volunteer surveys so that results coincide with PAR due dates, the project status reports cannot be adjusted without diminishing their value. A long-term solution for collecting, collating, and disseminating these reports will be explored over the next two years.

[8] *ET means early termination of service. This can include resignation, administrative separation, medical separation, and/or interrupted service. The 12-month ET rate is found by dividing the number of trainees and Volunteers who separated from the Peace Corps during the previous 12 months by the total number of trainees and Volunteers who served at any time during the same previous 12 months. This report has been produced at the end of each quarter starting in FY 2004.*

OVERVIEW | ACTIONS TO ADDRESS CHALLENGES AND FUTURE CHALLENGES

In FY 2005 the Peace Corps committed to

- *Continue ongoing efforts to update its policy manual.*

The agency continues to update its policy manual. To further assist with policy review, revision, and formulation, the Director formed a high-level policy review board.

- *Balance increased security needs against resources and expansion commitments.*

The Director has stated that the Peace Corps' expansion will not outpace its ability to maintain the infrastructure necessary for Volunteer safety, security, and support needs. As an integral component of the Peace Corps, the Office of Safety and Security assesses and recommends appropriate security considerations when the agency contemplates a new country entry. Additionally, as part of the operational role of the Volunteer Safety and Overseas Security Division, Peace Corps safety and security officers (PCSSOs) routinely visit posts to make appropriate security recommendations concerning programmatic and physical components of each post's operation. Their knowledge of the unique environment of the Peace Corps allows them to make resource-conscious recommendations that maximize the security of Volunteers and staff.

During the first three quarters of FY 2005, the Office of Safety and Security participated in security assessments of two potential new country entries, Cambodia and Chile, and the expansion of programming in two new areas of the Philippines. The office has also been actively engaged in the possible opening of a new program in Ethiopia. PCSSOs provide recommendations about potential placement locations, overall crime trends and security risks, and the physical security of potential office and housing sites. Their recommendations help decision-makers choose adequate security options or program entries that match the programmatic and fiscal realities of the Peace Corps.

In strengthening the overall security posture of the Peace Corps, the office also provides security consulting and training to all currently operating Peace Corps posts. PCSSOs have sub-regional responsibility for assisting posts with their security needs, and, in FY 2005, they visited, assessed, and trained staff and Volunteers in 59 of the 71 Peace Corps posts along with one assessment of a stand-alone Crisis Corps post. Additionally, the office is training all Peace Corps local-hire safety and security coordinators. These training workshops focus on institutionalizing a standardized position description and ensure that the safety and security coordinators understand their job responsibilities and are prepared to carry out their duties.

- *Continue action to correct audit findings.*

Progress and remaining corrective actions are addressed in the appendices under "Current Status of Prior Year Audit Recommendations."

- *Stabilize, upgrade, and enhance the Odyssey/FOR Post financial system.*

The financial system satisfied the vast majority of the agency's financial management requirements during this fiscal year. Additional enhancements are scheduled for January 2006 to bring the system into full compliance with criteria established by the Joint Financial Management Improvement Program.

- *Refine its performance plan and adjust the timing and nature of systems so the agency has the data necessary for its performance report and the PAR.*

The agency made multiple adjustments to better track, document, and report on its performance against strategic goals and performance indicators. With the approval of OMB, the Peace Corps embarked on an effort to update its performance plan to better enable the agency to report on measurable outcomes.

- *Undertake a reconciliation project to resolve imbalances with inherent accounts and external sources and create procedures and disciplines to regularly reconcile accounts.*

This is an ongoing effort and considerable progress was made during the fiscal year to identify and resolve imbalances on a current basis and, where applicable, correct the systems logic that caused the imbalances.

- *Reassess the financial management business processes and realign organizational structure to accommodate the new paradigm.*

The basic structure of the Office of the Chief Financial Officer (OCFO) (formerly known as the Office of Planning, Budget, and Finance) was re-aligned to enhance managerial accountability for the various functions. As the analysis of business practices matures, it is likely that specific responsibilities at the next tiers will also be realigned.

- *Train staff in the skills and disciplines of financial management.*

The majority of the OCFO staff attended an Appropriation Law course. Staff also attended professional development seminars and specialized training classes (e.g., payment certification) sponsored by the Department of the Treasury.

Future Challenges
Programming and training
Leadership development
Succession planning
Development and retention of institutional knowledge

Volunteer in Ecuador teaches youth baking skills

OVERVIEW | SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Enterprise Architecture

The Peace Corps Director established the enterprise architecture (EA) program in November 2002 within the Office of the CIO. The objective was to modernize the systems and infrastructure to support the agency's mission in the 21st century. The EA program establishes the analysis and governance framework support to implement the Clinger-Cohen Act of 1996, OMB Circulars A-11 and A-130, the Federal Information Security Management Act, and various other legislative and regulatory requirements. The Peace Corps' EA is based on the federal enterprise architecture framework (FEAF). This approach, in connection with the emerging cross-agency reference models OMB is developing, provides the framework for implementing the EA program at the agency level and ensuring its alignment with the FEAF.[9]

The Office of IT Architecture, Standards, and Practices, reporting to the CIO, was established to manage EA program activities as well as to guide agency-wide IT data administration, governance, standards, and investment management programs. In FY 2003, the Peace Corps reconstituted its Investment Review Board (IRB) to function as the EA executive steering committee, chartered the EA advisory board to serve as the architecture review and configuration management board, and organized and staffed the EA core team to address EA operational activities. Integration between the EA and IT investment management began. The agency's IT governance program was implemented through the IRB. The IRB reviews all new project proposals over $25,000 for alignment with the mission of the agency, prioritizes investment decisions, and develops sound business practices.

The Peace Corps developed high- to mid-level current and future business component architectures in 2004. These component areas include: Volunteer delivery, human resources, safety and security, overseas posts, financial systems, and IT security. Starting in FY 2004 and continuing in FY 2005, these components' architectures were merged into a complete end-to-end view of the Volunteer delivery system (VDS), the main business line of the agency. The initial mapping of agency business functions to the OMB business and performance reference models was also completed. The EA program is also mapping Peace Corps data to the recently released data reference model and expects to complete this VDS portion in FY 2006. In FY 2005, the recommendations for future business re-engineering derived from the EA work was documented and presented to the agency leadership. Prioritization and executive sponsorship for the recommendations to move through the IT governance process as new or improved business systems at the agency is expected in FY 2006.

In FY 2005, the Office of IT Architecture, Standards, and Practices set up the IT Project Management Office (PMO). Through the use of templates and repeatable processes and procedures, the agency will be better positioned to achieve successful project outcomes. Additionally, the use of earned value measuring as part of the PMO reporting functions will not only satisfy OMB mandates, but will provide executive management with the data needed to make informed decisions. The PMO has already returned value by assisting the overseas refresh project plan development, saving the agency $800,000.

9 *The underlying theories and methodologies for the program include the* Zachman Framework, *published by John Zachman, 1987; and* Enterprise Architecture Planning Methodologies, *published by Steven Spewak, 1992. General procedural guidance for program implementation is based on* A Practical Guide to Federal Enterprise Architecture, *published by the Federal CIO Council, 2001.*

Additionally, an agency solution for automating human resource management (HRM) processing of staff position descriptions, classification, posting, and recruiting was identified with the assistance of the EA program, and a business case was developed by a cross-organizational team. This proposal was presented to the IRB and ultimately recommended for funding. The first phase of the HRM modernization project is in progress. Concurrently, plans continue for developing and implementing a comprehensive policy, standards, and guidance framework in connection with an enterprise-wide IT investment management program. Through its EA program, the Peace Corps is strategically and methodically pursuing cross-program and enterprise-wide initiatives to better meet the agency's mission and goals.

Financial Systems

The Peace Corps' financial management system, Odyssey/FOR Post, went live on October 1, 2003. It is a highly integrated, enterprise-wide financial management and contracting system. The plan allows a phased-in implementation of core functionalities and future phase-in of additional functionalities and integration into FY 2007.

The core modules implemented were: general ledger, accounts payable, purchasing, accounts receivable, project accounting, FOR Post overseas (front end), HRM (non-employee payments), and budget tracking through Oracle Financial Analyzer. The requirements of the joint financial management improvement program (JFMIP) were incorporated into product specifications with Oracle Federal Financials 11.5.7, which was sourced to develop and implement Odyssey/FOR Post. However, the commercial off-the-shelf product could not provide the foreign currency management functionality the agency required. Therefore, the Peace Corps, in collaboration with Oracle Consulting, customized the product to meet these requirements. As JFMIP requirements were further enhanced, Oracle Federal Financials 11.5.7 was no longer compliant with federal accounting processing. The agency will further assess enhancements once it has upgraded to the most recent version of Oracle Federal Financials.

Compliance

During FY 2005, the Peace Corps continued to monitor its compliance with Congressional mandates, regulations, and law, as well as its own policies. These efforts included addressing the following:

- *Health Insurance Portability and Accountability Act (HIPAA)*

In order to adequately protect health information in compliance with HIPAA, the agency instituted new measures to secure appropriate authorization for the use of medical information for program administration purposes.

- *Inspector General (IG) Report Compliance*

The agency continued to build a comprehensive system of compliance with IG reports and recommendations, perform semi-annual reviews by region, actively work with the OIG prior to its field visits, participate in its debriefing meetings, and verify closure and compliance to responses. The Peace Corps also coordinated agency response to all IG reports and transmitted the semi-annual report to Congress.

- *Safeguarding Social Security Numbers*

The agency conducted a review in May 2005 of all departments addressing the use of social security numbers as identifiers. A task force is working with the relevant departments to either eliminate the use of the full nine digits or reduce it to four digits.

OVERVIEW | PRESIDENT'S MANAGEMENT AGENDA

The Peace Corps has examined its stated performance goals, indicators, and targets within the context of the President's management agenda and the five government-wide management initiatives. The management initiatives foster reform and provide a common accountability standard among all federal agencies. These initiatives include:

- strategic management of human capital;
- competitive sourcing;
- improved financial performance;
- expanded e-government; and
- budget and performance integration.

The Peace Corps—using established performance goals and strategies from its integrated planning and budget system—will link existing performance indicators to measure achievement of strategic goals and the core criteria used to measure progress under the President's management agenda. For example, one core element of success under "strategic management of human capital" is that there should be no skill gaps or deficiencies in mission-critical occupations. This is measured, in part, by the first objective in the Office of Management's performance indicators, which tracks personnel recruitment and placement. Another example under "improved financial performance" is for financial systems to produce accurate and timely financial information to support operating, budget, and policy decisions. This area is measured by the Office of the Chief Financial Officer's objective that tracks timely and accurate acquisition, budget, and financial reports to management and external entities.

Strategic Management of Human Capital

The Peace Corps is implementing a sound, responsible workforce strategy to reduce management layers; organize functions more efficiently; and support a diverse, dynamic workforce committed to a citizen-centered government and quality service.

To implement this strategy, the agency has launched the automated human capital management system in compliance with the agency's enterprise architecture. This system is being tested and is expected to be used agency wide by June 2006. Applicants now use the automated system to apply for positions and hiring managers use the system to review applications and to select hiring panel members and applicants for interview. The Human Resources Management Office will also be using additional automated modules to enhance performance management processes, management/employee relations, and enterprise learning (encompassing a variety of training methods and developmental skill assessments). These enhancements will modernize the Peace Corps' human capital management system so the agency can compete effectively for quality staff. This strategic human capital enhancement will be one of the landmark changes in the Peace Corps' management processes.

The mission of the Peace Corps—to promote world peace and friendship—has remained constant during the past 44 years and it is the linchpin of the agency's three goals. Peace Corps Volunteers remain the heart and soul of the Peace Corps, and its domestic and overseas staff exists to support them and their efforts in the field. The Peace Corps has been and continues to be committed to workforce re-engineering.

Every federal government department and agency faces significant employment challenges. The Peace Corps employment situation is compounded by its "five-year rule," which generally imposes a five-year term limit of employment for all U.S. citizen direct-hire employees. The average length of employment is two years, significantly impacting the culture, organization, and operations of the agency.

On one hand, time-limited appointments foster a non-bureaucratic, energized, "can-do" atmosphere where employees make the most of their limited tenure. Changes in specific workforce skill requirements respond to the built-in turnover. Supervisors and employees are more likely to forge satisfactory working relationships, given the short-term employment cycle, minimizing long-term employee relations problems. On the other hand, challenges include the need for strong internal controls, standard policies, and operating procedures.

During FY 2001, the Peace Corps completed a comprehensive workforce analysis that identified areas of need and potential strategies to address those needs. As a result, the agency continues to initiate improvements in how it recruits, selects, and places Volunteers. It is also exploring alternative staffing patterns, both domestically and abroad, for Volunteer support functions. The Peace Corps has strengthened its internal human resource communication during the past year through increased human resource management bulletins, flyers, Internet/Intranet training, and informational links provided via e-mail, while also providing current employee information to Peace Corps staff on changes in federal benefits, programs, and training opportunities.

Other sources of training information and staff communication tools include compact discs for overseas staff that contain supervisory training, career development, retirement planning, and performance issues. In addition to e-mail and Intranet and Internet tools, the Human Resources Management Office frequently conducts monthly supervisory roundtable discussions on employee issues and concerns along with "lunch-and-learn" sessions covering a variety of topics. These informal training sessions are open to all staff and are typically facilitated by employees who have attended training sessions sponsored by the Small Agency Council.

In a continuing effort to enhance employee skills and to provide them with developmental training, the Peace Corps is launching a new Leadership Development Academy, which will help train and retain staff for future leadership employment opportunities.

Additionally, the Peace Corps is committed to institutionalizing accountability standards for all staff, increasing e-government participation, and fully implementing a competitive sourcing strategy. These will help ensure mission-critical occupations are adequately staffed.

Competitive Sourcing

The agency continues to improve the efficiency of its commercial activity functions by increasing commercial activities under performance-based contracts. This strategy includes continually reviewing and refining performance-based contracts (e.g., information technology management, voucher processing, and accounting services); performing comprehensive analyses of the agency's commercial activity inventory and the potential for converting additional activities to performance-based contracts; and compiling best practices of contractors and performance-based contracting. To convert additional activities to a performance-based contract platform, the Peace Corps is exploring effective approaches to identifying and publicizing opportunities for contract sourcing. Following the Federal Activities Inventory Reform Act, the agency will explore conversion competitions (i.e., assess the appropriateness and cost-effectiveness of competing federally performed functions for private sector performance contracts) and cost competitions across a broad range of functions. The Peace Corps will also review the need to increase knowledge of various OMB A-76 methodologies among its managers and support staff.

Identifying and accessing sources to productively enhance the agency's mission is ongoing. Adjustments to operations because of budgetary constraints have caused each office to examine how services are delivered. Of Peace Corps' FY 2004 $320 million appropriation, approximately $136 million was outsourced to procure goods and a wide range of noninherently governmental services ranging from professional medical care to software development.[10]

[10] *See note 8.*

Improved Financial Performance

The Peace Corps converted to Oracle Federal Financials in October 2003 and prepared its first set of financial statements in FY 2004. Quarterly financial statements for the first three quarters of FY 2005 were submitted to OMB per Bulletin 01-09 as amended. In addition, the agency's Investment Review Board was reconstituted to facilitate the decision-making on enterprise-wide information technology improvements. For FY 2006, the agency is planning additional improvements in the following areas:

- Restructuring OCFO to better align with functions and processes.
- Completing the documentation of revised/new business processes.
- Upgrading to a JFMIP-compliant version of Oracle Federal Financials.
- Implementing additional functionality of the human resources management system module to accommodate Volunteer payments.
- Assessing, designing, and implementing the next generation of FOR Post front-end for Oracle Federal Financials.
- Planning and designing integration with future enterprise-wide systems such as human capital management.

Expanded E-Government

As the President's management agenda suggests, expanded e-government is a keystone to fostering a citizen-centered government with a greater volume of service at lower costs. The agency's challenge is to ensure that its investments in information technology are put to the best use, providing for the security and integrity of its systems. The Peace Corps' e-government initiatives also help to overcome agency bureaucratic divisions and to increase productivity and electronic access for citizens. This all enhances transparency of programs and operations.

Consistent with current government-wide management reforms, the Peace Corps plans to increase the use of information technology and e-government services to strengthen the quality, efficiency, and timeliness of recruiting, assessing, and selecting prospective Volunteers. The agency is planning a business process re-engineering of the Volunteer delivery system to deliver services and information in a citizen-centric manner that promotes transparent customer service, security, and privacy. A fully citizen-centered Web presence has been completed. This includes Web-based outreach to attract new applicants; an extensive electronic information site for prospective Volunteers and their families and friends; an online application, medical history form, and reference submission; and an online tracking system that allows applicants to check their status at each step of the application process.

The Peace Corps annually collects and analyzes overseas project and training data from posts and produces a global summary report on trends, challenges, and promising practices. It is currently developing an Intranet-based system to collect these data and is using Web-based technology to disseminate the information back to the field and other parties in its diverse audience. By improving information technology and flow, the Peace Corps can provide timely reports to the public at reduced operational costs.

One of the Peace Corps' mandates is to foster a better understanding of other peoples on the part of Americans. The Coverdell World Wise Schools program fulfills this mandate by providing services and resources to K–12 schools throughout the United States. Services include linking Volunteers and returned Volunteers with American schools through the Correspondence Match program, a speakers' bureau, and Peace Match. Additionally, numerous publications, multimedia resources, and curriculum materials, available online at no cost, provide a wide range of effective learning tools for teachers.

The enterprise-wide information architecture approach will identify and document all agency computer systems and guide the management of the agency's IT portfolio. A new data architect to the enterprise architecture program is documenting all of the data required for the Volunteer delivery system's modernization within the guidance of the OMB's data reference model. The Peace Corps continues to implement IT security policy and disaster recovery plans to secure the information that is stored and processed on agency computers. It also continues to move its legacy systems from older mainframe technologies to Web-enabled ones, providing vast potential for e-government solutions and service delivery. The mainframe migration project is targeted for completion in early FY 2006. As applications move to this distributed environment, outdated technology will be retired.

The Peace Corps implemented tools such as Web Inspector and System Management Server (known as SMS) to ensure secure use of its Web-based assets in FY 2004. The agency deployed the Volunteer information database application globally to standardize the systems and database that manage Volunteer information. It also implemented an electronic medical records process that allows the encryption and secure transfer of Volunteer medical information overseas. Additionally, the Peace Corps reached an agreement with OPM to implement an online personnel security clearance processing system (electronic questionnaires for investigations processing or E-QIP). Other e-government investments included an electronic capital property inventory tool (in review and testing for future integration), a Web-enabling recruitment database system (RDS), and a software application called Prospect Manager, which will assist recruiters in tracking information from prospective Volunteers. RDS allows recruiters to plan, promote, and manage recruitment activities. Recruiters can now post and update recruitment events on the Internet. The Prospect Manager system maintains information regarding individuals' contact information and skill sets, and allows the recruiters to view and manage data entered by prospective applicants on the Peace Corps' website.

The Peace Corps will continue to align its IT systems with core business processes to ensure that agency priorities are achieved. Planned activities for FY 2006 include:

- *Assessing requirements of the Health Insurance Portability and Accountability Act (HIPAA) and recommending systems for compliance.*

Requirements have been assessed and recommendations issued based on these assessments, which the agency is working to implement.

- *Standardizing processes in the Volunteer delivery system to enable an automated, online administration and tracking system.*

This is a key business requirement of the EA modernization effort of the VDS. Recommendations are being reviewed in FY 2006 for prioritization and funding sponsorship.

- *Identifying areas for new and underutilized recruitment markets, reducing application processing time, and increasing applicant-to trainee retention rates via the Intranet.*

In an effort to streamline business processes to reduce applicant processing time, the Office of Volunteer Recruitment and Services (VRS) is undergoing a beta test at regional recruitment offices to measure the time from when applicants are nominated to their Peace Corps service. This beta study will test innovative business processes for FY 2006. Additionally, the Peace Corps' online application added an Intranet reference capability for applicants, which has made the application process easier for applicants and decreased turnaround time. The actual retention rate will be measured as part of the beta site testing next year.

- *Streamlining the crime-reporting process for Volunteers through an electronic system with real-time incident reporting capabilities.*

The Office of Safety and Security has worked closely with the Offices of the Inspector General, Medical Services, and the CIO on the development of a crime incident reporting system (CIRS). This is a collaborative solution that collectively solves the needs of the post, regions, and above named offices. The system addresses data confidentiality, privacy, data integrity, and separation of duties by ensuring that each part is forwarded only to the appropriate receiving office. The initial systems and content of the CIRS have been developed and are currently being field tested. The feedback from the pilot phase will highlight both the technical and substantive issues that need to be addressed. An agency-wide rollout of the new system is anticipated in fiscal year 2006. The crime incident reporting form was submitted to the *Federal Register* as a system of records on May 16, 2005

- *Redesigning the Peace Corps Intranet site.*

The Peace Corps' Intranet site was redesigned with enhanced search capabilities allowing easier access to all information. The site is continually being enhanced to better serve the agency by expanding the sharing and exchange of critical information across the whole agency. The design keeps content fresh by improving the ease of managing and updating the site. The search enhancements improve the ability to find and retrieve information quickly and efficiently as well as improve the accuracy of search results.

- *Upgrading key Microsoft-based information to set the foundation for more innovative e-solutions.*

The first phase of this effort is underway, with a complete enterprise active directory implementation planned for FY 2006. This infrastructure enhancement is part of the business modernization process that will enable global Peace Corps solutions.

Budget and Performance Integration

The integrated planning and budget system (IPBS) is the framework the Peace Corps uses to carry out planning and budget functions. Its underlying principles are:

- *Plan drives budget.* The Peace Corps strives to make its resource allocation decisions based on the goals and priorities of the agency. However, budget constraints may not allow the funding of every proposed plan.

- *Reasonable planning horizons.* The strategic planning time frame is three years. This is long enough to avoid the truncated nature of one-year planning, but not too long for the fast-changing world in which the Peace Corps operates.

- *Right level of detail at the right time.* The system is iterative, with macro-planning and budgeting occurring throughout the process and micro-planning and budgeting occurring near the start of each fiscal year.

- *Institutionalized vertical and horizontal communication.* The system prescribes agency integration, since each part of the organization uses the same basic system.

- *Current operations costing.* Pricing out current operations provides managers with valuable information on the resources needed to continue at current levels before they begin to consider increases or decreases to those levels. Current operations costing is a management and budget tool that does not require the continuation of all current activities. There are three major processes within the annual IPBS cycle. They are:

    - *Strategic plan and budget process.* This is the stage where Peace Corps posts and offices, working with guidance from the Director, develop and/or update a three-year strategic plan. The strategic plans include a strategy statement; a strategic analysis; and goal statements, objectives, performance indicators, and time frames. The budget document includes explanations of current operations, proposed enhancements, and reductions to current operations, including changes in staffing levels, major new initiatives, major capital investments, and projections of Volunteer levels for three years forward. Posts and offices then submit the plan and related requests for budget enhancements and/or reductions over the next two years to their regional and associate directors for review, who then present summary strategic plans and requests for budget enhancements and/or reductions to the Director. Based on these presentations, and with input from agency senior staff, the Director makes internal planning and budget decisions for the upcoming fiscal year and provides guidance to prepare the OMB submission for the following year. The OMB submission is presented in the format that follows the Government Performance and Results Act with goals and objectives linked to budget and full-time equivalents. Regional and associate directors then inform the posts and offices of decisions.

- *Operating plan and budget formulation.* Based on the feedback and decisions from their regional and associate directors, each post and office prepares a detailed operating plan and budget for the upcoming fiscal year. The plan takes the goals and objectives of the strategic plan and focuses on the next 12 months. This detailed operating plan is not forwarded, but remains at post or in the individual offices for execution. The detailed budget is forwarded for associate and regional director review, and regional and major office budgets are summarized for agency review. The Director, with senior staff input, makes any new resource allocation decisions required. The fiscal year financial and reporting processes begin.
- *Plan and budget review.* Two planning and budget reviews occur during each fiscal year. These provide a brief update on progress in accomplishing goals and allow for mid-course corrections, if needed. The budget review focuses on budget execution and proposed reprogramming. Review occurs at the regional and associate director level and at the agency director level. In addition, a formal budget closeout review is conducted each November.

In concert with IPBS, the Peace Corps also requires overseas posts to develop plans for their Volunteer projects that describe the goals, objectives, and lifespan of each project. The status of each project is reviewed each December. Each project's strengths and weaknesses are assessed, and the plan is reaffirmed or altered based on lessons learned.

This year's three-year (FY 2006–2008) planning process began in the spring with the issuance of the Director's guidance. In addition to reaffirming the agency's mission and goals, the directive addressed the impact of—and planned for the heightened focus on—safety and security of Volunteers and staff. The offices then aligned their individual plans to the agency's overall direction and each IPBS submission was presented to the Director and reviewed. Upon concluding these reviews, each overseas post and office assembled its respective performance plans for the coming strategic plan period (FY 2003–2008) with emphasis on defining the outcome and performance goals with accompanying performance indicators.

In this capacity-building approach, the agency helps individuals, service providers, organizations, and communities identify and address their needs. This is a major thrust of the Peace Corps' work at the grass-roots level. These monitoring and evaluation efforts should capture how many of these entities are involved in activities sponsored by the Peace Corps and in what ways. All core criteria under this management agenda standard are being addressed, and they will be strengthened by the full implementation of the agency's newly developed financial budget and financial management systems.

The Director has also established the interoffice QSIP to measure strategic outcomes through the Peace Corps Volunteer survey. QSIP complements the agency's strategic plan under GPRA by helping to determine if performance goals and plans produce improved quality operations and service. For example, each office's strategies under GPRA are designed to support, complement, or enhance the agency's strategic goals. These goals drive how the Peace Corps operates and performs. Offices determine that they need to, for instance, conduct certain training or provide certain services to meet the GPRA goals. QSIP allows the Peace Corps to measure whether these plans work by asking for feedback from Volunteers about the quality of their experiences. Additionally, QSIP developed quality statements and performance indicators for recruitment and placement, programming and training, Volunteer support, third-goal and domestic activities, and management and administration. The main vehicle to evaluate progress in these areas is the biennial Peace Corps Volunteer survey. This survey is completed by most serving Volunteers, so it is a useful source of feedback for the agency to track its progress.

The overall integrated process ensures that management can provide the right people with the right information, in the right format, at the right time. The inclusion of all the stakeholders of the Peace Corps' mission (the *right people*) in data collection, analysis, and sharing of results increases the likelihood that those results will be applied and used in current operations and in the future. The *right information* is the result of continually assessing what data are meaningful, useful, and appropriate, and ensuring that both the data and any follow-up analyses are communicated in a language and the *right format* to allow stakeholders to do something with them. Finally, the *right time* for the exchange is critical to moving ahead and converting past performance—and the measurements of that performance—into higher levels of achievement.

Crisis Corps Volunteer helps with hurricane relief efforts in New Orleans

PERFORMANCE RESULTS

STRATEGIC GOALS

In response to President Bush's challenge to increase the size of the Peace Corps, the agency focused on growth in FY 2003 and FY 2004, achieving the highest number of Volunteers serving abroad since 1974, while providing a positive experience for Volunteers in a safe and secure environment. However, given the funds provided in the appropriations process since FY 2003, the Peace Corps is no longer on track to double in size. This has required the Peace Corps to modify Strategic Goal 1. This document continues to present the four strategic goals the Peace Corps seeks to achieve from FY 2003 through FY 2008, with minor modification. Each strategic outcome goal is followed by a set of measurable performance goals with accompanying means and strategies; a discussion of the relationship to the agency's annual performance goals in the performance budget; key factors potentially affecting achievement of goals; and the methods used to assess achievement.

STRATEGIC GOAL 1

Assist interested countries with their identified needs by gradually expanding the existing number of Volunteers in the field, at a rate consistent with funding levels and infrastructure support, up to 8,000 Volunteers by September 30, 2008.

STRATEGIC GOAL 2

Improve the health and safety of Volunteers by improving the Volunteer healthcare satisfaction rate by 7 percent, from 75 percent in FY 2002 to 82 percent by FY 2008; and increasing Volunteers' perception of their personal safety where they live by 3 percent, from 86 percent in FY 2002 to 89 percent by FY 2008.

STRATEGIC GOAL 3

Improve Americans' understanding of other peoples by increasing returned Peace Corps Volunteers' (RPCVs') visits to schools and community organizations by 29 percent, from 7,000 in FY 2003 to 9,000 by FY 2008.

STRATEGIC GOAL 4

Reduce the Peace Corps' overall response time for those applying to the Peace Corps by 5 percent, from 223 days in FY 2003 to 212 days by FY 2008.

PERFORMANCE RESULTS

STRATEGIC GOAL 1:

Assist interested countries with their identified needs by gradually expanding the existing number of Volunteers in the field, at a rate consistent with funding levels and infrastructure support, up to 8,000 Volunteers by September 30, 2008.

Outcome Goals:

1.1 Maintain the approximate number of Volunteers in the field from the FY 2003 level of 7,533 to 8,000 (6.2 percent) by FY 2008, assuming full funding for FY 2005 and future requests, and incrementally expand Volunteer programming to include the development of innovative responses to natural disasters and humanitarian crises.

1.2 Increase the combined number of applications to the Peace Corps from underrepresented ethnic and age groups from 19 percent to 25 percent by FY 2008 in order to provide Volunteers to interested countries that better reflect American diversity.

1.3 Reduce overall Volunteers' 12-month early termination (ET) rate by 2.5 percent from the FY 2003 level of 11.6 percent to 9.1 percent by September 2008 through improved matching of Volunteers' skills to primary assignment, and improved satisfaction rate of Volunteer health and safety.

Performance Goal 1.1.1.

Incrementally increase in subsequent performance years Volunteers/trainees on board from the FY 2003 level of 7,533 to 7,803 (3.6 percent) by FY 2005.

FY 2004 Goal	FY 2004 Actual
7,803	7,810[11]

Results and Analysis

In FY 2005, the Peace Corps not only achieved, but surpassed, the goal of 7,803 Volunteers in the field. With 7,810 Volunteers and trainees on board, the Peace Corps reached the highest Volunteer levels in 30 years. However, depending on appropriations levels and other trends, the agency may face challenges in future years in maintaining the growth in Volunteer numbers. Peace Corps will continue to strive to find new ways to expand its presence and increase Volunteer activity in the assisted countries. The Peace Corps continues to broaden the impact that Volunteers have on the men and women of their host countries.

[11] *See note 1.*

	Performance Indicators 1.1.1.	FY 2005 Target	FY 2005 Actual
i.	New country entries	1	0
ii.	New country assessments	3	3
iii.	Percentage of focus countries participating in the President's Emergency Plan for AIDS Relief	90%	100%
iv.	Number of Crisis Corps Volunteers responding to natural disasters or humanitarian crisis[12]	65	62 CCVs + 134 FEMA + 20 Emergency Plan
v.	Overall traffic to website	7.3 million	7.9 million
vi.	Online applications completed	10,300	9,777
vii.	Increase number of inquiries originating from website	155,000	137,988
viii.	Rate of applications started vs. submitted	22.5%	17%
ix.	Value of earned/donated media based on $250k cost to produce (millions of dollars)	$5	$13.5

Environmental Volunteers work on water sanitation project in Mexico

[12] *See Note 1. Additionally, these numbers reflect the total number of CCVs that served throughout the fiscal year.*

Results and Analysis

The Peace Corps continues to receive new requests and perform assessments as it works to broaden its mission and deepen the impact Volunteers have on the men and women of their host countries. Evidence suggests that there is an increasing demand for Peace Corps and the programs it provides foreign countries, which support the goal of increasing the number of Volunteers in its ranks and the activities they perform. The agency successfully completed three new country assessments; however, decisions to enter these countries were deferred until a determination could be made regarding the full impact of Hurricanes Katrina and Rita relief efforts on FY 2006 appropriations.

The Peace Corps is participating in the President's Emergency Plan for AIDS Relief at all nine posts[13] that are working in the Emergency Plan focus countries.[14] Additionally, the Peace Corps expanded its participation in the Emergency Plan through programs in nine other bilateral countries. This participation is enabling the agency to enhance and expand its contributions to the battle against AIDS.

During FY 2005, the Peace Corps continued to see an increase in traffic to its Internet site. The international climate continues to increase Americans' awareness of global issues. The Peace Corps is a key means for Americans to exercise their sense of service and ambassadorship overseas, and the successful reception of the marketing campaign, Internet resources, and related materials are key indicators of that success.

Applications made online were lower than targeted. This corresponds to an overall decrease in the number of applications received during FY 2005. Nevertheless, the Peace Corps received nearly three times as many applications needed for the more than 4,000 individuals that were accepted into the Peace Corps.

The agency found FY 2005 to be a tough recruiting year due to a vibrant economy and low unemployment numbers. In particular, recent college graduates had greater employment options and opportunities than has been the case in several years. The Peace Corps has found that such factors tend to decrease applications. Moving forward, the Peace Corps plans to track individuals through the online application process and provide them with updates, reminders, and assistance on their applications. Additionally, the agency is building upon its community outreach efforts, targeting audiences of diverse ages including those people approaching retirement.

The Communications Office launched the agency's first-ever, national out-of-home public service announcement (PSA) campaign, which garnered $4.8 million in donated media placements and commitments in 27 markets. This office also launched a new PSA created to appeal to urban format radio stations, significantly increasing total audience size and outreach to African Americans. The agency continues to aggressively market its existing television, radio, and print PSAs, including customizing the latter to fit targeted national magazines. Media outlets appreciate the look, feel, and message of the advertising, which, combined with the agency's mission, has resulted in strong ongoing media support.

[13] *These Peace Corps posts include: Botswana, Guyana, Kenya, Mozambique, Namibia, South Africa, Tanzania, Uganda, and Zambia.*

[14] *The Emergency Plan has identified 15 focus countries that include, in addition to the nine countries listed above: Ethiopia, Haiti, Ivory Coast, Nigeria, Rwanda, and Vietnam.*

Performance Goal 1.2.1.

Increase the combined number of underrepresented ethnic and age groups applying to the Peace Corps from 19 percent to 21 percent by FY 2005.

FY 2005 Goal	FY 2005 Actual
21%	24.5%

Results and Analysis

The Peace Corps, while gradually expanding the number of Volunteers to meet the President's challenge, is also attempting to increase the number of underrepresented ethnic and age groups applying to the Peace Corps. This effort ensures that the Peace Corps truly reflects the diverse face of the United States.

The Peace Corps exceeded its FY 2005 target, even though overall applications were lower than expected. The Peace Corps instituted several programs to continue progressing toward this objective. More and more underrepresented audiences are being reached in media and marketing. Additional website content speaks to diverse audiences, and further gains in this performance goal should continue in upcoming years.

Performance Indicators 1.2.1.		FY 2005 Target	FY 2005 Actual
i.	Percentage of minority trainees	Measured on actual data only. No targets established.	15.8%
ii.	Recruitment and support efforts focusing on applicants over age 50, diverse ethnicities, backgrounds, and level of education	10 diverse conferences; 5 panel presentations	14/7
iii.	Percentage of Volunteers over age 50	Measured on actual data only. No targets established.	5.9%
iv.	Visitors to website who access minority recruitment pages and/or scarce skills, family pages	350,000	415,802
v.	Collateral pieces used (i.e., all marketing material printed by Peace Corps) that target diverse audiences	1.2 million	533,252
vi.	Articles placed in newspapers and other media that target diverse audiences	150	155

Results and Analysis

The Peace Corps places significant importance on attracting underrepresented ethnic and age group applicants. The redesign of the Peace Corps Internet site, additional content geared towards underrepresented audiences, and the overall Peace Corps marketing campaign, have attracted many new and repeat visits to the portions of the Internet site devoted to minority groups.

The agency continues to create new content and promotional vehicles to attract additional visits to its website, such as new "mini-sites," content in flash format, and electronic tools to help recruiters drive potential candidates to the website. Innovations like this helped contribute to the agency exceeding its goal for total visitors to its website pages devoted to minority and/or scarce skills and family pages.

The target for "collateral used" was not met. However, the Peace Corps designed all recruitment materials under the "Life is Calling" campaign to include representation of and messages to diverse audiences. Thus, the need for specially targeted materials is less than in previous years. Additionally, the Peace Corps noticed a greater demand from potential applicants for the Peace Corps catalog and the *Great Adventure* books. This demand led to the production of 140,000 catalogs and 25,000 *Great Adventure* books.

In response to this change in demand, the Peace Corps is developing a mini-version of the catalog as a lower-cost option that should perform as effectively as the more expensive catalog, stretching the recruitment material budget further.

Performance Goal 1.3.1.

Reduce the overall 12-month Volunteer early termination (ET) rate by 1.5 percent from FY 2003 level of 11.6 percent to 10.6 percent by September 2005.

FY 2005 Goal	FY 2005 Actual
10.6%	11.9%[15]

Results and Analysis

The historical early termination (ET) rate since 1961 has been on a downward trend. The current ET rate is well below the last high (20.5 percent in 1970) and the average ET rate of 13.3 percent. While the overall ET rate did not match the goal, it must be noted that three posts were suspended this past fiscal year. Volunteers in such situations have the choice to take a nondisciplinary administrative separation or be transferred to another post. Any Volunteer who does not complete two full years of service is counted as an ET. Thus, posts that have been suspended (which occur for reasons beyond the control of the Volunteer) result in an inflated ET rate.

Peace Corps developed a new survey instrument to collect additional data not previously available. The survey gathers data on reasons behind why Volunteers and trainees terminate early. This information provides feedback to the posts and headquarters about the reasons behind the ET rate, and has been helpful in analyzing the issue.

In addition, analysis of Peace Corps' historical ET rates suggest that it may not be possible or even desirable to reduce the rates much lower than current levels.

[15] *Twelve-month ET rate for period ending September 30, 2005. ET rate excluding posts affected by suspensions = 10.9 percent in FY 2005. The agency plans to review the methodology for determining the ET rate to ensure the data collected provide a meaningful basis for analysis.*

Performance Indicators 1.3.1.		FY 2004 Target	FY 2004 Actual
i.	Percentage of sites described as "very well," "well," or "adequately" prepared in the biennial Volunteer survey [16]	NA	NA
ii.	Percentage of skills requests that align with available applicants	90%	81%*
iii.	Percentage of Peace Corps project plans complete and current	75%	73%
iv.	Percentage of Peace Corps projects and training programs reviewed annually	95%	95%
v.	Number of field-based project reviews and evaluations	30	18
vi.	Number of project and training technical assistance events for posts	105	111

* *Based upon biennial Volunteer survey distributed to PCVs in 2004.*

Results and Analysis

Although the skills match target was not achieved, the Peace Corps still hit an 81 percent match, according to Volunteers in the biennial survey. This goal remains an important indicator relating to Volunteers' job satisfaction and overall satisfaction with their service. At the same time, countries request certain skills as many as 18 months in advance, and their needs and/or job requirements can change during this time frame. This tendency creates challenges for the agency in meeting the skills match targets, which the agency continues to assess and evaluate.

The Peace Corps has an ongoing process to review and update project plans at post. Some project plans continue to be under revision and therefore the percentage complete narrowly missed the FY 2005 target.

The current mechanism for tracking the number of project reviews and evaluations is based on evaluations conducted by headquarters staff. The number fell short of the target due, in part, to unplanned post suspensions in which scheduled reviews could not be completed. The agency is aware that some evaluations are being conducted directly by field-based staff; therefore, a system is being developed to also capture these efforts.

Additional funding helped the number of posts receiving project and training technical assistance to surpass the FY 2005 target.

[16] *Biennial survey—Volunteer survey is conducted every two years (last conducted in 2004).*

STRATEGIC GOAL 2:

Improve the health and safety of Volunteers by improving the Volunteer healthcare satisfaction rate by 7 percent, from 75 percent in FY 2002 to 82 percent by FY 2008; and increasing Volunteers' perception of their personal safety where they live by 3 percent, from 86 percent in FY 2002 to 89 percent by FY 2008.

Outcome Goals:

1.1 Increase the percentage of Peace Corps Volunteers indicating feeling "well" or "completely" satisfied with their in-country healthcare from FY 2002 level of 75 percent to 82 percent by September 2008.

1.2 Increase the percentage of Peace Corps Volunteer survey responses indicating that Volunteers feel safe "most of the time" where they live from FY 2002 level of 86 percent to 89 percent by September 2008.

Performance Goal 2.1.1.

Incrementally increase the percentage of respondents to the biennial Peace Corps Volunteer survey indicating feeling "well" or "completely" satisfied with their in-country healthcare by 5 percent from FY 2003 level of 75 percent to 80 percent by September 2006.[17]

FY 2005 Goal	FY 2005 Actual
N/A	N/A

Results and Analysis

The last survey was completed in FY 2004. The next biennial survey will be completed in FY 2006.

[17] *See note 16.*

Performance Indicators 2.1.1.		FY 2005 Target	FY 2005 Actual/Estimate
i.	Percentage of Volunteers medically evacuated to Washington, D.C., reporting they are satisfied with their medical evacuation care as measured by the medevac survey	90%	93%
ii.	Percentage of Volunteer respondents reporting health training as "effective" or "very effective" as measured by the biennial Volunteer survey	N/A	N/A
iii.	Incidence of vaccine-preventable diseases (e.g., hepatitis A & B). Measure is in cases per 100 Volunteer/trainee years	Target < 0.05	0.05
iv.	Incidence of falciparum malaria in Africa region. Measure is in cases per 100 Volunteer/trainee years	Target < 6.0	1.33

Results and Analysis

The health, safety, and security of every Volunteer is the Peace Corps' highest priority and is reflected as such in the Peace Corps' strategic plan.

The results of the medevac surveys were 3 percent higher than the target. A medical evacuation is a stressful time, and Peace Corps does everything it can to ensure the safety and health of its Volunteers. Overall, 59 percent reported to be "very well satisfied" and 34 percent reported to be "well satisfied" with the overall quality of their medevac experience.

The agency achieved its goal for the incidence of vaccine-preventable disease. Overall, the agency had three cases (out of more than 6,400 Volunteer years).

The incidence of falciparum malaria is well below the 2005 target because of the comprehensive malaria education given to the Volunteers by Peace Corps medical officers, and the compliance to that training by the Volunteers, including the consistent use of malaria prophylaxis.

Performance Goal 2.2.1.

Incrementally increase the percentage of respondents to the biennial Peace Corps Volunteer survey indicating that Volunteers feel safe most of the time at home by two percent from FY 2003 level of 86 percent to 88 percent by September 2006.[18]

FY 2005 Goal	FY 2005 Actual
N/A	N/A

Results and Analysis

Not applicable.

Environmental Volunteer (left) discusses water sanitation with host country national in Mexico

[18] *See note 16.*

Performance Indicators 2.2.1.	FY 2005 Target	FY 2005 Actual
i. Percentage of Volunteer pre-service training programs including safety training	100%	100%
ii. Percentage of Volunteers demonstrating 10 safety and security competencies at end of pre-service training	100%	100%
iii. Percentage of posts undergoing safety and security assessments	85%	86%
iv. Percentage of posts receiving emergency action plan training	90%	100%
v. Percentage of posts testing emergency action plans at least once a year	100%	100%
vi. Percentage of posts complying with all sections of MS 270, beginning July 2003	95%	90%
vii. Percentage of Volunteer respondents reporting the safety and security portion of their pre-service training as "adequate," "effective," or "very effective" as measured by the biennial Volunteer survey	N/A	N/A
viii. Percentage of Volunteer respondents reporting they were "somewhat," "considerably," or "completely" satisfied with support provided by Peace Corps staff for safety and security, as measured by the biennial Volunteer survey	N/A	N/A

Results and Analysis

The Peace Corps places the safety and security of its Volunteers as a key priority, with a prominence in the strategic plan for these issues. The Office of Safety and Security is responsible for several training and review programs. Each region also continues this emphasis for the Volunteers. Fiscal year 2005 reports indicated that this vigilance has been meaningful and successful.

STRATEGIC GOAL 3:

Improve Americans' understanding of other peoples by increasing returned Peace Corps Volunteers' (RPCVs') visits to schools and community organizations by 29 percent, from 7,000 in FY 2003 to 9,000 in FY 2008.

Outcome Goal:

3.1 Increase RPCV visits to schools and organizations by 29 percent from FY 2003 level of 7,000 to 9,000 by September 2008.

Performance Goal 3.1.1.

Increase RPCV visits to schools and organizations by 800 from the FY 2003 level of 7,000 to 7,800 by September 2005.

FY 2005 Goal	FY 2005 Actual
7,800	12,264

Results and Analysis

The agency surpassed its FY 2005 goal significantly because of an improved reporting mechanism to capture RPCV interactions with schools and organizations around the country. While previous reporting focused solely on Peace Corps Week activities, the regional recruiting offices are now able to highlight other Peace Corps-supported activities that include RPCV interaction with the American public. Such activities include RPCVs giving talks on campuses and at career fairs, in elementary and secondary schools, and at cultural and community fairs. The total also includes RPCV Peace Corps Fellows who interact with schools and communities as a part of their program activities. RPCVs are heavily engaged in educating the American people in many other ways, and the Peace Corps is taking steps to better capture these data.

Crisis Corps Volunteer helps with hurricane recovery efforts in New Orleans

Performance Indicators 3.1.1.		FY 2005 Target	FY 2005 Actual*
i.	RPCVs participating in Peace Corps Week activities	7,800	7,062
ii.	RPCVs participating in career events	950	807
iii.	RPCVs e-mailed the RPCV newsletter	10,000	9,322
iv.	Percentage of active Volunteers (not trainees) during the year participating in the Coverdell World Wise Schools (CWWS) one-to-one Correspondence Match program	53%	54%
v.	Average visitors per month to the CWWS section of the Peace Corps website	500,000	486,000

Results and Analysis

The Peace Corps witnessed a modest but steady growth in RPCV participation in Peace Corps Week activities (the main project where RPCVs visit schools). This growth represents the highest participation levels ever, even though the target of 7,800 was not met.

Improvements in gathering and maintaining contact information will allow the Peace Corps to organize activities for, and collect information from, Peace Corps Volunteers. Technology should continue to make this easier, so improvements in meeting this goal are expected.

Fewer RPCVs than anticipated participated in a variety of career events. This shortfall was largely due to the discontinuation of monthly "career brown bag lunches." In previous years, approximately 250 people participated in those events annually.

The Peace Corps exceeded its goal regarding e-mailing the RPCV newsletter by about 10 percent, showing a strong success in its efforts to build and improve the database of e-mail addresses of the RPCV community.

The target for average number of visitors to the CWWS website as measured by page-view figures was developed using information from one month during the academic year. In fact, the average number of visitors per month exceeded expectations during each month of the academic year, yet the FY 2005 result reflects that there are fewer visits during summer months when school is not in session.

STRATEGIC GOAL 4:

Reduce the Peace Corps' overall response time for those applying to the Peace Corps by 5 percent, from 223 days in FY 2003 to 212 days by FY 2008.

Outcome Goal:

1.1 Reduce overall Peace Corps applicant response time by 5 percent by September 2008 through evaluation and integration of new technology and recruitment and placement of staff structures.

Performance Goal 4.1.1.

Reduce overall response time to applicants by 2 percent from FY 2003 level of 223 days to 219 days by FY 2005.

FY 2005 Goal	FY 2005 Estimated
219	261

Results and Analysis

The FY 2005 overall response time is calculated based on data from the Peace Corps Volunteer database system. During FY 2005, analysis of the data showed that there are several issues that need to be addressed. The most important is that the current system does not overwrite the dates of applications (and other stages). As such, if someone were to pick up the application process after having applied in the past, the original application date will still be used. This stop-and-go approach by the applicant can inflate the overall response time, creating an inaccurate view of the agency's performance. The agency also has found that some applicants stop the process for reasons of their own without canceling their application. Such cases will also inflate the agency's overall response time. These issues, as well as those discussed in the indicators below, will be examined during FY 2006.

Education Volunteer with youth in Turkmenistan

Performance Indicators 4.1.1.		FY 2004 Target	FY 2004 Actual
i.	Percentage of applicants who complete their Volunteer applications over the Internet	77%	83%
ii.	Percentage of applicants who complete their health status review for medical screening over the Internet	78%	83%
iii.	Application to nomination (number of days)	64	68
iv.	Nomination to medical qualification (number of days)	74	143
v.	Medical qualification to invitation (number of days)	47	49
vi.	Invitation to entrance on duty (number of days)	34	93

Results and Analysis

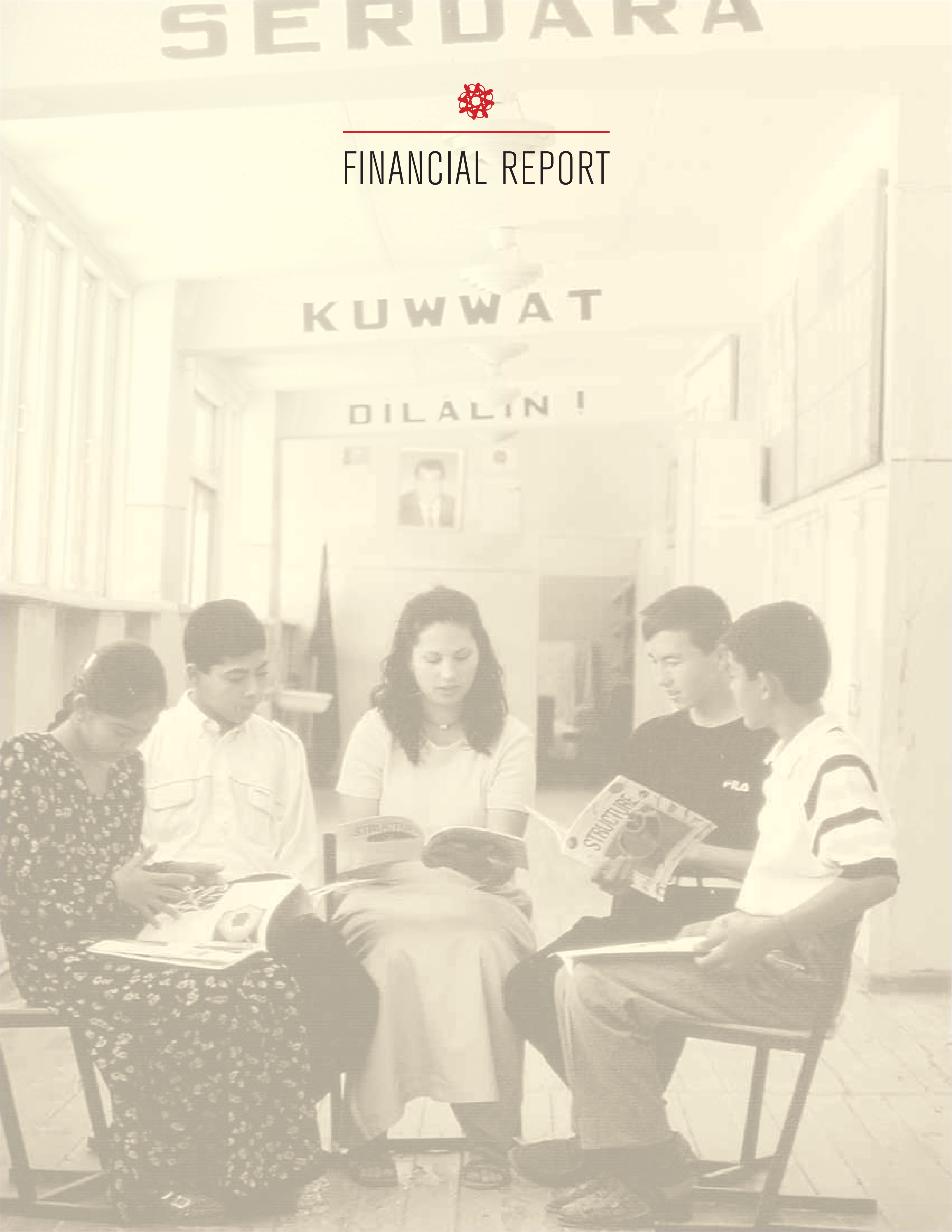
Several issues concerning these indicators emerged over the past fiscal year. The targets originally established in FY 2003 were found to be based on irregular data, resulting in unrealistic goals. The process used to report these indicators has now been standardized.

A key area of concern was that close to one-third of the time period for applications is in the hands of applicants when they are completing their medical data. This, on average, accounts for 85 out of the 253 days reported in this update. This area is largely out of the control of the Peace Corps and dependent upon the applicant.

The application process is fairly complex. It can involve the gathering and submission of many different documents, and applicants may need to undergo several medical tests. As a result, timeliness of individual applicants varies widely. In addition, the Volunteer database system does not recognize whether an applicant applies twice and will count days from the first application date to the final medical qualification.

The Peace Corps is finding that the target for "Invitation to Entrance on Duty" is heavily influenced by an applicant's need to have enough time to prepare for a two-year commitment to the Peace Corps. Most invitees feel that one month is not sufficient. In addition, applicants are invited to the Peace Corps based on the availability of programs, the timing of which may shift from year to year.

FINANCIAL REPORT



LETTER FROM THE CHIEF FINANCIAL OFFICER

The past three fiscal years were a time of transition with respect to financial systems and personnel, both at headquarters and at posts. The agency's efforts in FY 2003 focused on tailoring Oracle Federal Financials (Odyssey) software for the Peace Corps environment. Regrettably, the Peace Corps realized the extent of the deficiencies in the legacy systems too late to take substantive corrective action before conversion.

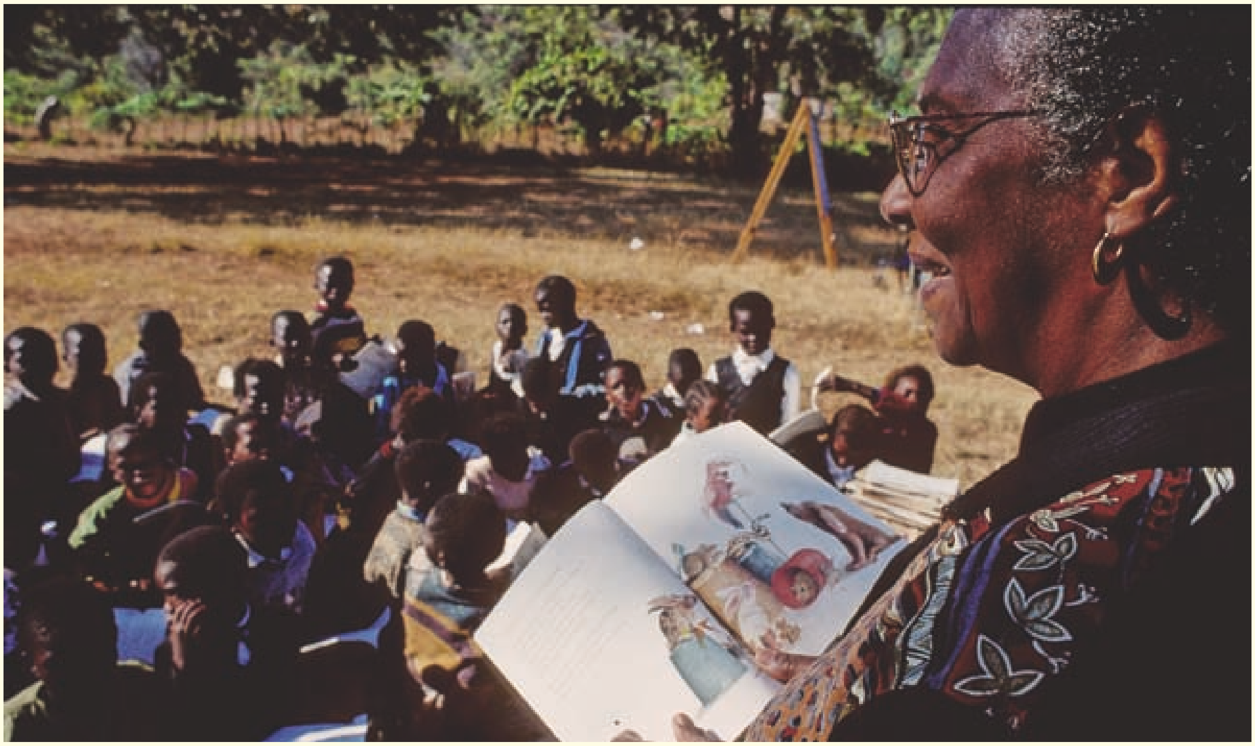
This office expended extensive effort during FY 2004 in researching U.S. Treasury cash imbalances that existed in the legacy system. Most of these imbalances were identified and resolved and the corresponding adjustments to open obligations, advances, receivables, and payables were fully documented and recorded in Odyssey.

FY 2005 was a year of continued transition for financial management within the Peace Corps. The agency worked assiduously to lay the foundation for achieving the agency's ultimate goal of receiving an "unqualified" overall audit opinion within the next four years. This effort to improve data integrity and regularly produce reliable, relevant, and timely financial reports facilitating sound and timely financial management decisions will encompass:

- An intensified internal control/quality assurance program.
- Streamlined budget formulation, budget execution, and payment processes and an organizational structure that concurrently incorporates maximum efficiencies and segregation of duties.
- Increased use of financial management systems' functionality.
- Current policy, procedural, and technical documentation.
- Development and monitoring of action plans to correct deficiencies identified by internal reviews, the Inspector General, and independent auditors.
- Improved customer service and interoffice communication.
- Increased use of electronic payments.
- Validated position descriptions for financial management personnel that will include identification of requisite core competencies.
- Increased agency-wide functional and technical training that, at a minimum, addresses the requisite core competencies.

Significant progress has occurred in the areas of financial management, organizational structure, staffing, technology, documentation, and tools needed to achieve these goals. These include:

- Reorganizing the Office of the Chief Financial Officer (OCFO), formerly known as the Office of Planning, Budget, and Finance. The interim reorganization changed the structure from three directors and three budget integration teams to seven directors, each with a clearly defined function. The final reorganization is dependent on the results of a recently started business process analysis.
- Adding a program analyst position to the executive office. This analyst will document and analyze as-is business processes and work with senior management to recommend revisions where appropriate, in coordination with ongoing agency enterprise architecture activities.
- Creating the position of Director of Performance Reporting and Compliance within the OCFO.
- Engaging an independent auditor to evaluate progress in financial processes.
- Initiating a numbered *CFO Bulletin* e-mail communication link to country directors and administrative officers at the posts. Ten bulletins covering a wide range of subjects were sent by the end of August 2005, educating the agency's client base on sound financial management procedures.
- Updating the *Overseas Financial Management Handbook*, which included disseminating an electronic version and supplementing the handbook with an online desktop financial manual.
- Conducting a survey to determine posts' accountability for imprest fund balances, in-transit payments, etc.
- Establishing a baseline value and a management process to capture capital assets and related depreciation.
- Issuing OCFO position papers covering accounting and reporting policies.



Education Volunteer reads a story to South African children

These efforts have resulted in several improvements, including:

- Meeting financial reporting deadlines and generating quarterly financial reports based on the U.S. Standard General Ledger.
- Implementing or making scheduled progress on 14 of the 18 agreed-upon financial recommendations from the FY 2004 audit.
- Implementing or making scheduled progress on all six of the IT recommendations from the FY 2004 audit.
- Including the value of fixed assets on a financial statement for the first time.
- Significantly improving the accuracy of the monthly statement of transactions, contributing to more current reconciliations of the fund balance with the U.S. Treasury and its corresponding undisbursed appropriation account ledger.
- Accelerating the identification and resolution of items in the statement of differences.
- Regularly correcting general ledger anomalies and incompatibilities and, where applicable, correcting the system logic that caused the condition.

The FY 2004 audit and the two reviews of processes identified several weaknesses. Those directly involving financial processes and requiring corrective action during FY 2005 and thereafter, as well as those weaknesses not directly involving financial processes, are reported in the appendices.

Based on the weaknesses that still exist, more effort is required before the agency can provide reasonable assurance that internal control over financial reporting is operating more effectively. The Peace Corps still has uncorrected weaknesses in the areas of documenting current policies, procedures, and processes; performing reconciliations; validating open transactions; and maintaining supporting documentation for open and closed transactions. The OCFO is confident that these open weaknesses will be corrected during the next fiscal year and the agency will be able to provide reasonable assurance that internal control over financial reporting is operating effectively on next year's report.

George A. Schutter III, CPA, CPCM
Chief Financial Officer

Peace Corps
Consolidated Balance Sheet
As of September 30, 2005
(In Thousands)

		2005		2004 Restated
Assets				
Intragovernmental Assets				
Fund Balance With Treasury (Note 3)	$	127,662	$	120,775
Accounts Receivable (Note 5)	$	1,712	$	1,127
Total Intragovernmental Assets	$	129,374	$	121,902
Assets With the Public				
Cash, Foreign Currency, and Other Monetary Assets (Note 4)	$	139	$	134
Accounts Receivable (Note 5)	$	39	$	31
General Property, Plant, and Equipment (Note 6)	$	41,697	$	-
Other				
Prepaid Volunteer Living Allowances (Note 7)	$	3,668	$	3,665
Other Assets (Note 8)	$	660	$	632
Total Assets With the Public	$	46,203	$	4,462
Total Assets	$	175,577	$	126,364
Liabilities				
Intragovernmental Liabilities				
Accounts Payable	$	2,035	$	-
Other (Note 10)	$	1,229	$	1,445
Unfunded FECA Liability (Note 9)	$	24,606	$	24,553
Total Intragovernmental Liabilities	$	27,870		25,998
Liabilities With the Public				
Accounts Payable	$	14,266	$	6,161
Federal Employee and Veterans Benefits (Note 9)	$	126,651	$	125,709
Other Liabilities With the Public				
Other Liability (Note 10)	$	125	$	-
Other Liability - Non-Entity Funds	$	25,720	$	23,888
Other Unfunded Employment Related Liability (Note 9)	$	6,796	$	13,973
Accrued Funded Payroll and Leave	$	3,144	$	2,880
Unfunded Annual Leave (Note 9)	$	6,534	$	3,216
Total Liabilities With the Public	$	183,236	$	175,827
Total Liabilities	$	211,106	$	201,825
Net Position				
Unexpended Appropriations	$	84,896	$	95,451
Cumulative Results of Operations	$	(120,425)	$	(170,912)
Total Net Position	$	(35,529)	$	(75,461)
Total Liabilities and Net Position	$	175,577	$	126,364

The accompanying notes are an integral part of the statements.

Peace Corps
Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2005
(In Thousands)

		2005		2004
Program Costs:				
Gross Costs	$	320,727	$	494,909
Less: Earned Revenues (Note 14)	$	3,325	$	4,279
Net Program Costs	$	317,402	$	490,630
Costs Not Assigned to Programs	$	-	$	-
Less: Earned Revenues Not Attributed to Programs	$	-	$	-
Net Cost of Operations	$	317,402	$	490,630

The accompanying notes are an integral part of the statements.

Peace Corps
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2005
(In Thousands)

	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
Beginning Balances	$ (169,898)	$ 94,453	$ (3,655)	$ 99,358
Prior-Period Adjustments (+/-)	$ 47,386	$ (2,475)	$ -	$ -
Beginning Balances, As Adjusted	$ (122,512)	$ 91,978	$ (3,655)	$ 99,358
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 320,000	$ -	$ 310,000
Other Adjustments (Rescissions, etc.) (+/-)	$ -	$ (10,502)	$ (8)	$ (2,543)
Appropriations Used	$ 316,580	$ (316,580)	$ 311,364	$ (311,364)
Transfers-In/Out Without Reimbursement	$ (3,592)	$ -	$ (1,153)	$ -
Other Financing Sources			$ -	$ -
Donations and Forfeitures of Property	$ -	$ -	$ 7,885	$ -
Transfers-In/Out Without Reimbursement	$ 1,804	$ -	$ 853	$ -
Imputed Financing From Costs Absorbed by Others	$ 4,697	$ -	$ 4,448	$ -
Other	$ -	$ -	$ (16)	$ -
Total Financing Sources	$ 319,489	$ (7,083)	$ 323,373	$ (3,907)
Net Cost of Operations (+/-)	$ (317,402)	$ -	$ (490,630)	$ -
Ending Balances	$ (120,425)	$ 84,896	$ (170,912)	$ 95,451

The accompanying notes are an integral part of the statements.

Peace Corps
Consolidated Statement of Financing
For the Fiscal Year Ended September 30, 2005
(In Thousands)

		2005		2004
Resources Used to Finance Activities				
Budgetary Resources Obligated:				
Obligations Incurred	$	317,499	$	306,616
Less: Spending Authority from Offsetting Collections and Recoveries*	$	5,279	$	5,022
Obligations Net of Offsetting Collections and Recoveries	$	312,220	$	301,594
Less: Offsetting Receipts	$	-	$	-
Net Obligations	$	312,220	$	301,594
Other Resources				
Donations and Forfeitures of Property	$	-	$	7,885
Transfers In/Out Without Reimbursement	$	1,805	$	853
Imputed Financing from Costs Absorbed by Others	$	4,697	$	4,448
Other Resources	$	-	$	(17)
Net Other Resources Used to Finance Activities	$	6,501	$	13,169
Total Resources Used to Finance Activities	$	318,721	$	314,763
Resources Used to Finance Items Not Part of Cost of Operations				
Change in Budgetary Resources Obligated for Goods, Services and Benefits but Not Yet Provided	$	1,863	$	8,711
Resources that Fund Expenses Recognized in Prior Periods	$	7,177	$	-
Resources that Finance the Acquisition of Assets	$	5,017	$	-
Other Resources or adjustments to Net Obligated Resources that do not affect Net Costs of Operations	$	-	$	(300)
Total Resources Used to Finance Items Not part of the Net Cost of Operations	$	14,057	$	8,411
Total Resources Used to Finance the Net Cost of Operations	$	304,664	$	323,174
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period				
Components Requiring or Generating Resources in Future Periods:				
Increase in Annual Leave Liability	$	3,318	$	3,216
Other (+/-)	$	1,245	$	164,235
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$	4,563	$	167,451
Components Not Requiring or Generating Resources				
Depreciation and Amortization	$	8,190	$	-
Revaluation of Assets or Liabilities (+/-)	$	-	$	(16)
Other (+/-)	$	(15)	$	21
Total Components Not Requiring or Generating Resources	$	8,175	$	5
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		12,738	$	167,456
Net Cost of Operations	$	317,402	$	490,630

The accompanying notes are an integral part of the statements.

Peace Corps
Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2005
(In Thousands)

		2005		2004
BUDGETARY RESOURCES				
Budgetary Authority:				
Appropriation	$	320,000	$	310,000
Unobligated Balance				
Brought Forward, Oct 1	$	23,081	$	17,501
Spending Authority from Offsetting Collections (Gross)				
Earned				
Collected	$	4,926	$	4,069
Receivable from Federal Sources	$	(525)	$	1,127
Change in Unfilled Customer Orders				
Advance Received	$	(27)	$	29
Without Advance from Federal Sources	$	905	$	(203)
Subtotal	$	5,279	$	5,022
Permanently Not Available				
Cancellations of Expired and No-Year Accounts	$	7,945	$	998
Enacted Reductions	$	2,560	$	1,829
Total Budgetary Resources	$	337,855	$	329,696
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct				
Category A	$	314,001	$	302,510
Reimbursable				
Category A	$	3,498	$	4,105
Subtotal	$	317,499	$	306,615
Unobligated Balances				
Apportioned:				
Balance Currently Available	$	14,252	$	9,673
Unobligated Balances Not Available				
Other	$	6,104	$	13,408
Total Status of Budgetary Resources	$	337,855	$	329,696
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligated Balance, Net as of October 1	$	72,542	$	76,892
Obligated Balance, Net, End of Period				
Accounts Receivable	$	602	$	1,127
Unfilled Customer Orders from Federal Sources	$	1,524	$	618
Undelivered Orders	$	63,405	$	65,246
Accounts Payable	$	19,219	$	9,041
Outlays:				
Disbursements	$	309,162	$	310,042
Collections	$	4,899	$	4,098
Net Outlays	$	304,263	$	305,944
Less: Distributed Offsetting Receipts	$	-	$	-
Net Outlays	$	304,263	$	305,944

The accompanying notes are an integral part of the statements.

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.

The core mission of the Peace Corps is to promote world peace and friendship by making available to interested, less developed countries men and women of the United States qualified for service abroad and willing to serve, even under conditions of hardship if necessary. The Peace Corps' goals are to help the people of interested countries in meeting their need for trained men and women; to help promote a better understanding of Americans on the part of the peoples served; and to help promote a better understanding of other peoples on the part of Americans.

For the fiscal year ended September 30, 2005, the agency is presenting its first year of comparative financial statements prepared in conformity with federal accounting standards, reflecting the results of operations to support the Volunteers in countries served.

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 and financing activities of the agency pursuant to the requirements of 31 U.S.C. 3515 (b). They have been prepared using 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 the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, issued August 2005. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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

The statements are subdivided in two categories: intragovernmental and public. The intragovernmental balances, revenues, and costs reflect financial transactions between the Peace Corps and other federal agencies. Public activities are those with nongovernmental 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 future economic benefits owned or managed by the agency. The liabilities are amounts owed by the agency. The net position is the difference between the assets and liabilities.
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 earned from its activities.
Statement of Changes in Net Position	Explains how the net cost for the agency's operations was funded, and reports other changes in 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 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.
Statement of Financing	Demonstrates the relationship between budgetary amounts reported on the *Statement of Budgetary Resources* to the proprietary amounts reported on the *Statement of Net Cost*. The focus of this presentation is to reconcile net obligations to the net cost of operations.

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, however, fund availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

The agency receives financing sources through direct appropriations from the general fund of the Treasury to support its operations. This financing source--appropriations used--is recognized to the extent these funds have been consumed.

d) Fund Accounting Structure

The agency's financial activities are accounted for by federal account symbol. 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 government 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 government for carrying out specific purposes and programs in accordance with terms of the statute that designates the fund as a special or trust fund. The balances in the agency's trust funds are nonentity assets and are not included in the financial statements.

Deposit Funds--These funds consist of monies held temporarily by Peace Corps as an agent for others. These include allowance and allotment accounts for employees and volunteers. The balances in these funds are nonentity assets and are not included in the financial statements.

General Fund Receipt Accounts--These funds consist of monies collected by Peace Corps that are returned to the U.S. Treasury and not available for Peace Corps use.

e) Budget Authority

Congress annually passes multiyear appropriations that provide the agency with authority to obligate funds over a two-year period for necessary expenses to carry out operations. The annual budget authority funds are available five additional years to complete the liquidation of open obligations, advances, and receivables. After the five- year period, all open transactions for the respective fiscal year will be closed and funds returned to the U.S. Treasury. Any valid claims associated with these funds after closure must be processed against current year funds.

In addition, Congress enacts multi 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.

f) Revenues and Other Financing Sources

Peace Corps operations are financed through appropriations, proceeds from the sale of property, and interagency 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 the U.S. Treasury

The fund balance with Treasury consists of appropriated 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 cash in commercial bank accounts for the funds reported in the balance sheet. All cash receipts and disbursements are processed by the U.S. Treasury or the Department of State (DOS).

The funds that make up the post cashiers' imprest funds belong to the U.S. Treasury through DOS's accountability. These funds are routinely used to pay for small value purchases of goods and services and are also used to make an occasional emergency payment. Per agreement with the DOS, Peace Corps is responsible to pay for any losses incurred by the cashiers that would normally fall on the account holder. All international payments made by DOS on behalf of the Peace Corps are charged to the Peace Corps and reduce the applicable Peace Corps appropriation unexpended balance in the U.S. Treasury records.

At any point in time the posts have USD and local currency checks in their possession which are awaiting delivery to the payees. These checks were recorded as disbursements on Peace Corps and Treasury records in the month the checks were issued. As of September 30, 2005, these checks totaled approximately $2.1 million in U. S. dollar equivalents.

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. dollars based on the rate of exchange as of the date of the transaction. Foreign currency payments are made by the U.S. disbursing officers located at the Department of State's Financial Service Centers in Charleston, South Carolina; and Bangkok, Thailand.

Foreign currency losses and gains resulting from changes in the rate of exchange are charged (or credited) to the same appropriation or account that financed the basic transaction.

i) Accounts Receivable

Accounts receivable include amounts due from other federal entities and from current and former employees and Volunteers.

The agency recognizes an allowance for doubtful accounts consistent with the Department of Treasury's requirement that agencies write-off any account that has been delinquent for more than two years. An exception to this write-off policy will be for accounts with approved payment plans in place and for which the debtor is meeting the terms of the plan. The allowance will be established in the financial records if the total amount exceeds $30,000; otherwise, the amount is considered immaterial.

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 include food, clothing, household items, rent, utilities, and local transportation that are based on local living standards and costs.

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

For fiscal year 2005, the agency revised the policies and procedures for capitalized property and equipment and related depreciation to be in accordance with generally accepted accounting principles.

A capital asset inventory of all Peace Corps PP&E assets was taken in fiscal year 2005. To establish existing PP&E where historical cost information necessary to comply with the recognition or measurement provisions had not been maintained, estimates were used based on either 1) cost of similar assets at the time of acquisition; or 2) a value based on the asset's condition and fair market value.

The agency capitalizes all property, plant, and equipment that have an acquisition cost of $10,000 or greater, have a useful life of two years or more, are not intended for sale in the ordinary course of business, and are intended to be used or available for use by the entity. 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. No salvage values were estimated in calculating accumulated depreciation through FY 2005. This practice will be reviewed during FY 2006 and a policy determination made on whether salvage values should be estimated.

The agency does not own any real property. Nonexpendable personal property is depreciated over 5 to 10 years. The agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Software purchased or developed for internal use at a cost of $25,000 or greater is capitalized and amortized over its expected life (currently 3 to 9 years). Deferred maintenance amounts are immaterial with respect to the financial statements.

l) Capital Leases

Leases should be accounted for as a capital lease if they meet one of the following criteria: 1) the lease term is greater than 75 percent of the property's estimated economic life; 2) the lease contains an option to purchase the property for less than fair market value; 3) ownership of the property is transferred to the lessee at the end of the lease term; or 4) the present value of the lease payments exceeds 90 percent of the fair market value of the property.

The agency does have a number of leases that meet at least one of these criteria, but deferred their capitalization since the agency’s current obligation practices for such leases are not consistent with the Treasury’s standard general ledger scenario for capital leases.

m) 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.

n) Employee Benefits

I. ***Federal Employees Compensation Act (FECA) Accrued Claims***--The agency records the direct dollar costs of compensation and medical benefits paid on its behalf by the Department of Labor (DOL) for employees under the agency’s jurisdiction.

II. ***Future Workers Compensation Benefits***--FECA provides income and medical costs protection to federal employees injured on the job or who have incurred a work-related occupational disease, and to beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The U.S. Department of Labor (DOL) administers the FECA program. DOL initially pays valid claims and bills the agency on an annual basis.

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 employee's health benefit program (FEHBP) and the federal employees group life insurance program (FEGLIP). The agency matches the employee contributions 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 FEHBP and the FEGLIP 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 (ORBs) at the time of employment with the Agency. The ORB expense is financed by OPM and offset by the agency through the recognition of an imputed financing source on the Statement of Financing.

VI. ***Employee Retirement Benefits***--Peace Corps direct hire employees participate in one of three retirement systems: Civil Service Retirement System (CSRS), Federal Employees' Retirement System (FERS), or the Foreign Service Retirement and Disability System (FSRDS). The following table provides data for each of these plans:

Plan	% of PC Participants	Employee Deductions/Agency Contributions			
		Plan	TSP	FICA	Medicare
CSRS	6	7% / 7%	N/A	N/A	1.45% / 1.45%
FERS	92	8% / 10.7%	See Note	6.2% / 6.2%	1.45% / 1.45%
FSRDS	2	7.25% / 7.25%	N/A	N/A	1.45% / 1.45%

Note: The agency contributes 1% of the employees' basic pay; it will also match employees' contributions up to 4% of their basic pay.

Foreign service national (FSN) employees at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. FSNs hired after that date are covered under a variety of local government plans in compliance with the host country's local laws and regulations.

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 Foreign National Personal Service Contractor Severance and Retirement Liability***--The Peace Corps is liable for separation or retirement payments to eligible foreign national personal service contractors (PSCs) in countries that require payments under local labor laws. Until systems are in place to track this liability in a timely manner, the estimate of the current and future costs of the severance and retirement liability is determined annually.

For 2004, this estimated liability was determined for the first time. Details of PSCs by post were accumulated from multiple sources and an estimate of $13.9 million was projected based on an average of two months salary for every year of service.

For 2005, the calculation of the liability was refined to identify it by individual and apply the applicable local labor law requirements. The FY 2005 estimate was $6.8 million.

In accordance with generally accepted accounting principles, the Peace Corps should consider restating the 2004 estimated liability in the balance sheet and related financial reports. Due to the extensive time and effort that would be required to reconstruct such a level of detail for the 2004 liability, the Peace Corps will not restate this liability and rely on the understanding that the FY 2004 estimated liability in the balance sheet and related financial reports was a reasonable estimate at the time it was made within the data and assumptions that were used.

o) Commitments and Contingencies

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

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, as well as 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

The agency on occasion 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, P.L. 97-177, as amended.

r) Intragovernmental Net Costs

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

s) Beginning Balances as of October 1, 2003

The agency implemented a new financial management system on October 1, 2003, replacing a legacy system that was not U.S. Standard General Ledger (USSGL) compliant.

Opening balances brought forward to the new system reflected the final balances for each Treasury Account Fund Symbol (TAFS) as of September 30, 2003. The obligations, receivables, and payables detail from the legacy system were transferred. Data were modified based on proper documentation. All non standard accounts were eliminated and balances moved to the appropriate USSGL accounts. Applicable accounts and budgetary authorities were reconciled and balanced to the U.S. Treasury fund balances. Due to this approach, there may be items that could create a future expenditure for which the obligation/liability had not been captured in the beginning balances.

t) Adjustments to Maintain Inherent Account Relationship Integrity

At the fiscal years ending 2004 and 2005, the trial balance was reviewed and it was determined that there existed out of balance conditions. These conditions were attributed to various factors such as timing differences between the posting of proprietary account entries and budgetary account entries, incorrect use of transaction codes by users or systemic issues that were identified but still unresolved.

In order to correct the relationships between the proprietary and budgetary accounts, an analysis was performed at the high level. Cash balances on the books were aligned to agree with budgetary account balances. Additionally, cash balances were adjusted to align with Treasury fund balance to facilitate the Agency to pass edit checks and submit FACTS II reports to Treasury.

Note 2	Non-entity Assets Balance Sheet

Nonentity assets are composed of trust and deposit funds. These funds are not available for Peace Corps use and not part of Peace Corps resources. The Peace Corps has a fiduciary responsibility to monitor collections, status and distribution. During fiscal year 2005, the agency determined that the special funds (reported last year as non entity assets) are entity assets. Below, as information, are the Treasury fund balances of the nonentity, fiduciary assets.

Intragovernmental Fund Balance with Treasury	**September 30, 2005** ***In Thousands***	**September 30, 2004** ***In Thousands***
Trust Funds		
Gifts and Contributions (Cash)	$ 665	$ 849
Advances from Foreign Governments	55	52
FSN Separation Liability Trust Fund	9,091	6,561
Deposit Funds		
Volunteer Readjustment Allowance	15,933	16,455
Volunteer Payroll Allotment Account (Payroll Savings Bond Account)	(24)	(29)
Total Nonentity Assets	$ 25,720	$ 23,888
Total Entity Assets per Balance Sheet	$149,857	$ 102,476
Total Assets	$175,577	$ 126,364

Trust Fund Accounts--Consists of gifts and contributions, advances from foreign governments, and FSN separation liability trust fund. Gifts and contributions represent funds from public, nongovernmental sources. Advances from foreign governments are U.S. dollar contributions supported by an agreement with the host country. The FSN separation liability trust fund represents the estimated accrued liability for separation pay (based on local labor law) of FSN employees.

Deposit Fund Accounts--The Volunteer readjustment allowance is an allowance earned by Volunteers for each month of satisfactory service and payable upon their return to the United States. The Volunteer payroll allotment account reflects the value of held U. S. government bonds purchased by the Volunteers through allotments from the readjustment allowance. The bonds allow the Volunteers to earn interest on their earnings while in service overseas.

Note 3	**Fund Balance with Treasury** Balance Sheet

Fund Balances	**September 30, 2005** ***In Thousands***	**September 30, 2004** ***In Thousands***
Appropriated Funds	$ 100,715	$ 95,488
Total Nonentity Assets (Note 2)	25,720	23,888
Other Fund Types (Special Fund Accounts)	1,227	1,399
Total	$ 127,662	$ 120,775

Special Fund Accounts--The proceeds of sales funds represent cash received from the sale of assets, primarily vehicles, and available to be reinvested in a like-kind replacement purchase (e.g., proceeds from vehicle sales used to purchase replacement vehicles).

As discussed in Note 2, the agency has revised its treatment of these special funds and restated the 2004 values to reflect this revision.

Status of Fund Balance with Treasury	**September 30, 2005** ***In Thousands***	**September 30, 2004** ***In Thousands***
(1) Unobligated Balance		
(a) Available	$ 14,252	$ 9,673
(b) Unavailable	6,104	13,408
(2) Obligated Balance Not Yet Disbursed	80,359	72,407
(3) Nonbudgetary Fund Balance with Treasury		
Total Nonentity Assets	25,720	23,888
Other Fund Types (Special Fund Accounts)	1,227	1,399
Fund Balance with Treasury	$ 127,622	$ 120,775

The 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 obligation or commitment.

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.

Note 4 — Cash and Other Monetary Assets
Balance Sheet

	September 30, 2005 *In Thousands*	September 30, 2004 *In Thousands*
Total Cash and Other Monetary Assets	$139	$134

The cash balances represent imprest funds at headquarters and at the East Timor post, both held in U.S. currency.

Note 5 — Net Accounts Receivable
Balance Sheet

	September 30, 2005 *In Thousands*	September 30, 2004 *In Thousands*
Accounts Receivable--Intragovernmental	$ 1,712	$ 1,127
Accounts Receivable from the Public	39	31
Gross Accounts Receivable	$ 1,751	$ 1,158

Intragovernmental receivables are due from other federal agencies for services provided per reimbursable agreements.

Accounts receivable from the public are due from nonfederal entities, consisting primarily of receivables from employees.

Note 6	**General Property, Plant, and Equipment (PP&E)** Balance Sheet

Components of Fixed Assets as of September 30, 2005: ***In Thousands***	Useful Life in Years	Cost	Accumulated Depreciation	Net Book Value
General Property, Plant, and Equipment	5 -10	$ 2,714	$ 1,320	$ 1,394
Vehicles	5	17,284	9,784	7,500
IT Hardware	3-7	4,773	1,824	2,949
Internal-Use Software	5 - 9	37,464	7,610	29,854
Total		$ 62,235	$ 20,538	$ 41,697

For fiscal year ending September 30, 2005, Peace Corps fixed assets include internally developed software and those assets that are reflected as active in the end of year personal capital property management system (PCPMS) databases. These assets are located at headquarters in Washington, D.C., the eleven regional offices, and the overseas posts.

Values for all assets other than internally developed software were obtained from data extracted from the PCPMS databases. Values for internally developed software were developed from the most reliable available data for each system.

Capital leases were not capitalized this fiscal year because the agency's obligation practices for such leases were not consistent with the Treasury standard general ledger scenario.

PP&E values were not captured for fiscal year ending September 30, 2004, reporting purposes. Accordingly, no comparison can be made. Assets acquired in fiscal year 2004 (and prior) were expensed. Accordingly, a prior period adjustment was posted for the capitalized net book value (October 1, 2004) of those assets currently on hand that were acquired prior to this fiscal year.

Note 7	**Prepaid Volunteer Living Allowances** Balance Sheet

	September 30, 2005 ***In Thousands***	**September 30, 2004** ***In Thousands***
Prepaid Volunteer Living Allowances	$ 3,668	$ 3,665

Prepaid Volunteer Living Allowances--Payments of Volunteer living allowances are made prior to the entitlement month so the posts can ensure timely payments of the allowances.

Note 8	**Other Assets** Balance Sheet

	September 30, 2005 ***In Thousands***	**September 30, 2004** ***In Thousands***
Relocation Advances to Employees	$ 66	$ 66
Prepayments to FN-PSCs	5	101
Travel Advances to Employees	589	465
Total Other Assets	$ 660	$ 632

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

Prepayments to Foreign National Personal Service Contractors--Payments of the foreign national personal service contractors' (FN-PSCs) biweekly payrolls are made prior to the end of the pay period so that the direct deposits or checks are received by the last day of the pay period. For September 2005, the accounting period and the pay entitlement period ended on the same day (Friday, the 30th); therefore, there is no prepaid value on this year's statements. For September 2004, the accounting period ended on Thursday, the 30th, whereas payments were made through Friday, October 1st.

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.

Note 9	**Liabilities Not Covered by Budgetary Resources** Future Funding Requirements

	September 30, 2005 *In Thousands*	**September 30, 2004** *In Thousands*
Intragovernmental Liabilities		
Unfunded FECA Liability	$ 24,606	$ 24,553
Public Liabilities		
Unfunded Annual Leave	6,534	3,216
Other Unfunded Employment Related Liability	6,796	13,973
Federal Employee and Veterans Benefits	126,651	125,709
Total liabilities not covered by budgetary resources	$ 164,587	$ 167,451

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. Accordingly, the September 30, 2005, liability consists of (1) costs for the DOL 2004 billing period that were reported to the Peace Corps in August 2004 and were included in the agency's budget request for fiscal year 2006; (2) costs for the DOL 2005 billing period which were reported to the Peace Corps in August 2005 and will be included in the agency's budget request for fiscal year 2007; and (3) the estimated liability for the period of July-September 2005.

Unfunded Annual Leave (U.S. Employees)--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 for U.S. hired employees earned as of September 30, 2004. Payments are charged to the appropriation current at the time of payment.

Unfunded Annual Leave (FSN/FN PSC)--The valuation of the accrued annual leave for foreign service national employees and the foreign national PSCs has been estimated for this financial statement. There are approximately 200 foreign service nationals and a range of 1,500 to 2,000 foreign national PSCs working for Peace Corps at fiscal year end. Annual leave earned is based on local labor law requirements. Annual leave is paid out of current appropriations when taken.

Other Unfunded Employment Related Liability--A liability for the FN-PSC estimated severance. Lump-sum payments are made to eligible international long-term personal service contractors based on local labor law requirements for separation. These payments are made when the individual terminates and paid for out of current appropriations.

Federal Employee and Veterans Benefits--Liability for the actuarial value of future payments for FECA as estimated by the Department of Labor for the agency.

Note 10	**Other Liabilities** Balance Sheet

	September 30, 2005 ***In Thousands***	**September 30, 2004** ***In Thousands***
Intragovernmental Liabilities		
Special Funds Account	$ 1,227	$ 1,399
Advances from Others	2	29
Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections	-	17
Total Other Intragovernmental Liabilities	$ 1,229	$ 1,445
Contingent Liability	$ 125	$ -
Total Other Liabilities	$ 1,354	$ 1,445

Special Funds Accounts--The proceeds of sales funds represent cash received from the sale of assets, primarily vehicles, and available to be reinvested in a like-kind replacement purchase (e.g., proceeds from vehicle sales used to purchase replacement vehicles).

As discussed in Note 2, the agency has revised its treatment of these special funds and restated the 2004 values to reflect this revision.

Advances from Others--The balance of amounts advanced by other federal entities for goods and services to be furnished (e.g., money advance for small project assistance grants).

Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections--Amounts offsetting undeposited collections and collections deposited in deposit funds and clearing accounts, including suspense accounts, awaiting deposition or reclassification.

Contingent Liability – See Note 12.

Note 11	**Leases** Disclosure

Operating Leases	**September 30, 2005** ***In Thousands***
Future Payments Due:	
2006	$ 13,683
2007	11,737
2008	7,017
2009	1,688
2010	1,095
Thereafter	2,219
Total Future Lease Payments	$ 37,439

OPERATING LEASES:

The agency rents 246,306 square feet of space in both commercial and government-owned properties for use as offices, storage, and parking within the United States. All Peace Corps domestic leases, whether commercial or government-owned properties, are managed by the General Services Administration (GSA).

Overseas leases originate at the post and are primarily for offices, training centers, medical centers, and residences. During fiscal year 2005, the overseas leases were reviewed, summarized, and projected for future lease payments. The overseas leases were not included in the September 30, 2004, future lease payments.

The agency has identified less than 20 capital leases with future costs of less than $1.3 million but deferred their capitalization until the applicable policy and procedures are developed.

Note 12 — Commitments and Contingencies
Disclosure

In the opinion of the management and legal counsel, the likelihood that the agency is liable for contingent liabilities related to administrative proceedings, legal actions, or claims is probable and measurable as of this statement date in the amount of $125,000.

Disclosure is required if there is a reasonable possibility that a loss may incur. The likelihood of a reasonable possibility of a loss related to administrative proceedings, legal actions, or claims is estimated to be $1.2 million as of this date.

Obligations related to canceled appropriations for which the agency has contractual commitments for payout are estimated to be $262,000 as of September 30, 2005.

Note 13 — Imputed Financing
Disclosure

	September 30, 2005 *In Thousands*	**September 30, 2004** *In Thousands*
Federal Employees Health Benefit Program (FEHBP)	$ 3,386	$ 3,008
Federal Employees Group Life Insurance Program (FEGLIP)	12	11
Civil Service Retirement System (CSRS)	792	875
Federal Employees Retirement System (FERS)	299	263
Foreign Service Retirement and Disability System (FSRDS)	208	291
Total Imputed Costs	$ 4,697	$ 4,448

Imputed financing recognizes actual costs of future benefits which include the FEHBP, FEGLIP, and pensions benefits that are paid by other federal entities. The agency is not required to reimburse other entities for these costs.

Note 14	**Exchange Revenues** Statement of Net Cost

	September 30, 2005 *In Thousands*	**September 30, 2004** *In Thousands*
Intragovernmental Earned Revenues	$ 3,325	$ 4,279
Earned Revenues from the Public	-0-	-0-
Total Exchange revenues	$ 3,325	$ 4,279

Exchange revenues represent revenue from services provided. This includes reimbursable agreements from other government agencies such as USAID-sponsored HIV/AIDS education, prevention, and mitigation activities and umbrella programs covering environment, health, youth, microenterprise, SPA technical assistance, and economic growth in fiscal year 2004.

There are no goods or services provided to the public that earn revenues for the agency.

Note 15	**Restatement**

Balance Sheet Restatement - Assets	**Original September 30, 2004** *In Thousands*	**Restated September 30, 2004** *In Thousands*
Appropriated Funds	$ 95,488	$ 95,488
Total Nonentity Assets	25,287	23,888
Other Fund Types (Special Fund Accounts)	-	1,399
Fund Balance with Treasury Total	$ 120,775	$ 120,775

Please reference note 3.

Balance Sheet Restatement - Liabilities	**Original September 30, 2004** *In Thousands*	**Restated September 30, 2004** *In Thousands*
Intragovernment - Other Liabilities	$ -	$ 1,399
Other Liabilities with the Public – Non-Entity Funds	25,287	23,888
Total	$ 25,287	$ 25,287

Please reference note 10.

In fiscal year 2004, $1.4 million in Special Funds were included in the $25.3 million reflected as Non-Entity Funds and in Other Liabilities – Non-Entity in the balance sheet as of September 30, 2004.

As discussed in Note 2, the agency has revised its treatment of these special funds and restated the 2004 values to reflect this change from non-entity to entity funds.

Supplementary information

Disclosure on Contributions

1. Media Contributions Received--The agency received $13.8 million in print, radio, and television media contributions through public service announcements in fiscal year 2005.

2. Host Country Contributions--The agency received cash and in-kind contributions from host countries.

   In-kind contributions estimated at $3.84 million in fair market value were received in fiscal year 2005 at posts for services, supplies, equipment, and facilities.

   The estimated value of the cash contributions received in fiscal years 2005 and 2004 ranged from $800 to $900 thousand in U.S. dollar equivalents with a September 30, 2005 Treasury fund balance of $696 thousand in U. S. dollar equivalents.

   These cash contributions are received in local currency and maintained at post to support the Volunteers. As the agency changed its financial management system in 2004, so did the Department of State (DOS). Reconciliation of these cash contributions became possible only after the DOS captured the agency's local currency amount and the identifier for the transactions was agreed upon in 2005. Now that the identifier issues are resolved, the agency anticipates the cash activities will be recognized as entity activities in future financial statements.

Disclosure on Trading Partners

Peace Corps
Intragovernmental Assets by Trading Partner
As of September 30, 2005
(In Thousands)

Trading Partner	Fund Balance with Treasury	Accounts Receivable
U.S. Treasury Department	$ 127,662	
Agency for International Development		$ 1,159
Department of Homeland Security		$ 547
Other		$ 6
Total	$ 127,662	$ 1,712

Peace Corps
Intragovernmental Liabilities by Trading Partner
As of September 30, 2005
(In Thousands)

Trading Partner	Accounts Payable	Other	Unfunded FECA
Department of State	$ 2,035		
U.S. Treasury Department		$ 1,229	
Department of Labor			$ 24,606
Total	$ 2,035	$ 1,229	$ 24,606

Intragovernmental Earned Revenues: Peace Corps' total intragovernmental earned revenues from trade transactions were less than the $500 million dollar materiality threshold for reporting as determined by OMB.

Intragovernmental Nonexchange Revenue: Peace Corps did not realize intragovernmental nonexchange revenue transferred in nor incur intragovernmental nonexchange revenue transferred out.

Office of Inspector General

To: Gaddi Vasquez, Director

From: Allan R. Gall, Acting Inspector General

Date: November 15, 2005

Subject: FY 2005 Audit of Peace Corps' Financial Statements

This letter transmits Urbach Kahn and Werlin LLP's (UKW) Report of Independent Auditors on the results of their engagement to perform an audit of Peace Corps' Fiscal Year 2005 financial statements. UKW's Report includes the firm's Report on the Financial Statements, Report on Internal Control, and Report on Compliance with Laws and Regulations.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. UKW's engagement was conducted in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements. An audit includes obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected.

Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations

The Accountability of Tax Dollars Act of 2002 (P.L. 107-289) enacted on November 7, 2002, requires Peace Corps' Inspector General (IG) or an independent external auditor, as determined by the IG, to audit Peace Corps' financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), UKW, an independent certified public accounting firm, was engaged to audit Peace Corps' FY 2005 financial statements. Because of matters identified in their report, UKW issued a disclaimer of opinion on Peace Corps' FY 2005 financial statements.

Although the work conducted by UKW identified five reportable conditions that were considered material weaknesses, Peace Corps had made progress in its overall financial management during FY 2005. This progress was achieved despite the turnover of the CFO and Deputy CFO positions during the year and was facilitated in particular by management's quick action in appointing a new CFO. The "Letter from the Chief Financial Officer" outlines a number of financial management initiatives that were initiated or completed during the year. We found agency management cognizant of and in the process of planning the necessary actions for the agency to obtain an unqualified opinion in the future.

OIG Evaluation of UKW Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored UKW's engagement to audit Peace Corps' FY 2005 financial statements by:

- Reviewing UKW's approach and planning of the engagement;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the engagement throughout the audit process;
- Reviewing UKW's reports to ensure compliance with Government Auditing Standards and OMB Bulletin 01-02.
- Coordinating the issuance of the reports; and
- Performing other procedures that we deemed necessary.

UKW is responsible for the attached auditor's report, dated November 8, 2005, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding UKW's performance under the terms of the contract.

cc: Jody Olsen, Deputy Director

Jay Katzen, Acting Chief Of Staff/Operations

David Liner, Deputy Chief of Staff/Operations

George Schutter, Chief Financial Officer

Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Director
Peace Corps

Office of the Inspector General
Peace Corps

We were engaged to audit the accompanying Consolidated Balance Sheets of the Peace Corps, an independent executive branch agency of the United States federal government, as of September 30, 2005 and 2004, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Financing, and the Combined Statements of Budgetary Resources for the years then ended. These financial statements are the responsibility of the management of Peace Corps.

Peace Corps has not established an effective financial management structure and monitoring process within the Office of the Chief Financial Officer in order to properly support the recorded account balances. Peace Corps' internal controls were not adequate to ensure that its account balances reported on the financial statements were properly compiled and reviewed, classified and disclosed, and that transactions were accurately and completely recorded. Further, Peace Corps has not maintained adequate accounting records and sufficient supporting documentation for material balances presented in the accompanying financial statements. We were unable to sufficiently extend our auditing procedures to determine the extent to which the financial statements may have been affected by these conditions.

Since Peace Corps did not establish an effective financial management structure, have adequate internal controls, or maintain adequate accounting records and sufficient supporting documentation, and because we were unable to apply other auditing procedures to satisfy ourselves as to the extent to which the financial statements were affected by these matters, as explained in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The information in the Required Supplementary Information, including Management's Discussion and Analysis, is not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements.* Because management did not prepare certain Required Supplementary Information and because of the reasons explained in the preceding two paragraphs, we were unable to apply certain limited procedures prescribed by professional standards to this information.

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued reports dated November 8, 2005 on our consideration of Peace Corps' internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, contracts and grants. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and, in considering the results of the engagement, those reports should be read in conjunction with this report.

Urbach Kahn & Werlin LLP

Washington, DC
November 8, 2005

Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Director
Peace Corps

Office of the Inspector General
Peace Corps

We were engaged to audit the financial statements of the Peace Corps, an independent executive branch agency of the United States federal government, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 8, 2005, in which we disclaimed an opinion on those financial statements for the reasons noted in that report.

In planning and performing our engagement, we considered Peace Corps' internal control over financial reporting by obtaining an understanding of Peace Corps' internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our engagement procedures. We limited our internal control testing to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended, and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our engagement was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Peace Corps' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

However, we noted certain matters involving the internal control and its operation that we considered to be reportable conditions, all of which are considered material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

These conditions, detailed on the following pages, are summarized as follows:

1. Peace Corps did not have adequate controls over its financial management structure and monitoring processes.

2. Peace Corps did not have adequate controls over its accounting business processes.

3. Peace Corps was not able to substantiate material account balances.

4. Peace Corps did not have adequate controls over its reconciliation and financial reporting processes.

5. Peace Corps did not have adequate controls over its information systems control environment.

In addition, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other less significant matters involving the internal control and its operation, which we have reported to the management of Peace Corps in a separate letter, dated November 8, 2005.

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

Urbach Kahn & Werlin LLP

Washington, DC
November 8, 2005

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 1 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER ITS FINANCIAL MANAGEMENT STRUCTURE AND MONITORING PROCESSES

During fiscal year (FY) 2004, Peace Corps began to take measures to improve the financial management structure and monitoring processes, including increased involvement of senior management in the financial reporting process.

During FY 2005, Peace Corps' control environment and financial management structure remained insufficient to ensure that financial information was accurate and complete, and that financial reporting was timely and reliable. Management had not established an effective oversight and monitoring process to ensure the continued improvements in Peace Corps' financial management process, in part because Peace Corps had not completed the realignment of its personnel's roles and responsibilities with the related financial management processes. Specific issues identified during the year included:

- Ownership roles for specific financial statement lines, general ledger accounts and subsidiary ledgers were not defined.
- Policies, procedures and monitoring roles were not clearly defined and delineated to ensure balances presented in the financial statements could be traced to the general ledger and subsidiary ledger.
- Staff responsible for providing supporting details for financial statement balances were not always aware which general ledger accounts made up the line items in the financial statements.
- Existing processes and procedures were not consistently followed to ensure support for account balances was adequately reviewed for accuracy, completeness and compliance with accounting policies. Furthermore, the deficiencies in the account balances and in the adequacy of documentation were not always researched and resolved.

During the year, both the Chief Financial Officer (CFO) and Deputy CFO left the agency. These vacancies were filled in FY 2005. In September 2005, the Director, in conjunction with the new CFO, announced a reorganization of the Office of the Chief Financial Officer (OCFO) in order to address the concerns raised in prior engagement findings. The reorganization at the end of the fourth quarter was not in place long enough to have a measurable impact on Peace Corps financial management in FY 2005, and will need further refinement to achieve effective monitoring.

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

> *Management's philosophy and operating style also affect the environment. This factor determines the degree of risk the agency is willing to take and management's philosophy towards performance-based management.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 1 (Material Weakness), CONTINUED

Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, and audits and evaluations can have a profound effect on internal control…

…Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all of its objectives.

Recommendations

We recommend the Director of Peace Corps:

1. Establish goals and timeframes for the completion of the reorganization of the OCFO.

2. Define and document the official roles, responsibilities, policies and procedures for each financial management process performed by the OCFO.

3. Assign the roles and responsibilities to staff for the monthly reconciliation, review, management monitoring and follow-up, including:

   - Monitoring on a monthly basis whether the subsidiary ledgers have been reconciled to the trial balance for all accounts and that differences identified have been researched and resolved during month-end close. These responsibilities should also identify who ensures reconciliations have been reviewed and signed off by CFO supervisors.
   - Management review of the support for adequacy and completeness for deficiencies in the documentation that support the balances that make up the financial statements and ensure the deficiencies are always researched and resolved.
   - Monitoring processes that will ensure the financial statement line items are supportable and general ledger accounts can be reconciled to the subsidiary ledgers and supporting details.

4. Develop metrics for monitoring and reporting progress in reducing financial management deficiencies.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER ITS ACCOUNTING BUSINESS PROCESSES

Business Processes Over Fund Balance with Treasury Were Not Sufficient

Peace Corps did not have a formal structure for organizing the Fund Balance with Treasury (FBWT) reconciliation and an overall reconciliation of FBWT was not being performed. While critical portions of the FBWT process were being performed by several people in different departments, these processes were not linked, compared, and monitored.

Peace Corps was unable to reconcile the monthly cash activity from its general ledger to Treasury's FMS 6653, *Undisbursed Appropriation Account Ledger*, an independent confirmation from Treasury that reflects year-to-date and current month cash activity in appropriation, trust, revolving, clearing and deposit fund accounts.. Peace Corps manually adjusted its general ledger balance by approximately $2.9 million (net) to agree with Treasury's balance at September 30, 2005. This adjustment included more than $6.7 million in debit and credit adjustments.

Peace Corps is currently researching and correcting the differences identified on the Department of Treasury FMS 6652, *Statement of Differences*, for both older and more recent differences. However, the differences indicate that the financial balances may be misstated. Peace Corps indicated that their new financial system, Odyssey, cannot generate a detailed report listing all FBWT transactions that has sufficient detail regarding the disbursements and collections to be used for reconciling. Additionally, prior to January 2005, Peace Corps was not properly reporting transactions on the SF 224, *Statement of Transactions*.

Business Processes Over Property, Plant & Equipment Were Not Sufficient

In FY 2004, Peace Corps did not record a value for the General Property, Plant & Equipment (PP&E) line item for the year-end financial statements. In FY 2005, Peace Corps established a value for the General PP&E line item for the year-end financial statements. However, Peace Corps could not provide properly detailed or reconciled schedules supporting the General PP&E general ledger account balances.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

Peace Corps did not have effective policies and procedures in place to ensure a supportable and accurate subsidiary ledger supporting the General PP&E balance on the financial statements. During the FY 2005 engagement, the following conditions were noted:

- The book value for assets acquired in 2005 per the subsidiary ledger was greater than the acquisition cost per Peace Corps Property Management System (PCPMS). Additionally, capital assets discovered at Headquarters during our testing were not listed within PCPMS or on the other PP&E subsidiary ledgers.
- Errors were found in PCPMS such as incorrect activation dates of assets and assets belonging to posts that were suspended or closed.
- Information Technology (IT) software values recorded in the financial accounting records were based on budgeted cost, not actual cost. Also, shipping and traveling costs necessary to put IT systems into operable use were recorded separately from the related hardware cost.
- The useful lives, as reported in the PP&E note to the financial statements, were not consistently used for all property.
- Peace Corps did not properly present capital leases in the financial statements.

We identified the following causes of the conditions described above:

- Peace Corps did not perform accuracy and completeness checks on their General PP&E, Vehicles, IT hardware and IT software prior to bringing the property into the financial records.
- Procedures in place for the PCPMS were not sufficient to ensure assets recorded were accurately updated.
- Peace Corps' policies and procedures are not sufficiently comprehensive to ensure property managers consider all relevant factors when recording assets. For example, Peace Corps incorrectly capitalized budgeted costs instead of the actual IT Software.
- Peace Corps does not have an approved policy outlining useful lives for depreciation of PP&E, including IT software.
- Peace Corps did not have policies, procedures or an approved methodology for the capitalization of leases.

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* states:

> *Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

OMB Circular A-127, *Financial Management Systems,* Section 7. *Financial Management Systems Requirements,* states:

> *b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems…*
>
> *…Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.*

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment* states:

> *In the period of disposal, retirement from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired or removed from service.*

SFFAS No. 10, *Accounting for Internal Use Software* states:

> *For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such as salaries of programmers, systems analysts, project managers, and administrative personnel, associated employee benefits, outside consultants' fees, rent, and supplies*

SFFAS No. 6, *Accounting for Property, Plant and Equipment* states:

> *Asset Recognition*
> *All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:*
>
> - *Amounts paid to vendors;*
> - *Transportation charges to the point of initial use;*
> - *Handling and storage costs;*
> - *Labor and other direct or indirect production costs (for assets produced or constructed);*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

SFFAS No. 6, *Accounting for Property, Plant and Equipment* states:

> *Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.*
>
> - *The lease transfers ownership of the property to the lessee by the end of the lease term.*
> - *The lease contains an option to purchase the leased property at a bargain price.*
> - *The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.*
> - *The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.*

Accounts Payable Manual Journal Entries

In FY 2005, Peace Corps recorded manual adjustments to its Accounts Payable account at year end to accrue for goods and services received but not billed to Peace Corps by September 30, 2005. Peace Corps posted an unbilled invoices manual journal entry, consisting of several accruals, to the general ledger without requiring and reviewing detailed corroborating documentation.

Separately, the accrual process to identify and record goods and services that were received in September 2005 was incomplete. While Peace Corps did accrue most of the large contracts at year end, there were other invoices paid after year end that were not accrued that, when aggregated, may be material.

GAO's *Standards for Internal Control in the Federal Government* states,

> *Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.*

OMB Circular A-136, *Financial Reporting Requirements* states,

> *3.4 Liabilities*
> *General Categories. A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

> *Financial statements shall recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date. SFFAS No. 5 describes the general principles governing the recognition of a liability.*

Business Processes Over Undelivered Orders Were Not Sufficient

Peace Corps was not able to provide all sufficient supporting documentation for obligation and disbursement samples selected within the agreed upon time frames. Peace Corps management did not ensure the established policies and procedures regarding the activity for obligations, accruals and disbursements, and the undelivered orders remaining balances were monitored. Peace Corps Headquarters also does not have controls in place to ensure Country Directors or Administrative Officers are complying with the contracting authority entrusted to them by the Peace Corps.

The following conditions were noted during the performance of our procedures:

- Obligations in the Undelivered Orders balance required deobligation.
- Domestic and overseas disbursements were not properly certified and were not paid in a timely manner.
- Obligating documents were signed after the obligation was created in Odyssey.
- Peace Corps was obligating more funds than authorized by the contract.
- Country Directors entered into contracts with vendors or Personal Service Contracts for amounts above their spending limits, without proper delegation of authority.

OMB Circular A-123, *Management's Responsibility for Internal Control* states:

> *Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.*

Peace Corps Overseas Financial Management Handbook section 33.1.1 states:

> *Country Directors are delegated contracting authority for country of assignment or other third country not to exceed fifty thousand dollars ($50,000) or local currency equivalent per procurement…Contact the Director, Office of Contracts if additional delegation is required.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

Intragovernmental and Governmental Transactions Were Not Properly Classified

Financial statement reporting requires government agencies to record and report certain accounts as either intragovernmental (Federal) or governmental (non-Federal) balances. Transactions with other U.S. government agencies are classified as intragovernmental. All other transactions are governmental. Prior to 2005, Peace Corps' Balance Sheet and Statement of Net Cost did not accurately classify intragovernmental and governmental balances for Other Assets, Accounts Payable, and Operating Expenses. In FY 2005, Operating Expenses and Other Assets were not divided between intragovernmental and governmental. Peace Corps divided Accounts Receivable and Accounts Payable into intragovernmental and governmental balances. However, Peace Corps could not support the financial statement classification on the Balance Sheet for Accounts Payable and Accounts Receivable.

The Federal/non-Federal distinction is not being utilized at the transaction level within the core financial management system, Odyssey, and therefore intragovernmental transactions could not be reliably determined for financial statement presentation. Although the functionality is in Odyssey to indicate the proper classification at the transaction level, this functionality was not used. There is not an automated or alternate process in place to distinguish intragovernmental transactions from governmental transactions at the transaction level.

OMB Circular A-123, *Management's Responsibility for Internal Control* states,

> *Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.*

OMB Circular A-136, *Financial Reporting Requirements* states,

> *3.3 Assets*
> *Intragovernmental Assets. These assets arise from transactions among Federal entities. These assets are claims of a Federal entity against other Federal entities. Report intragovernmental assets separately from transactions with non-Federal entities, the Federal Reserve, and government-sponsored enterprises (i.e., Federally chartered but privately owned and operated entities). The term "non-Federal entity" encompasses domestic and foreign persons and organizations outside the U. S. Government.*
>
> > *Report intragovernmental assets separately from transactions with non-Federal entities, the Federal Reserve, and government-sponsored enterprises (i.e., Federally chartered but privately owned and operated entities)…. Report intragovernmental liabilities separately*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

> *from claims against the reporting entity by non-Federal entities, including government-sponsored enterprises, and the Federal Reserve System.*

3.4 Liabilities
Liabilities of Federal agencies are classified as liabilities covered or not covered by budgetary resources. The intragovernmental liabilities of an agency are separately classified on the face of the balance sheet. These terms are defined below in accordance with SFFAS No. 1.

Recommendations

We recommend the Director of Peace Corps ensure that:

5. The OCFO management establishes policies and procedures in the Peace Corps Manual to clarify the reconciliation process for each component of FBWT, including the process, responsibility, and timeframes for researching and resolving differences reported by Treasury.

6. The OCFO management monitors the FBWT reconciliation and assign responsibilities to compare, and link all reconciliation components. An overall reconciliation should be performed that ties all the reconciliations performed together and the OCFO should design a formal reconciliation structure which allows adequate controls over the FBWT reconciliation process.

7. The complete Odyssey general ledger cash balance is being reconciled to Treasury's FMS 6653 monthly to validate that FBWT is properly reported. Management should review the reconciliation and approve any necessary adjustments to correct differences.

8. The OCFO develop a standard cash reconciliation report that contains sufficient details to allow the reconciliation of disbursements and deposits reported on the 6653 with the transactions reported on the general ledger.

9. The OCFO establish processes for the tracking, monitoring, and resolving of differences identified in the 6653 reconciliation to ensure the timely resolution of identified differences. Peace Corps should also establish a policy documenting the review and resolution of previously identified differences found on the 6652 reconciliation. Tracking and monitoring the corrected differences identified will help Peace Corps identify problematic reconciliation areas.

10. The book values in PCPMS are accurate and periodically reviewed.

11. The OCFO develop and perform procedures to ensure completeness of all areas of PP&E including, vehicles, IT Hardware, IT Software, and General PP&E.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

12. PCPMS is being updated on a regular basis by appropriate personnel to enable management to have the accurate value of PP&E at any time.

13. The OCFO establishes a policy for correctly capitalizing and depreciating IT Hardware and Software, using the standards required by SFFAS 6 and SFFAS 10.

14. OCFO establishes guidelines for obligating and recording capital leases at Post and Headquarters.

15. Major contracts are reviewed for capital lease agreements in order to properly disclose capital leases in the financial statements and footnotes.

16. OCFO refine the policy guidance about manual entries to include review requirements for detailed corroborating evidence, including vendor invoices, estimate calculations with source items included for reference.

17. A routine procedure is implemented for OCFO personnel to use a developed accrual worksheet/checklist to prepare the period-end accrual.

18. A procedure is developed for tracking and monitoring expenses incurred during the fiscal year, in order to estimate an accurate accrual at year end.

19. Policies and procedures are adhered to in order to monitor the activity/inactivity for Undelivered Orders.

20. System reports are utilized or developed that can be used to monitor activity/inactivity of Undelivered Orders.

21. Policies and procedures are adhered to at the Post and Headquarters regarding the disbursement cycle.

22. The OCFO team review and use the Federal and non-Federal classification functionality in Odyssey at the transaction level to ensure that the proper reporting results can be achieved and then work with the OCFO to ensure this classification procedure is included in the policies and procedures.

23. Accounting personnel are properly trained to use the classification function in Odyssey for every applicable transaction in early fiscal year 2006, previously recorded transactions and balances which have not been classified as Federal or non-Federal should be reviewed and properly classified in the system.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 3 (Material Weakness)

PEACE CORPS WAS NOT ABLE TO SUBSTANTIATE MATERIAL ACCOUNT BALANCES

Documentation to support account balances is essential to the audit process. Entities must maintain supporting documentation to validate that transactions were proper. Testing is mainly based on the support for account transactions. In FY 2004, Peace Corps was unable to provide adequate accounting records and supporting documentation for the Travel Advance beginning balance and Undelivered Orders (UDO) beginning and ending balances. Furthermore, Peace Corps expensed all PP&E in previous years and first established the asset account balance in September 2005. This precluded us from performing sufficient procedures to express an opinion on the financial statements.

As part of the FY 2005 financial statement engagement, we attempted to substantiate Peace Corps' beginning and ending balances for fiscal year 2005.

Beginning balances such as Fund Balance with Treasury and Accounts Payable did not agree to the beginning balance of the trial balance. We traced the UDO beginning balance to the trial balance, but the balance was unsupportable during the previous year's engagement. Management was unable to provide additional supporting documentation for these balances during the FY 2005 engagement. Peace Corps could also not substantiate material year end account balances, namely Fund Balance with Treasury, General PP&E, Accounts Payable and UDO. Peace Corps was not able to produce auditable subsidiary ledgers together with reconciliations, in a timely manner, for all account balances, in part because they do not have standard subsidiary ledgers identified for each line item on the financial statements.

Peace Corps was not able to locate the proper documentation supporting amounts in the subsidiary ledger for General PP&E. The Peace Corps could not produce all required UDO documentation within the agreed upon time frames.

The year end adjusting entries for Accounts Payable (which made up the majority of the account balance) and Fund Balance with Treasury could not be corroborated. Peace Corps also relied on logic formulas to record year end journal entries to manually balance the financial statements within Odyssey.

OMB Circular A-123, *Management's Responsibility for Internal Control* states:

> *Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 3 (Material Weakness), CONTINUED

OMB Circular No. A-127, *Financial Management Systems* states:

> *Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.*

SFFAS No. 10, *Accounting for Internal Use Software* states:

> *For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such as salaries of programmers, systems analysts, project managers, and administrative personnel, associated employee benefits, outside consultants' fees, rent, and supplies.*

We recommend the Director of Peace Corps ensure that:

24. Peace Corps continue to research and locate supporting documentation for the balances that are recorded in financial statements.

25. The OCFO define, and the Director approve, a policy for the approval of final disposition of any remaining unsupported balances.

26. The OCFO amend the record retention policies and procedures to allow for the timely production of adequate supporting documentation to substantiate Peace Corps financial statement account balances.

27. The OCFO use the actual contract costs to establish the external contractor portion of the internally developed software. Additionally, Peace Corps should use an estimated cost for their employees' contribution, in accordance with SFFAS No. 10. These internal costs, although estimated, are based on actual expense information, that should be clearly documented.

28. The OCFO research and correct the cause(s) for the year-end adjusting entries required to balance certain general ledger accounts.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER ITS RECONCILIATION AND FINANCIAL REPORTING PROCESSES

Peace Corps' management does not have adequate management oversight and monitoring controls to ensure the propriety of general ledger transactions, account reconciliations and adjustments entered into its accounting system and reported in the financial statements. In FY 2005, the Peace Corps continued to rely heavily on consultants to perform duties affecting financial information that are ultimately Peace Corps' responsibility. Peace Corps staff responsible for the financial statement compilation and reporting process did not have a sufficient working knowledge of (1) governmental accounting standards, (2) OMB reporting requirements, or (3) how the consultants applied these standards and requirements in the financial statement compilation, to provide sufficient oversight over the process.

Peace Corps developed and performed extensive processes (specialized Excel worksheets, data downloads and manipulations, and derived accounting adjustments) to generate financial information and Odyssey was unable to perform these functions in order to prepare perpetual financial statements and to monitor financial accounts activity. In addition, in certain instances, Peace Corps relied on logic formulas instead of sound research to record year end journal entries that were material to some accounts. This condition also existed in FY 2004. Odyssey continued to lack the capability to generate (1) financial statements, (2) data relevant to financial notes, and (3) perpetual financial statement data for management to use as monitoring mechanism throughout the fiscal year (i.e. account relationships which were out of balance and fund year imbalances).

The presentation and disclosure of Peace Corps financial results were not in accordance with OMB Circular A-136 and applicable government accounting standards. There did not appear to be effective quality control over the financial reporting process.

OMB Circular A-127, *Financial Management Systems* states:

> *The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making, (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness), CONTINUED

The Joint Financial Management Improvement Program's, *Framework for Federal Financial Management Systems* states,

> *Financial management systems must process, track, and provide accurate, timely, internally consistent, and readily accessible information on financial activity in the most cost effective and efficient manner. These systems should not only support the basic accounting functions but must also be the vehicle for integrated budget, financial and performance information that managers use to make decisions on their programs.*

OMB Circular A-123, *Management's Responsibility for Internal Control* states:

> *Managers and employees must…maintain a level of competence that allows them to accomplish their assigned duties…. Managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.*

GAO's *Standards for Internal Control in the Federal Government* states,

> *Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.*

Recommendations

We recommend the Director of Peace Corps:

29. Assesses and takes the necessary actions to ensure the staff assigned to the financial statement compilation and reporting process have or are capable of having a sufficient working knowledge of (1) governmental accounting standards, (2) OMB reporting requirements, and (3) how these standards and requirements should be applied in the financial statement compilation, to provide sufficient oversight over the process and take appropriate corrective action (i.e. provide training, re-assignments).

30. Completes the development of, approve and implement policies, procedures and guidance to be followed for financial statement compilation and reporting. This

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness), CONTINUED

should include: (1) the establishment of a combined OCFO systems and operational team tasked to evaluate the processes used to compile the financial statements; (2) the Peace Corps staff gaining an understanding of the Peace Corps Financial Statement Generator (PCFSG); (3) the development of a monitoring framework to ensure the financial information is compiled in accordance with Peace Corps approved policies and procedures.

31. Ensures the OCFO establishes, documents and implements internal control and review procedures over the financial statement compilation and reporting process.

32. Ensures OCFO management review support for adequacy and completeness for deficiencies in the documentation that support the balances that make up the financial statements and ensure the deficiencies are always researched and resolved.

33. Ensures OCFO management review the support and authorize in writing all adjustments incorporated into Peace Corps' financial statements. Further, Peace Corps management should define specific procedures related to the financial statement preparation process, including preparing adequate supporting documentation for adjusting entries.

34. Finalizes and implements accounting and reporting policies and procedures throughout Peace Corps. These policies should include responsibilities and required reconciliations for each line item on the financial statements.

35. Ensures the OCFO completes a comprehensive review of each individual line item in the financial statements (including the supporting notes) against OMB guidance and governmental accounting standards to ensure the presentation and disclosure meets the federal requirements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 5 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER ITS INFORMATION SYSTEMS CONTROL ENVIRONMENT

Peace Corps made improvements within its information systems control environment during FY 2005. However, we noted the following significant internal control weaknesses related to Odyssey, the FOR Post/HQ systems and Peace Corps Overseas IT environment that present risk to financial data confidentiality, integrity, and availability. Specifically:

- The Peace Corps IT Recovery Plans had not been completed and did not reflect the current IT environment. For example, the plans did not include recovery information for the new Odyssey or FOR Post/HQ financial systems. Therefore, the Odyssey and FOR Post/HQ systems did not have a contingency plan in place. Without contingency planning in place, the risk of loss of data and operations for an unnecessary, extended period of time within Peace Corps financial systems is increased.

- The Odyssey and FOR Post/HQ systems had not been fully certified and accredited and only had an Interim Authority to Operate (IAO). Without the application-specific certification and accreditation statements, management cannot be assured that security responsibilities and controls are adequately documented, disseminated, and monitored. Additionally, proper security may not be administered over the data within the Peace Corps financial systems.

- During the last two years, the Peace Corps overseas IT budget decreased significantly. This contributed to an increased risk that security vulnerabilities and flaws will not be addressed in a manner that will minimize or prevent security risks. Furthermore, the lack of a sufficient training budget may result in employees lacking critical knowledge in the area of IT security, and increases the probability of security vulnerabilities not being addressed.

  Peace Corps overseas Posts had insufficient resources for adequate software and hardware support and security training for IT personnel. The following specific issues were noted:

  - Post anti-virus software had reached its end-of-life and was no longer supported by the vendor. However, the vendor will continue to send virus definition updates.
  - NT became fully unsupported as of December 31, 2004. Currently, the vendor is only supplying critical security fixes to the platform and most third party vendors do not support the platform for their products.
  - Post back-up software was no longer supported.
  - Post proxy server was no longer supported.
  - Budget for training, security, or otherwise, of IT personnel was currently non-existent.

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 5 (Material Weakness), CONTINUED

- The Overseas Post Microsoft® Small Business Server (SBS) and workstations had vulnerabilities that were mainly due to non-current system and security patches. The SBS server was open to exploitable vulnerabilities that could have an adverse affect on Peace Corps data.

- Peace Corps was sharing and exchanging information maintained within the Odyssey financial system with external entities without a Memorandum of Understanding (MOU) stating the terms and conditions as to how the data may be used by each entity.

- Peace Corps did not currently have a finalized Continuity of Operations Plan (COOP). Without having a COOP, Peace Corps cannot fully ensure the essential Agency functions are able to continue in the event of a major disruption to its operations.

- Peace Corps was not adequately monitoring the activities of Odyssey system programmers to ensure proper accountability.

- Peace Corps had not developed test plan standards for all levels of testing for proposed Odyssey system configuration changes. Test plans help to ensure all critical scenarios of a new implementation or change have been adequately tested and define the responsibilities for each party, such as users, system analysts, programmers, and quality control.

OMB Circular A-130, *Management of Federal Information Resources*, *Appendix III*, requires systems and applications used by an agency to operate effectively and provide appropriate confidentiality, integrity, and availability, through the use of cost-effective management, personnel, operational, and technical controls.

OMB Circular A-130 also requires agencies to implement and maintain contingency planning as a requirement of a security program. OMB requires agencies to establish and periodically test the capability to continue providing service within a system based upon the needs and priorities of the participants of the system.

Additionally, NIST 800-18, *Guide for Developing Security Plans for IT Systems*, requires a contingency plan to be in place prior to authorizing a system for processing. Procedures are required to be in place that will permit the organization to continue essential functions if information technology support is interrupted. These procedures (contingency plans and disaster recovery plans) should be coordinated with the backup, contingency, and recovery plans of any general support systems, including networks used by financial applications.

The Peace Corps MS 542, *Peace Corps IT Security Policies and Procedures*, states the following regarding the Certification and Accreditation of an information system:

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 5 (Material Weakness), CONTINUED

> *An agency computer or network system that contains sensitive information shall not be put into operation unless it has conditional or unconditional certification and accreditation, or has been granted an Interim Authority to Operate (IAO) or a waiver.*

OMB Circular A-130, *Appendix III*, also states the following regarding accreditation of information systems:

> *Security accreditation provides a form of quality control and challenges managers and technical staffs at all levels to implement the most effective security controls possible in an information system, give mission requirements, technical, operational and cost/schedule constraints. By accreditation of an information system, an agency official accepts responsibility for the security of the system and is fully accountable for any adverse impacts to the agency if a breach of security occurs. Thus, responsibility and accountability are core principles that characterize security accreditation.*

The Peace Corps MS 542, *Peace Corps IT Security Policies and Procedures*, states the following regarding Memorandum of Understanding's (MOU):

> *No Peace Corps computer or network shall be connected to, or have the capacity to be directly connected to, any non-Peace Corps organization, unless the organization has the following security measures in place: MOU that sets out the terms, configurations and dates when the connections and the security safeguards will be in place.*

Executive Order 12656 [Section 202], *Assignment of Emergency Preparedness Responsibilities*, requires that the head of each Federal department and agency shall ensure the continuity of essential functions in any national security emergency by providing for: succession to office and emergency delegation of authority in accordance with applicable law; safekeeping of essential resources, facilities, and records; and establishment of emergency operating capabilities during a national emergency.

Presidential Decision Directive 67, *Enduring Constitutional Government and Continuity of Government Operations*, requires Federal agencies to develop continuity of operations plans for essential operations. The plans identify those requirements necessary to support the primary function, such as emergency communications, establishing a chain of command, and delegation of authority during a national emergency.

OMB Circular A-130, *Appendix III*, also states the following regarding system accountability:

> *Incorporate controls such as separation of duties, least privilege and individual accountability into the application and application rules as*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 5 (Material Weakness), CONTINUED

> *appropriate. In cases where such controls cannot adequately protect the application or information in it, screen individuals commensurate with the risk and magnitude of the harm they could cause. Such screening shall be done prior to the individuals' being authorized to access the application and periodically thereafter.*

The Peace Corps MS 542, *Peace Corps IT Security Policies and Procedures*, states the following regarding system developer responsibilities:

> *System designers/developers shall provide test procedures for the installations of new software or configurations.*

Recommendations

We recommend the Peace Corps Director ensures that:

36. The Contingency Plan for Odyssey and FOR Post/HQ is completed and tested at least annually or as soon as possible after any significant interim change is made to the operating environment.

37. Full certification and accreditation for the Peace Corps Odyssey and FOR Post/HQ systems is completed in accordance with Peace Corps policy and OMB Circular A-130 guidance.

38. A program is developed by Peace Corps Headquarters for distributing patch updates to the Posts in a timely manner and the deployment of the overseas software refresh is completed for all posts.

39. A MOU is in place for each entity/agency system that shares information with Odyssey. The MOU should be signed and authorized by appropriate management officials and should have all necessary information specified.

40. An Agency COOP is developed and periodically tested to ensure its effectiveness in providing business continuity in the case of an interruption or disaster.

41. System programmers' activities are monitored by periodically reviewing system logs for inappropriate activity.

42. Test plan standards are developed for each level of testing performed for Odyssey system changes.

UK &W Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Director
Peace Corps

Office of Inspector General
Peace Corps

We were engaged to audit the financial statements of the Peace Corps, an independent executive branch agency of the United States federal government, as of and for the year ended September 30, 2005, and have issued our report thereon, dated November 8, 2005, in which we disclaimed an opinion on those financial statements for the reasons noted in that report.

The management of Peace Corps is responsible for complying with laws, regulations, and provisions of contracts and grants applicable to Peace Corps. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Peace Corps' compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, and provisions of contracts and grants applicable to Peace Corps.

The results of our tests of compliance with certain provisions of laws, regulations, contracts and grants described in the preceding paragraph exclusive of FFMIA disclosed an instance of noncompliance with the following law that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

> The Peace Corps is not in compliance with the Federal Managers' Financial Integrity Act (FMFIA), which requires the agency head to annually evaluate and report on the agency's management control and financial systems. The Peace Corps has not established a formal process for evaluating its management and financial controls.

Under FFMIA, we are required to report whether Peace Corps' financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED

The results of our tests disclosed instances, described below, where Peace Corps' financial management systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the USSGL at the transaction level. The Director of Peace Corps is responsible for Peace Corps' financial management systems.

> Peace Corps' financial management system did not have adequate internal controls over contingency plans and data transmission and was not fully certified and accredited. The system also lacks functionality to support timely and effective reconciliation and review at the transaction level. The financial management system is not being used to properly identify intragovernmental and governmental transactions. Peace Corps has also identified deficiencies within the system's transaction posting logic.

Specific conditions and recommended remedial actions attributable to these instances of noncompliance are more fully described in our Independent Auditor's Report on Internal Control, dated November 8, 2005.

Providing an opinion on compliance with certain provisions of laws, regulations, contracts and grants was not an objective of our engagement and, accordingly, we do not express such an opinion.

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

Urbach Kahn & Werlin LLP

Washington, DC
November 8, 2005

To: Gaddi Vasquez, Director

From: Allan R. Gall, Acting Inspector General

Date: October 12, 2005

Subject: Management Challenges for the Peace Corps in FY 2006

As required by the Reports Consolidation Act of 2000 and OMB guidance, I am pleased to submit our statement summarizing what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing the Peace Corps. We have compiled this statement based on our audit, investigative, and evaluation work and our general knowledge of the agency's operations.

In my first management challenges statement prepared last year, I postulated that the management challenges in FY 2005 and beyond would be: (a) to effect quality programming, training, and technical support for Volunteers as the agency's top priority, (b) to address residual issues in Volunteer safety and security, (c) to make hard choices between growth and quality, (d) to weigh the pull of requests for programs in countries with compelling need in which the agency is not currently working against the draw of maintaining programs in all of the currently served countries, (e) to improve the agency's budget development and implementation processes, (f) to complete the upgrades of IT systems, and (g) to move the agency's financial management from a transactional processing focus to a financial management focus. While we saw some progress in some of these areas, all of them remain in the sphere of management challenges as outlined below.

Programming: Meeting the Agency's Mission

The first of the three goals articulated in the Peace Corps Act is "…to help the peoples of such countries and areas in meeting their needs for trained manpower, particularly in meeting the basic needs of those living in the poorest areas of such countries…" The agency's challenge is to design programs that constructively engage Volunteers in meeting needs. Volunteers must be engaged in activities they are qualified or trained to perform in a structure in which their purpose in the community is clear to them and to the local people. This is the most important element in Peace Corps Volunteers' experience that contributes to their safety and security and makes their two years of service satisfying.

Because most of the Volunteers are not recruited with specialized skills, country staff must develop programs that can utilize generalist skills. To be effective, these projects require that Volunteers have concrete activities and roles and that the Peace Corps staff conduct rigorous site selection, nurture sponsoring agencies and counterparts, and provide exemplary technical training and support for Volunteers. This is challenging, staff-intensive work.

Unfortunately, we still find overseas posts that place Volunteers in projects with little structure. In these programs, Volunteers often report that their host country sponsors are unclear, uninterested, or inadequately prepared to work with them. Some Volunteers in that situation thrive and become the "super Volunteers" whose success is used to justify their program, but this is unfair to Volunteers who do not have much success in unstructured settings or, if they succeed, may do so only after many months of frustration. Others terminate their service early. Country directors, program staff, and agency management sometimes defend Volunteers' underemployment in projects by pointing to their sometimes extensive self-reported involvement in "secondary" projects. This posture acknowledges that the project and site development for which the agency pays staff was not adequately carried out.

We find that lack of meaningful work is closely linked to early termination, travel out of site, feelings of isolation, and risky behavior. Volunteers with meaningful work are more likely to stay in their communities where they are safe.[1] Staff expend considerable effort to enforce policies designed to keep Volunteers at their sites. But we find that the most important influence is not the policy and how well it is enforced. It is the self-motivation of Volunteers who feel they are making a contribution to meeting needs and are engaged with local partners in that endeavor.

The challenge for agency management is to make goal one a reality for all of its Volunteers and hold country directors accountable to place Volunteers in well-defined assignments for which the Volunteers are prepared and for which local people are expecting to work with them. Meeting the needs of local people requires a partnership with interested and supportive host country colleagues. There is no partnership when Volunteers' assignments are not obvious to the members of their community and workplace.

Training

The challenge for management in Volunteer training is in technical preparation. The majority of Volunteers report that their technical training fails to provide them with the skills[2] they need for credibility in the work they are asked to do. This is not surprising considering that the Peace Corps is recruiting mostly young people without training in the work they will be expected to carry out in their projects. The pre-service training period—typically 8 to 12 weeks—is not much time in which to teach language, culture, and technical skills. For projects in which Volunteers will be expected to use skills they arrive without, the technical training has to be exceptionally good to transfer the skills that may be needed. Programming and training need to be done each in the context of the other. The agency's challenge is to develop projects that meet the needs of the countries and can be carried out by Volunteers who can be given the skills needed in a short training period.

The agency, rightly, prides itself on its language training, and Volunteers most often give their language training high marks. But in a number of countries, the lingua franca spoken and taught to Volunteers in pre-service training is not the language used by the people the Volunteers must work with, especially in some of the programs like health education where communication is the task, but the audience is uneducated. The challenge is to identify sites early so that Volunteers can receive training in the local language of their prospective sites. Early site development is a major challenge in many countries.

1 *In our surveys and interviews, Volunteers report their site as the place where they feel safest.*

2 *Posts that have reduced pre-service training from the common standard of 12 weeks to as low as 8 weeks have increased their in-service training in length of time and in amount of time devoted to technical skill training.*

On-the-Job Technical Support

A significant challenge for the agency is to improve technical support. Volunteers report that site visits by their program managers are inadequate in number and content. This situation is exacerbated on occasions when country directors accept additional Volunteers but do not receive authority and money to increase program staff.

A further challenge that could positively impact posts' capacity to support Volunteers is reform of headquarters' program paperwork requirements to reduce their size, number, and complexity and make them easy to prepare and accurately reflect what Volunteers do. Project plans have lofty goals with extensive laundry lists of objectives and Volunteer tasks to be accomplished that do not reflect what we find in the field, do not reflect what the Volunteers are likely to undertake, and do not bear a relationship to the quality of the projects and the quality of the Volunteers' experience and contribution to their host communities. Most of the program staff are foreign nationals. English is not their first language. Sometimes the reports are rewritten by desk officers. Volunteers submit statistics they think are expected. Overseas staff sometimes "guesstimate" because the Volunteers do not submit reports. The statistics reported in status reports and the attempts at quantification are suspect at best. The narratives contain formulaic language that posts have learned will get approval from headquarters. We find the documentation required of posts—project plans, project status reports, agency initiative reports, project proposals, and trainee status reports—can be well-written without representing the programs on the ground.

We find overseas program staff stretched thin and frustrated with the time spent responding to the administrative requirements of the agency that take time away from Volunteer support, host country partner relationship-building, and site development. The challenge is to re-think how the agency can meet its reporting requirements to OMB that is less burdensome, more accurate in reflecting what is happening in the field, and is a tool the overseas posts can use to improve their programs.

Overseas program staff also feel under-appreciated and inadequately recognized. Country directors meet annually to share information and receive support and direction. Administrative officers and safety and security coordinators have meetings for similar purposes that provide them with on-the-job training. Medical staff have continuing medical education conferences to maintain their professional qualifications. The program staff, who are responsible for implementing goal one of the agency, have not had equivalent (in number and regularity) professional support/guidance/training/sharing meetings. Such meetings demonstrate the agency's commitment to them; provide recognition and support; and foster professionalism, morale, and dedication. The challenge for the agency is to fit this need into its resource allocation scheme.

Volunteer Safety and Security

In our overseas post evaluations, we find concrete evidence of the agency's efforts to strengthen the systems that support Volunteer safety and security. This is most clearly manifest in the agency's commitment of staff resources, e.g., the new position of safety and security coordinator (SSC) at each post to assist in implementing the safety and security procedures prescribed in the Peace Corps Manual. We find that most posts have expended considerable effort on the requirements of the manual. We also find, however, that some aspects of it are incompletely implemented and that the emergency action plans are almost always tested under optimum conditions. The qualifications of SSCs vary greatly. Some are highly qualified and have a professional leadership position at the post on safety and security. Others have no professional background and perform a clerical function in the compliance aspects of the manual's requirements.

The challenges for the agency with regard to Volunteer safety include:

- Assuring that the considerable resources devoted to safety and security positively affect Volunteers' safety.
- Reducing the occasional risky behavior of some Volunteers.[3]
- Accommodating the impact of increasing numbers of young females as a percentage of the Volunteers in the field.
- Reducing the hazards for Volunteers during in-country travel.
- Improving the safety of Volunteers in capital cities when visiting the Peace Corps office or if assigned to work in a capital city.[4]
- Finding a resolution to providing legal support for Volunteers who are victims of violent crimes.

Money as a Program Challenge

An increasing challenge is for programs to plan for the fact that non-Peace Corps money is progressively more available to Volunteers for projects, and Volunteers are taking advantage of this. Some of the money is available through other donor agencies in the countries where Volunteers work, and some is available through the Peace Corps as small project assistance (SPA) funds from USAID, the ambassador's fund, funds raised by Volunteers' friends and family, and funds raised from private corporations. In some countries and in some projects, this leads to an expectation that Volunteers will be a source of funds. This is particularly a problem for Volunteers assigned to assist local, nongovernment organizations that depend exclusively on foreign sources for funding. Volunteers feel pressured to be fund-raisers—which may be fine if that is understood by everyone up front—but is a problem when the Volunteers find this out only after arriving at site, sometimes after being assured that they will not be expected to raise money. The programming challenge to Peace Corps staff is to confront the phenomenon of donor money as it develops programs and designs training. It needs to be part of the plan, not a revelation to the Volunteer once at site.

Managing Resources from Other Agencies: The President's Emergency Plan for AIDS Relief (Emergency Plan)

A new challenge for the agency is the use of the funds the agency receives under the Emergency Plan. The Emergency Plan funding is made available to participating U.S. government agencies, of which the Peace Corps is one, through a planning process managed by the ambassador in each country for which funding is being made available. For FY 2004, six countries in which the Peace Corps has programs were eligible for the Emergency Plan funds. The planning process resulted in a country operating plan (COP) that defined the purposes for which the money would be used by each participating agency and the amount. The Peace Corps country director in each of the participating countries was a member of the team to develop the COP. We audited the Emergency Plan expenditures in four of the six Peace Corps countries that received funds in FY 2004. We found that the country directors had been given little guidance from the agency on purposes for which they might propose funding in the COP negotiations. We found no oversight of how the funds were spent. And in two countries, we found significant amounts of the funds spent for purposes not specified in the COP. Oversight of the agency's participation in the Emergency Plan and of the expenditure of Emergency Plan funds is a management challenge for the agency.

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3 The most common problems reported by Volunteers of their peers are alcohol abuse, promiscuous sexual behavior, and some drug use. The comfort level that Volunteers come to feel in the local language and culture can lead them to disregard precautions they have been trained to take. Many of the incidents of harm to Volunteers are associated with risky behavior.

4 We consistently advise against the assignment of Volunteers to capital cities.

Leadership and Management

Our program reviews suggest that the biggest challenge for country directors is program leadership—serious time spent on program development, on assuring that Volunteers are arriving to assignments that are real and will challenge them to use their talents for significant hours per week. This is hard work. No one receives training in this. No one has a degree in this. Few people have relevant experience. Even country directors who were once Volunteers may not have had a Volunteer experience that is applicable to the situation today in the country to which they are posted. In some cases, their Volunteer experience may be a hindrance if they perceive their experience to be transferable to others. A new country director will not likely hear from the staff that a program is weak. What has been done is what the local staff know how to do and feel is expected of them. The challenge for all country directors is to concentrate on what the Volunteers are doing, how they are prepared to do it, and how they are supported in doing it. The challenge is to get this message out as the agency's principal management task, to support country directors in doing it, and to hold country directors accountable.

This administration began with two challenges: one from the President to increase the number of Volunteers in the field, and one from GAO to focus on Volunteer safety and security. The agency has met the first challenge and put significant resources into demonstrating its commitment to meeting the second. The new challenges are more difficult. On the safety and security front, procedures and manual sections are in place, safety and security staff are in place, and the message that safety and security is the agency's top priority is in place. The challenge now is to put programs in place that keep Volunteers safe by engaging them in their work. This will require more staff devoted to program development, site development, Volunteer technical training, and Volunteer field support. This will require a message from headquarters to country directors that this is their principal task, not because it is more important than safety and security but because it is fundamental to safety and security. This challenge will be difficult to meet with the number of program support staff currently on board overseas. Absent a significant increase in appropriations, hiring more local program staff will require at least a moderate realignment of resources.

Budget Development and Budget Execution

Management responded—at considerable cost—to a GAO report, which concluded that the agency did not have adequate systems in place to assure the safety and security of Volunteers. The agency created new positions throughout the agency, including a new associate director's office for safety and security, a safety and security coordinator in every post overseas (70+), and regional safety and security coordinators at headquarters and in nine geographic areas overseas. In addition, the emphasis on e-government in all federal agencies over the past half decade has presented significant new costs for systems and security. New legislative requirements for information technology security and fiscal accounting discussed later in this document are also new draws on agency resources. Finally, costs for operations in many of the agency's 70+ programs overseas have been affected by a weak dollar.

The agency's commitment to growth in this environment of only moderate increases in appropriations and new outlays has created a taut budget environment. There are signs in some of the 70+ programs overseas that belts have been tightened too severely. In our assessments of overseas posts, we find even routine operating expenditures being delayed or cut, and requests to headquarters for unanticipated costs—or even costs associated with increased numbers of Volunteers in the field—being rejected.

A tight budget increases the challenge to develop an accurate budget, to distribute resources effectively, to monitor expenditures carefully, to make adjustments as needed, and, in particular, to do these things through transparent and user-friendly processes. The analysis of needs also requires the scrutiny that transparency fosters. The assessment of across-the-board cuts as a tool for managing tight resources disproportionately hurts some operations, particularly small overseas posts and posts with a history of submitting trim budgets. Recent history suggests that the FY 2006 appropriation will fall short of the President's request, increasing the urgency to make the budget development and execution processes transparent and user friendly.

A concomitant challenge exists to institute improved procedures for monitoring expenditures. The existing controls sometimes do not flag obvious questionable payments by overseas posts. Overseas, we regularly find cashiers and alternate cashiers who have not taken or not passed the cashier's exam, and administrative officers responsible to oversee cashier operations who have not taken the cashier supervisor exam. In addition, the agency's big dollar expenditures require analysis for savings.

Information Technology

The Peace Corps has continued to make some progress on the improvement of its information technology architecture and security management. This year, the agency began to roll out a new information technology architecture at the agency's 70+ overseas posts. In addition, the agency continued with its investment review board which was reconstituted in FY 2004 to review major information technology projects. However, a number of challenges noted last year still need to be addressed, most notably:

- Many of the agency's information systems have not received their final certifications and accreditations for use.
- System life cycle development and change management practices have not yet been fully institutionalized.
- Business continuity contingency planning and testing, while ongoing, has not reached the level where all the agency's critical activities could be recovered during a major disruption.
- Management controls and funding need to be in place to provide annual information technology security awareness training to all agency personnel, especially those employees with significant security responsibilities.

Financial Management

As noted in our FY 2004 management challenges, one of the biggest challenges the agency's financial management team would face in FY 2005 would be the transition from a transactional processing focus to a financial management focus. This transition is a significant cultural change for the agency and additional progress has been made towards this objective. For example:

- Agency financial personnel are more familiar with, and capable in, the use of the new financial accounting system's capabilities.
- Agency financial personnel are more cognizant and receptive of requirements to appropriately justify and document the basis for financial transactions.
- Significant improvements were made over last year in generating and reconciling subsidiary ledgers to the general ledger accounts and in the reconciliation of fund balances in the agency's records with those recorded by the U.S. Treasury.
- The Director approved an interim reorganization of the Office of the Chief Financial Officer in September 2005. This interim reorganization was designed to further streamline the roles and responsibilities of the financial management team in order to facilitate proper accounting and reporting practices. While we believe this is a significant step forward, additional alignment of staff skills to work responsibilities needs to be considered in FY 2006.

The agency continues to face the challenge of hiring and retaining personnel with the appropriate skills and experience in the areas of financial operations and financial management. In our opinion, little progress has been made to develop a comprehensive strategy to hire experienced staff, reduce staff turnover, or mitigate the effects of staff turnover that occurs in the financial operations. Staff turnover will continue to negatively affect the agency's ability to implement sound financial management.

Additionally, the agency continues to face significant challenges over the process of preparing and presenting the financial results of the agency. These challenges include:

- Setting policies and procedures in place that enable the staff to systematically manage the financial reporting process.
- Strengthening internal controls to ensure the integrity of the data processed and reported.
- Developing additional reporting tools that facilitate financial management and reporting.
- Staffing the responsible units with personnel who have in-depth knowledge of federal accounting and federal accounting standards to oversee the compilation and presentation of the agency's financial statements.

Overall, the agency needs to make significant changes to manage the financial reporting process throughout the year via a comprehensive approach that ensures accounting standards are followed throughout the quarterly and year-end financial statement reporting process.

FECA Costs

Over the past year, we have begun to review the agency's FECA caseload. The Peace Corps has the highest FECA costs of any federal agency as a percentage of its budget. The agency has already responded to the challenge by increasing its scrutiny of claims when first presented. This is the primary point at which due diligence can pay dividends. Also, the agency's Office of Medical Services has collaborated with us in reviewing case files for potential fraud. These are important first steps. A major challenge for the agency that comes out of this work is to consider the impact on the application process. When an applicant is accepted with a medical condition such as an emotional, back, neck, limb, or joint problem that does not preclude service, the potential for that medical condition to be exacerbated by two years of Volunteer service is high.

Conclusion

While some progress has been made on some of the challenges summarized above, I believe the challenge of programming, training, and technical support to Volunteers in particular remains prescient and is the bedrock challenge for the agency. This is job one.

Some positive steps were taken over the past year:

- The Director announced on several occasions that programming was to be the top priority for the agency for FY 2005.
- The Director established an "assessment team" model to review programs and address management issues.
- Programming received prominence in the agendas of the agency's conference for country directors in each of the three operational regions.
- In several countries where our program evaluations found serious weaknesses, the response by management gives us confidence that they are serious about strengthening the programs. Examples include Kiribati, the Philippines, and the Federated States of Micronesia.
- We found mostly excellent programs in the Dominican Republic, Bulgaria, Zambia, and Chad.

Nevertheless, in our program evaluations we continued to find projects for which assignments were ill defined and Volunteers and local people were unclear about what was expected. Unfortunately, in some cases, we did not find commensurate concern by management that this was unacceptable. In the Office of Inspector General, we do not expect to find perfection. What we hope to find is managers and staff who will respond vigorously to correct problems and a consistent message from headquarters regarding the priority and expectation of excellence in programming and training.

From: Gaddi H. Vasquez, Director

To: Allan R. Gall, Acting Inspector General

Date: October 26, 2005

Subject: Response to October 12, 2005 Memorandum on 'Management Challenges for the Peace Corps in FY 2006'

Thank you for your memorandum of October 12, 2005, on the management and performance challenges faced by the Peace Corps, as required by the Reports Consolidation Act of 2000 and OMB guidance.

As the Office of the Inspector General carries out its purpose of preventing and detecting fraud, waste, abuse, and mismanagement and promoting economy, effectiveness, and efficiency in government, the agency continues its commitment to resolve outstanding issues and recommendations from the Inspector General's office.

The Inspector General's memo highlights numerous areas of challenge for the agency as it continues to strive for excellence in an ever-changing world environment. While the Inspector General's letter brings forward various important issues for discussion, the agency also recognizes that significant progress has been made in the past year.

I would like to take this opportunity to address the broad issues raised in the Inspector General's letter.

Overall Budget

In FY 2005, the Peace Corps reached a historic high of 7,810 Volunteers serving in the field. This achievement is a result of previous years' work to recruit, train, and place Volunteers in the field. While the Peace Corps has received budget increases that have made growth possible, the annual appropriations amounts have been significantly less than the President's request levels that called for more aggressive growth. Thus, the agency has adjusted its strategic planning accordingly and adopted a model of gradual expansion to 8,000 Volunteers by FY 2008.

As posts look to expand, the Peace Corps uses an integrated planning and budget system (IPBS) process to outline the appropriate staff levels necessary to provide a quality experience for an increased number of Volunteers. Each post's IPBS plan is generated in the field, receives careful review at headquarters, and takes growth and staffing needs into account. As Volunteer levels have increased, the budget amounts going to support direct Volunteer operations overseas have increased, from $207 million in FY 2002 to $250 million in FY 2005—a 20.8 percent increase; while annual appropriations increased 15.3 percent, from $275 million in FY 2002 to $317 million in FY 2005. The Peace Corps remains committed to ensuring a quality Volunteer experience and providing the support necessary to achieve expansion in an appropriate manner.

Programming

A key component of placing Volunteers overseas is to ensure that they have a well-designed job with host country support. The agency concurs that programming is an essential component of a positive Volunteer experience, and good site development, a Volunteer's self-motivation, and involvement in the community are key factors that contribute to a Volunteer staying safely at his or her site. As the letter indicates in its conclusion, the agency has taken many positive steps in the past year to strengthen programming across the board and with more intense efforts in countries of specific need. One such example is the new management assessment team that I established, which operates on a proactive basis to help strengthen posts' operations and to help them address a wide variety of challenges at post.

Staff development is important for all staff, including programming staff. While training for program managers may more frequently be topic-oriented, such as grief and loss HIV/AIDS training, or sub-regional programming and training instead of an annual conference like those for country directors and administrative officers, all three regions report regular training meetings for program staff. Additionally, the agency allocated extra resources from reserves to bring additional programming staff to overseas staff training at headquarters.

Training for Volunteers

As noted last year, the agency does not accept the shortening of pre-service training (PST) or in-service training (IST) for budgetary reasons. In following up on this serious matter, the agency provided over $800,000 in additional resources to ensure that Volunteers received the full complement of pre-service and in-service training.

While PST must include a host of topics, including safety, culture, language, and technical topics, IST is also seen as an important time period in which to hone technical skills.

After a brief period of adjustment and information-gathering at site, Volunteers come together for an in-service training when they receive an extended amount of technical training after gaining a context to which the training will apply. The Peace Corps will continue to emphasize the importance of equipping Volunteers with effective training throughout their terms of service in the most efficient and effective way possible. The agency recognizes this area as a challenge for the future as 43 percent of Volunteers identified technical training as an area of greater need in PST, and 36 percent said IST technical training was too short.

Volunteer Support: Site Visits

The Peace Corps formalized its worldwide guidance in 2004 that recommends a minimum of two site visits during the first year (including one visit within the first three months) and one visit during the second year. In addition to these minimum guidelines, each post develops country-specific standards on the timing and frequency of site visits that reflects the location and placement of each Volunteer in-country. While the program managers who oversee individual Volunteer programming may have the most regular contact, Volunteers may also be visited by Peace Corps medical officers (PCMOs), safety and security coordinators (SSCs), or the country director. Overall, the Peace Corps has guidance in place to promote frequent visits and contact with Volunteers, recognizing that each country must establish its own schedule, reflecting the geography and infrastructure of the country.

According to recent biennial Peace Corps Volunteer survey, 82 percent of Volunteers reported they felt they received an adequate frequency of site visits by program staff. This survey also indicated that 95 percent of Volunteers serving a year or longer reported that they had already received one or more site visits by the program staff member—while nearly 70 percent report two or more visits, and nearly half were visited by the country director. The same survey also indicates that nearly 78 percent of the Volunteers felt these visits by program staff included content deemed adequate or more than adequate. However, from another perspective, 22 percent of Volunteers reported that they felt their visits with program managers were inadequate. The agency agrees that this represents a challenge and is committed to improving both the quantity and the quality of site visits.

Early Termination (ET) Rates

While the most frequently cited reason for early termination is pursuing other career opportunities, the death or illness of a close friend or family member and health concerns are cited more frequently than a poorly defined assignment.

The historical ET rate since 1961 has been on a downward trend. The current ET rate of 11.7 percent is still well below the last high (20.5 percent in 1970) as well as the historical average ET rate of 13.3 percent. The Peace Corps has made significant inroads in expanding data collection on the reasons behind early termination of Volunteers by developing a new survey instrument. The ET data initiative has expanded the reporting categories from 6 to 51 reasons for resignation in order to gain more accurate data. The data are compiled into a report that is produced quarterly, the results of which are used to inform policymakers. Overall, this information provides feedback to the posts and headquarters about the reasons behind the ET rate, and has been helpful in analyzing the issue.

Agency Administrative Requirements

The agency is currently addressing the issue of streamlining reporting requirements to enhance efficiencies. One way in which this is being addressed is through an IPBS re-engineering process to ensure that strategic thinking is integrated with well-managed, performance-based budgets that take advantage of the new financial management system and the real-time budget review it offers. Another goal of re-engineering is to streamline information requested from posts into one coherent and useful document, taking into account requirements for agency submissions such as the Performance and Accountability Report, the President's Management Agenda initiatives, the Congressional Budget Justification, and the Performance and Accountability Rating Tool. The work of the enterprise architecture team to map out agency structures and information-gathering needs interfaces well with the re-engineering process. The outcome should help streamline posts' reporting requirements and alleviate time-consuming staff work. The agency will continue to address this challenge.

Volunteer Safety and Security

The agency standardized the safety and security coordinators' job descriptions in the spring of 2005. With the positions and uniform job descriptions finalized at every Peace Corps post, the Office of Safety and Security continues to provide sub-regional training workshops to all SSCs at least every two years. By the end of fiscal year 2005, all SSCs were trained by regionally based Peace Corps safety and security officers in emergency action plan procedures, incident reporting, Volunteer safety risk factors, and tactics for training Volunteers on sound safety practices. These workshops facilitated the uniform communication of safety and security information to all posts, while also ensuring that safety and security policies and training curricula were current. The workshops were also an excellent forum for all SSCs within a sub-region to collaborate on best practices and for newly hired SSCs to understand their roles and develop work plans. The Peace Corps continues to recognize the important challenge of ensuring the safety and security of the Volunteers.

The Peace Corps has been working to strengthen its Volunteer support to minimize high-risk behaviors. In addition, the agency has interviewed overseas PCMOs about Volunteer high-risk behavior and potential underlying causes. This has led to the development of pre-service training modules focusing on managing adjustment, loneliness, and personal responsibilities. The Peace Corps began conducting Volunteer in-service and staff training on alcohol use in Central Asia and expanded the training to other countries. The agency has also been strengthening its in-country Volunteer support committees. The continuing medical education programs worldwide have focused on mental health and adjustment issues and extensive reference materials were prepared for PCMO use in-country.

Money as a Program Challenge

The agency agrees that this issue is a challenge and is working with posts to better prepare Volunteers as they encounter such pressures at their sites.

Managing Resources from Other Agencies: President's Emergency Plan for AIDS Relief

The agency has a clear responsibility to ensure that its efforts under the President's Emergency Plan for AIDS Relief (Emergency Plan) fall within all appropriate policies and guidance from the U.S. Office of the Global AIDS Coordinator (OGAC). At the same time, the agency recognizes that the emergency nature of the program creates challenges for Peace Corps posts in the field. In FY 2005, the agency established a new global AIDS office within the Office of the Director. This new office will provide agency-level policy; overall leadership; and general supervision, direction, and coordination of all domestic and foreign HIV/AIDS activities relating to the programs (including training) and operations of the Peace Corps. This office will identify and establish attainable goals with a clear framework of accountability, fortifying the agency's ability to measure and report its successes in the fight against HIV/AIDS.

The establishment of this office reflects the strong commitment of the Peace Corps to be an active and effective partner in the global fight against the AIDS pandemic. It is the first of many steps the Peace Corps will take to enhance and sustain our involvement in this critical issue over the long term. Through the end of FY 2004, 40 percent of the Volunteers worldwide worked on HIV/AIDS activities, reflecting the great importance the agency places on this issue.

In FY 2005, leading up to the creation of this office, the agency issued Emergency Plan guidance to all involved posts, including specific guidance for budget and acquisition issues. The agency takes these matters seriously and will work vigorously to ensure the highest standards are met. During the past year, the agency included Emergency Plan training for newly selected country directors and administration officers at their overseas staff training programs. Also, during a meeting in Ethiopia (May 2005), ten country directors and other post representatives met with headquarters staff several times over a four-day period to discuss and address many of the same issues raised in the IG's letter.

Budget Development and Execution

The letter notes that the agency has had to expend considerable resources in complying with federal mandates regarding information technology security and fiscal accounting, as well as the weak dollar. The agency has had to use its resources wisely as it balances the current mandates with its on-the-ground programs. During FY 2005, the agency provided an additional $5 million to the three regions above their operating budgets for costs related to increased trainee inputs, plus an additional $400,000 for hiring field staff to support posts. An additional $390,000 was provided for post infrastructure improvements and equipment. At the same time, the agency recognizes the challenge of carefully and prudently managing resources in relation to its mission, and will continue its efforts to maintain an appropriate balance that emphasizes overall Volunteer support.

Information Technology and Financial Management

The agency appreciates the acknowledgement of significant steps that have been taken in the fields of information technology and financial management. While much progress has been made, the agency recognizes that some challenges are still in the process of being addressed.

FECA Costs

The agency is pleased that it was able to partner with the Office of the Inspector General in reviewing case files that relate to the Federal Employees' Compensation Act (FECA) for potential fraud. The high level of FECA costs is caused, in part, by the nature of the work of Peace Corps Volunteers, their living conditions overseas, and the 24-hours-a-day, seven-days-a-week assignment. Nonetheless, the agency is committed to ensuring that it is appropriately addressing claims. In fact, with due diligence and collaboration between the IG and the Office of Medical Services, the agency was able to identify erroneous charges from the Department of Labor. The agency also approved additional resources for a new staff person in OMS to focus on FECA issues.

The agency's medical clearance process is very rigorous and thoroughly scrutinizes the medical history of each applicant. In FY 2005, the agency initiated and completed an extensive review of the extent of medical accommodations and their impact on operations in the field. The results indicated that such Volunteers require the same levels of support as other Volunteers. The accommodated Volunteer accounts for the same ratio of support (i.e., time burden on staff at post and on post's financial resources) as the non-accommodated Volunteer.

Conclusion

The agency is committed to addressing the challenges of operating in the 21st century and is pleased to continue to provide Volunteers with a quality experience of service throughout the world.

OTHER REPORTS

Reports under the Peace Corps Act

Peace Corps provides the President with a report on operations under the Peace Corps Act, which is transmitted to Congress, at least once in each fiscal year. Each report contains information describing efforts undertaken to improve the coordination of activities of the agency with activities of international voluntary service organizations, such as the United Nations volunteer program, and of host country voluntary service organizations, including:

- A description of the purpose and scope of any development project that the Peace Corps undertook during the preceding fiscal year as a joint venture with any such international or host country voluntary service organization; and
- Recommendations to improve coordination of development projects between the Peace Corps and any such international or host country service organization.

The President shall also include in this report a description of any plans to carry out the policy set forth in section 2(b) of this act [22 USCS § 2501(b)].

Semi-Annual Reports

The Peace Corps provides a semi-annual report to Congress (IG Report). These cover the periods October 1 to March 31 and April 1 to September 30; and they are due to Congress by May 31 and November 30 of each year, respectively.

Congressional Budget Justification

The Peace Corps also submits a Congressional Budget Justification (CBJ) to Congress each year that is due by March 1.

APPENDICES

CURRENT STATUS OF PRIOR AUDIT RECOMMENDATIONS DIRECTLY INVOLVING FINANCIAL PROCESSES

Policy and Procedures (High Risk)

- Source: FY 2004 audit (Notice of Finding [NoF]-03,04,05,07 and 09-FIN-2004).
- Weakness: Some processes are not included in Peace Corps documentation (e.g., *Peace Corps Manual*, *Overseas Financial Management Handbook* (*OFMH*)) and others need to be updated and/or revised.
- Progress: A series of interim polices and/or procedures were disseminated via CFO Bulletins and CFO Policy Statements, both FY 2005 innovations. An extensive revision to the *OFMH* was published in April 2005 to update those processes impacted by the deployment of the Financial Operations Room for Post (FOR Post) system.
- Remaining Effort: Validate the effectiveness of the interim policies and/or procedures and revise the applicable manual sections and other publications.
- Time Frame: Ongoing; projected completion date of June 2007.
- Impediments: N/A.

Property, Plant and Equipment (PP&E) (High Risk)

- Source: FY 2004 audit (NoF-04-FIN-2004)
- Weakness: Formal accounting records and financial statements do not include any values for PP&E.
- Progress: The September 30, 2005, financial statements contain values for PP&E and their corresponding accumulated depreciation/ amortization. The values were obtained from the property accounting system maintained by the Office of the Director for Management or the best available data for internally developed software.
- Remaining Effort:
  1. Reconcile Odyssey Object Class Code 31 (acquisition of asset) expenditures to additions to the property accounting system records.
  2. Reconcile deletions from the property accounting system records to collections from Proceeds of Sales.
  3. Compute and record gains or losses on disposition.
  4. Implement a fixed asset module.
  5. Determine and implement a standard methodology for costing internally developed software and apply that methodology to recalculate the capitalized value of Odyssey/FOR Post.
- Time Frames: (1) March 2006; (2)/ (3) June 2006; (4) TBD and (5) January 2006.
- Impediments: The Oracle Fixed Asset Module does not provide the level of detail necessary for property management.

Financial Reconciliation (High Risk)

- Source: FY 2004 audit (NoF-09-FIN-2004) and FY 2005 agreed upon procedures (AUP)
- Weakness: A number of general ledger accounts (GLACs) are not supported by subsidiary ledgers and were not reconciled. The lack of formal procedural guidance is discussed under "Policy and Procedures."
- Progress: Subsidiary ledgers are produced each month for most applicable balance sheet and budgetary GLACs and high-level reconciliations are performed by financial systems personnel until the process is stabilized and fully documented. A "Report Matrix for Support of Standard General Ledger Accounts" showing the relationship between subsidiary ledger report and GLAC and some procedures has been prepared.

- Remaining Effort:
    1. Produce subsidiary ledgers (or comparable reports) for the remaining accounts and perform monthly reconciliations.
    2. Document the remaining reconciliation processes and transfer the reconciliation function to the Accounting and Reporting Directorate on a staggered basis.
- Time Frames:
    1. March 2006.
    2. Commence in December 2005 and complete by September 2007.
- Impediments: Obtaining the resources to staff this function and provide the requisite training.

FOR Post/Odyssey Reconciliation (High Risk)

- Source: FY 2004 audit (NoF-08-FIN-2004)
- Weakness: Posts are not validating changes made to FOR Post transactions transmitted to Odyssey.
- Progress: Specific guidance is contained in the Overseas Financial Management Handbook.
- Remaining Effort: Send an e-mail to Administrative Officers:
    1. Requesting their assurance that the validations are performed after every sync with Headquarters.
    2. Inquiring if they need any additional guidance.
- Time Frame: November 2005
- Impediments: N/A

Cash and Check Handling Procedure (High Risk)

- Source: FY 2004 audit (NoF-08-FIN-2004)
- Weakness: Posts inconsistently accounted for checks (prepayments to Volunteers) and cash received from the U.S. State Department and Peace Corps Headquarters. This resulted in unreliable financial statement values.
- Progress: Management does not agree:
- Post Cashier Funds belong to the US Treasury through the State Department's accountability. Peace Corps will only account for and report the transactions that affect Peace Corps accounts.
- Checks on Hand, created but not delivered, are not a liability of Peace Corps because payment action is complete and confirmed. These checks on hand are an outstanding liability to the US Treasury who will make good on the check in the event of loss or cancellation. The checks are a physical control issue for Peace Corps until delivered. Posts are responsible to document receipt, inventory and delivery which are an internal control issue.
- Property/Cash held for Volunteers is only a possible and not probable liability. Therefore, it will be identified as an unfunded contingent liability in the footnotes to the financial statements.
- Remaining Effort: Review procedures for effectiveness and applicability and determine if additional action is required.
- Time Frame: October 2006
- Impediments: N/A

Financial Reporting (High Risk)

- Source: FY 2004 audit (NoF-01 and 10-FIN-2004)
- Weakness: Peace Corps personnel were not sufficiently involved in the reporting, reconciliation, and general ledger automated adjustment processes and relied on an external consultant to perform these functions, with minimal in-house understanding of these processes. Financial reports were not prepared directly from the general ledger.
- Progress: The Director for Performance Reporting and Compliance, a position created in August 2005, is responsible for preparing financial statements and works closely with the external consultant. Material adjustments are approved by senior OCFO managers.

- Remaining Effort:
    1. Fully document the reconciliation and adjustment processes (to include the logic governing the adjustment software).
    2. Ensure staff performing compilation and review functions have the sufficient working knowledge of applicable accounting standards and compilation methodologies.
    3. Assess the capability of Odyssey to produce the financial statements directly from the GL.
- Time Frames: (1) June 2006; (2) June 2006; and (3) March 2006.
- Impediments: Attract, recruit and retain qualified staff.

Supporting Documentation (High Risk)

- Source: FY 2004 audit (NoF-03 and 06-FIN-2004) and FY 2005 AUP
- Weakness: The majority of FY 2004 opening balances and a significant number of ending balances were not adequately supported. There is no policy on dealing with the disposition of those balances for which no supporting documentation is identified. Responsibilities for reconciling with and maintaining supporting documentation were nonexistent or lacked specificity. Far too many supporting documents (10 percent to 15 percent) could not be located or were not in agreement with recorded values.
- Progress: OCFO continues to review affected account balances. Responsible positions are being identified for timely reconciliation and maintenance of supporting documentation.
- Remaining Effort:
    1. Fully document the criteria for each type of supporting documentation and related responsibilities for and periods of their retention.
    2. Assess retention policies, filing systems and the need for a custodian of records.
    3. Determine the feasibility of imaging all documents.
- Time Frames: (1) December 2005; (2) and (3) March 2006.
- Impediments: Resources required for imaging, if otherwise feasible.

Reconciliation of Fund Balance with Treasury (High Risk)

- Source: FY 2004 audit (NoF-05-FIN-2004)
- Weakness: The Odyssey system did not produce reports supporting the Statement of Transactions, with such reports required for reconciliations. The recorded balance of funds with the U.S. Treasury was not reconciled with Treasury records. Items on the Treasury Statement of Differences were not researched and resolved in a timely manner.
- Progress: A Discoverer report was developed to provide detail to produce the Statement of Transactions and then reconcile it with U.S. Treasury records. However, the report needs further improvement to include transaction details that are needed to research differences. National Finance Center transactions are reconciled on a real-time basis. Reconciliations of U.S. Department of State transactions and resolution of Statement of Differences items are more current.
- Remaining Effort:
    1. Continue to improve automated and manual reconciliations and implement a formal reporting mechanism to advise senior OCFO managers monthly of the status of these reconciliations. Incorporate a lessons-learned segment into the report.
    2. Continue to work with the posts and the U.S. Department of State regional finance centers to develop coding schemas to make the data for both systems more compatible.
- Time Frames: (1) December 2005; and (2) June 2006.
- Impediments: N/A

Distinction between Federal and Non-Federal Transactions (High Risk)

- Source: FY 2004 audit (NoF-02-FIN-2004)
- Weakness: Policies, procedures, financial systems, and, consequently, the financial statements did not make the required distinction between federal (intragovernmental) and non-federal (public) transactions.
- Progress: Successfully tested the use of trading partner (i.e., intra-governmental agencies) as the source of this data for journal entries and moved it into production in late July.
- Remaining Effort: Expand the use of trading partners to other modules so that the reportable data is provided by Odyssey; then train end users.
- Time Frame: September 2006
- Impediments: N/A

Advances/Receivables (High Risk)

- Source: FY 2004 audit (NoF-07-FIN-2004)
- Weakness: Management does not have a policy for reviewing advances and reclassifying them as receivables within a reasonable amount of time. And management does not have a policy to ensure interest is charges on delinquent indebtedness.
- Progress: In June 2005 management issued policy guidance for the monitoring and collection of outstanding advances. Additionally during all of the fiscal year 2005 special efforts were directed at validating and clearing all advances, particularly ones issued prior to fiscal year 2005. At the beginning of fiscal year 2005 these advances totaled about $468k. By the end of the fiscal year, these advances were reduced by 69% to an approximately $147k. During this 'cleanup' process advances were reclassified as receivables where appropriate. Peace Corps will begin assessing interest to its debtors with the new financial management system upgrade implementation which is scheduled for January 2006.
- Remaining Effort:
  1. Finalize the decision on waiving interest on Volunteers' indebtedness.
  2. Assessing interest on debt.
  3. Continue efforts to validate fiscal years 2000-2004 advance balances with corrections and collections.
- Time Frames: (1) December 2005; (2) January 2006; and, (3) June 2006.
- Impediments: N/A

Host Country Contributions (HCCs) (Medium Risk)

- Source: FY2004 Audit (NoF-14-FIN-2004)
- Weakness: HCCs were not captured in the financial management system and, thus, not reported in the financial statement but were referenced in the notes to the financial statements.
- Progress: Execution (obligations and disbursements) against the HCC accounts are recorded in Odyssey.
- Remaining Effort: All of the HCC accounts need to be reconciled with State Department and US Treasury to resolve the abnormal and inconsistent balances as of September 30, 2005.
- Time Frames: December 2005.
- Impediment: N/A.

Retention of Personnel (Medium Risk)

- Source: FY2004 Audit (NoF-12-FIN-2004)
- Weakness: Turnover in financial positions prevents retention of knowledge capital and limits operational efficiencies.
- Progress: The interim OCFO reorganization established managerial positions with better defined scope of responsibilities. Special effort was made to recognize deserving employees with monetary awards.

- Remaining Effort:
    1. Perform business process reviews, identify required resources and implement the rest of the OCFO reorganization.
    2. Assess the feasibility and affordability of a long term teaming relationship with a financial services contractor.
    3. Assess the feasibility of participating in the Federal Career Intern Program and/or the Career Experience Program.
- Time Frame: (1) October 2006; (2) March 2006; (3) December 2005
- Impediment: Budgetary resources for Item 2.

Purchase Cards (Medium Risk)

- Source: FY2004 Audit (NoF-15-FIN-2004)
- Weakness: Extensive manual effort is required to resolve purchase card payments rejected by Odyssey because of incorrect or understated obligations. Posts are using the purchase card to pay for travel related expenses.
- Progress: Contracting personnel emphasized appropriate card use, prohibited purchases, monetary limits and fraud in cardholder training sessions. The agency expanded the Centrally Billed Account (CBA) Travel Card to overseas posts.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Reconciliation of FSN Pay (Medium Risk)

- Source: FY2004 Audit (NoF-16-FIN-2004)
- Weakness: There is no procedure to reconcile obligated FSN pay with the actual amount paid by the Department of State.
- Progress: Ensured that posts receive monthly payroll reports from the corresponding Embassy.
- Remaining Effort:

1. Publish procedures for performing a monthly payroll reconciliation.
2. Require the quarterly submission of the reconciliations to OCFO.

- Time Frames: (1) December 2005; (2) March 2006
- Impediment: N/A

Overdue Collections (Medium Risk)

- Source: FY2004 Audit (NoF 17-FIN-2004)
- Weakness: There is no policy or procedures for dealing with overpayments resulting from extraordinary situations, e.g., overpayments of evacuation allowances. The resulting delinquent receivables were not managed in accordance with debt collection requirements.
- Progress: The indebtedness for the overpayments in question were waived with General Counsel concurrence.
- Remaining Effort: Determine if existing agency policies (which permit such waivers) need to be clarified.
- Time Frame: December 2005
- Impediment: N/A

Prompt Payment Procedures (Low Risk)

- Source: FY2004 Audit (NoF-19-FIN-2004)
- Weakness: Posts do not consistently indicate the date received on invoices to establish the Prompt Payment timeline.
- Progress: The requirement to date stamp invoices was published in CFO Bulletin 05-02 in April 2005.
- Remaining Effort: Incorporate the requirement in the OFMH.
- Time Frame: December 2005
- Impediment: N/A

CURRENT STATUS OF PRIOR YEAR AUDIT RECOMMENDATIONS NOT DIRECTLY INVOLVING FINANCIAL PROCESSES

Medical Services (Medium Risk)

- Source: FY2004 Audit (NoF-11-FIN-2004)
- Weakness: Post inventory procedures for medicines are inadequate.
- Progress: A working group has been formed to review current processes for monitoring and controlling medical supply ordering, storage, and disposal.
- Remaining Effort:
  1. Complete review and provide resulting recommendations to senior management.
  2. Incorporate approved revisions in the *Peace Corps Manual* and *Technical Guidelines*.
- Time frames: (1) March 2006; and (2) September 2006.
- Impediments: N/A

Medical Services (Medium Risk)

- Source: FY2004 Audit (NoF-11-FIN-2004)
- Weakness: The policy portions of the Medical Services Handbook need to be incorporated into the Peace Corps Manual. The latter needs to recognize the former as the official medical services procedures manual.
- Progress: The Medical Evacuation Section (MS264) has been updated.
- Remaining Effort: Publish the remaining revised portions of the Peace Corps Manual.
- Time frame: September 2006.
- Impediments: N/A

Contracting Authority (Medium Risk)

- Source: FY2004 Audit (NoF 13-FIN-2004)
- Weakness: Posts are not consistently requesting additional delegations of authority before entering into contracts over $50,000.
- Progress: Procedures were implemented to delay processing of payment requests on contracts exceeding the $50,000 limit until the required waivers are provided. The Office of Acquisition and Contract Management sent a memo to all posts detailing the policies and procedures on Country Director contracting authority and incorporated that guidance in material presented at workshops, conferences and training sessions.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Contingency Recovery Plans (High Risk)

- Source: FY2004 audit (NoF-02 and 17-IT-2003).
- Weakness: There were no contingency recovery plans for Odyssey or FOR Post/HQ.
- Progress: Plans have been drafted and recovery testing is scheduled. Conducted two successful recovery tests of Odyssey at the SunGuard site (the Peace Corps' COOP site for systems recovery).
- Remaining Effort: Finalize plans; modify the SunGuard contract to include FOR Post/HQ data.
- Time Frames: Finalize plans (January 2006) and test FOR Post/HQ recovery (May 2006)
- Impediment: N/A

Inadequate Termination Procedures (Medium Risk)

- Source: FY2004 audit (NoF-03-IT-2003)
- Weakness: The personnel tracking system (PTS) does not automatically update when an employee is terminated. PTS does not interface with Odyssey.
- Progress: Completed; the user is now automatically deactivated in Odyssey and PRISM based on deactivation in PTS.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Systems Access (Low Risk)

- Source: FY2004 audit (NoF-07-IT-2003)
- Weakness: There was no formal process (or policy/procedures) for granting user access to the FOR Post/HQ applications.
- Progress: A form was approved and is being used.
- Remaining Effort: Incorporate the use of the form in applicable policy/procedure documents.
- Time Frame: March 2006.
- Impediment: N/A

FOR Post/HQ Audit Logs (Medium Risk)

- Source: FY2004 audit (NoF-08-IT-2003)
- Weakness: There were no audit logs that were automatically generated by the FOR Post/HQ applications.
- Progress: FOR HQ auditing was enabled.
- Remaining Effort: Establish an audit review process.
- Time Frame: March 2006
- Impediment: N/A

FOR Post/HQ Data Integrity (High Risk)

- Source: FY2004 audit (NoF-09-IT-2003)
- Weakness: The FOR Post/HQ applications have inadequate data integrity validation controls in place.
- Progress: Satisfied through the implementation of FOR Post data encryption.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediments: N/A

System Development Life Cycle (SLDC) (High Risk)

- Source: FY2004 audit (NoF-10-IT-2003)
- Weakness: The SLDC methodology for FOR Post/HQ has not been finalized. Changes to the application are occurring without a formal change control process.
- Progress: Completed; there are no material differences from the agency SDLC.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

FOR Post/HQ No Contingency Plan (High Risk)

- Source: FY 2004 audit (NoF-11-IT-2003).
- Weakness: There were no contingency recovery plans for FOR Post/HQ.
- Progress: Plans have been drafted.
- Remaining Effort: Finalize plans; modify the SunGuard contract to include FOR Post/HQ data.
- Time Frames: Finalize plans (January 2006) and test FOR Post/HQ recovery (May 2006)
- Impediments: N/A

FOR Post/HQ Segregation of Duties (Medium Risk)

- Source: FY2004 audit (NoF-12-IT-2003)
- Weakness: Developers have access to the system's production environment.
- Progress: Staffing limitations necessitate that developers also provide functional support.
- Remaining Effort: Evaluate periodic monitoring of audit logs as a compensating control.
- Time Frame: December 2005
- Impediment: N/A

Odyssey Audit Logs (Medium Risk)

- Source: FY2004 audit (NoF-16-IT-2003)
- Weakness: There are no procedures to address the monitoring and review of Odyssey access logs.
- Progress: Odyssey auditing is enabled.
- Remaining Effort: Establish review procedures.
- Time Frame: December 2005
- Impediment: N/A

Overseas Small Business Server (SBS) Vulnerabilities (High Risk)

- Source: FY2004 audit (NoF-20/22-IT-2003)
- Weakness: There are vulnerabilities associated with overseas SBS and workstations that are mainly due to non-current system and security patches.
- Progress: The new Overseas Refresh is complete for the IAP Region. This new architecture will allow quarterly distribution of low priority patches and immediate distribution of critical or emergency fixes.
- Remaining Effort: Complete the Overseas Refresh for the other regions.
- Time Frame: EMA-September 2006 and AF-September 2007
- Impediment: N/A

Certification and Accreditation (High Risk)

- Source: FY 2004 audit (NoF-20 and 23-IT-2004)
- Weakness: Odyssey and FOR Post/HQ have only an interim authority to operate and have not been fully certified or accredited.
- Progress: The OCFO and the CIO IT security office staffs are coordinating efforts to identify remaining tasks.
- Remaining Effort: Complete the certification and accreditation.
- Time Frame: September 2006
- Impediment: N/A

Odyssey FTP (High Risk)

- Source: FY 2004 audit (NoF-21-IT-2004)
- Weakness: Odyssey connections with other Peace Corps systems are not encrypted. File transfer protocol (FTP) is considered an insecure data transmission protocol.
- Progress: Completed; data is now encrypted.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Funding for Posts (High Risk)

- Source: FY 2004 audit (NoF-22-IT-2004)
- Weakness: Posts have insufficient resources for adequate software/hardware support and security training for IT personnel.
- Progress: A new overseas server and workstation image release was deployed to the Inter-America and Pacific (IAP) posts.
- Remaining Effort: Deploy to remaining posts.
- Time Frame: March 2007
- Impediment: N/A

Odyssey Account Review (Medium Risk)

- Source: FY2004 audit (NoF-24-IT-2004)
- Weakness: There was no formal process (or policy/procedures) for reconciling Odyssey user accounts.
- Progress: A quarterly report of active user accounts is distributed.
- Remaining Effort: Incorporate the use of the report in applicable policy/procedure documents.
- Time Frame: March 2006.
- Impediment: N/A

Odyssey User Account Controls (Medium Risk)

- Source: FY2004 audit (NoF-25-IT-2004)
- Weakness: The system does not log out users after a specified period of inactivity and permits multiple active sessions with the same user ID.
- Progress: The appropriate security configuration was enabled.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Odyssey Segregation of Duties (Medium Risk)

- Source: FY2004 audit (NoF-26-IT-2004)
- Weakness: There are users that have both system administrative and functional user roles within the Odyssey system.
- Progress: TBD
- Remaining Effort: Evaluate as part of the audit log review process.
- Time Frame: March 2006
- Impediment: N/A

Odyssey System Administrator Request Forms (Medium Risk)

- Source: FY2004 audit (NoF-27-IT-2004)
- Weakness: The majority of system administrators do not have management-approved access request forms on file.
- Progress: Forms were completed and approved.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Systems Access (Medium Risk)

- Source: FY2004 audit (NoF-28-IT-2004)
- Weakness: FOR Post/HQ developers have access to the production environment.
- Progress: Justified since staffing limitations require developers to also provide functional support.
- Remaining Effort: Evaluate periodic monitoring of audit logs as a compensating control.
- Time Frame: December 2005
- Impediment: N/A

Overseas Posts-Disaster Recovery, Security, System and Physical Access and Backup Procedures (Medium Risk)

- Source: FY2004 audit (NoF-29-IT-2004)
- Weakness: There are multiple conditions relating to the posts' disaster recovery, security, access controls, backup procedures and environmental controls.
- Progress: Full backups are performed daily and the tape is stored offsite every two weeks. Detailed instructions are in place on how to restore servers in the case of a disaster. The IT Security Plan and IT Specialist Handbook are also in place. Each post is required to complete an annual vulnerability assessment. Additionally, three to five random vulnerability assessments are conducted each year.
- Remaining Effort: N/A
- Time Frame: N/A
- Impediment: N/A

Overseas Posts-Overseas Architecture Changes and Periodic Architecture Compliance Reviews (Medium Risk)

- Source: FY2004 audit (NoF-30-IT-2004)
- Weakness: There are a number of system settings which have a negative effect on the overall network security.
- Progress: The new Overseas Refresh is complete for the IAP Region. This new architecture will allow quarterly distribution of low priority patches and immediate distribution of critical or emergency fixes.
- Remaining Effort: Complete the Overseas Refresh for the other regions.
- Time Frame: EMA-September 2006 and AF-September 2007
- Impediment: N/A

PEACE CORPS ACRONYMS

AF	Africa Region
BFO	Budget and Fiscal Office(r)
BFY	Budget Fiscal Year
BIT	Budget Implementation Team
CC	Crisis Corps
CCV	Crisis Corps Volunteer
CD	Country Director
CDA	Country Desk Assistant
CDO	Country Desk Officer
CDU	Country Desk Unit
CFO	Chief Financial Officer
CHOPS	Chief of Operations
CMA	Centrally Managed Account
CME	Continuing Medical Education
COLA	Cost of Living Adjustment
COS	Close of Service
COTR	Contracting Officer's Technical Representative
COTS	Commercial Off-the-Shelf
CPU	Central Processing Units
CR	Continuing Resolution
DOL	U.S. Department of Labor
DOS	U.S. Department of State
EAC	Emergency Action Committee
EAP	Emergency Action Plan
ECS	Electronic Certification System
EFT	Electronic Funds Transfer
EL	Emergency Leave
EMA	Europe, Mediterranean, and Asia Region
EOD	Enter on Duty
EOT	End of Tour
ER	Exchange Rate
ET	Early Termination
FAM	*Foreign Affairs Manual*
FCH	*Fiscal Coding Handbook*
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees' Government Life Insurance
FEHB	Federal Employees' Health Benefits Program
FEHBA	Federal Employees' Health Benefits Act Program
FERS	Federal Employees' Retirement System
FICA	Federal Insurance Compensation Act
FMO	Financial Management Officer
FOR	Financial Operations Room (e.g., FOR Post, FOR Budget)
FSC	Financial Service Center
FSN	Foreign Service National

FTE	Full-Time Equivalent (Employee)
FY	Fiscal Year
GAO	Government Accountability Office
GC	General Counsel
HQ	Headquarters
HRM	Human Resource Management (Office of)
IAP	Inter-America and Pacific Region
ICASS	International Cooperative Administrative Support Services
IFO	International Financial Operations
IG	Inspector General
IPBS	Integrated Planning and Budget System
IST	In-Service Training
IT	Information Technology
MOA	Memorandum of Agreement
OCFO	Office of the Chief Financial Officer
OFMH	Overseas Financial Management Handbook
OIG	Office of the Inspector General
OMB	Office of Management And Budget
OMS	Office of Medical Services
OPSI	Office of Private Sector Initiatives
OSS	Office of Special Services
OST	Overseas Staff Training
OVS	Office of Volunteer Services
PASA	Participating Agency Service Agreement
PBR	Plan and Budget Review
PCMO	Peace Corps Medical Officer
PCSSO	Peace Corps Safety and Security Officer
PCT	Peace Corps Trainee
PCV	Peace Corps Volunteer
PPA	Planning and Policy Analysis
PSA	Public Service Announcement
PSC	Personal Services Contractor
PST	Pre-Service Training
PVO	Private Volunteer Organization
RA	Readjustment Allowance
RD	Regional Director
RPCV	Returned Peace Corps Volunteer
RSO	Regional Security Officer (U.S. State Department)
UNV	United Nations Volunteer

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