FISCAL YEAR 2004

The Peace Corps

PERFORMANCE AND ACCOUNTABILITY REPORT

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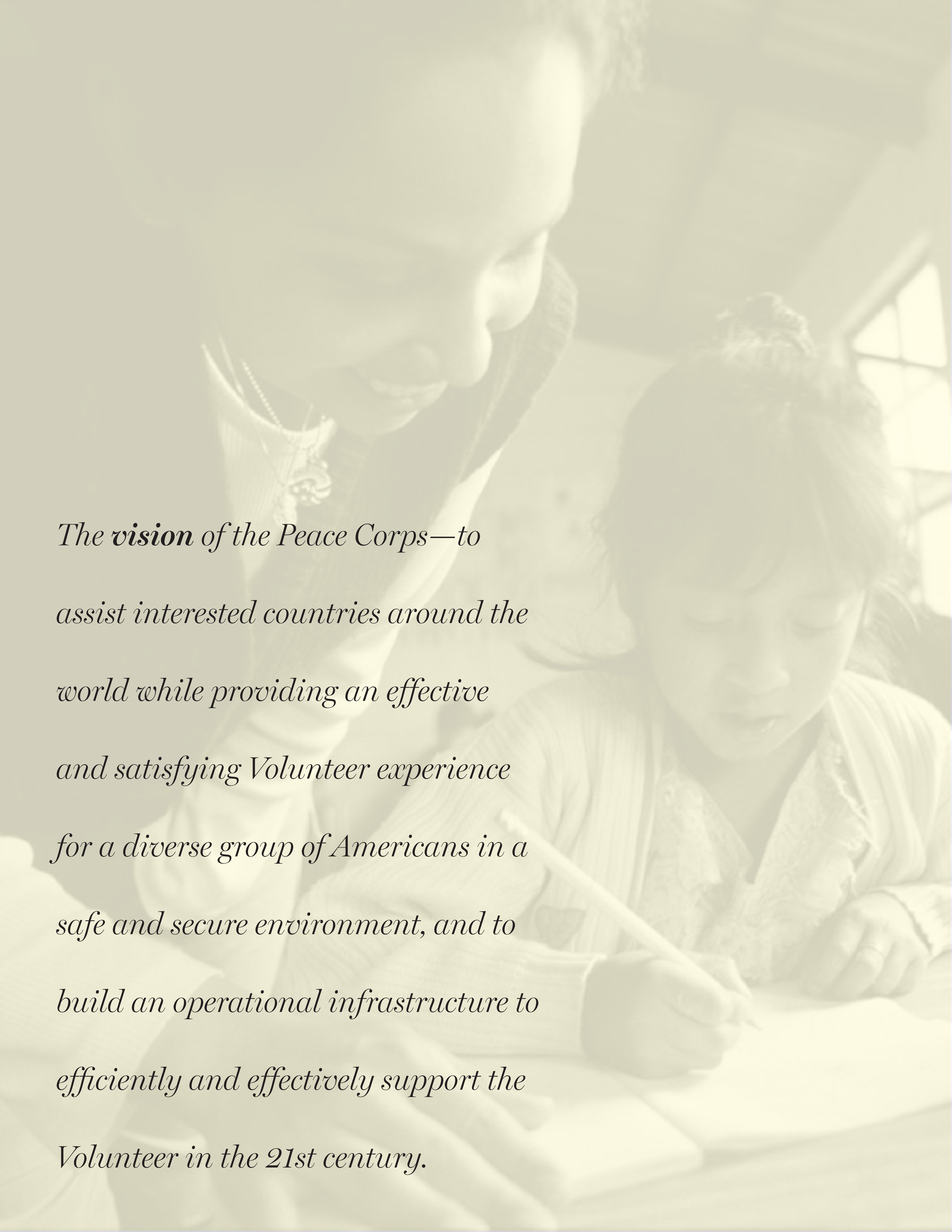

*The **vision** of the Peace Corps—to assist interested countries around the world while providing an effective and satisfying Volunteer experience for a diverse group of Americans in a safe and secure environment, and to build an operational infrastructure to efficiently and effectively support the Volunteer in the 21st century.*

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THE DIRECTOR OF THE PEACE CORPS
WASHINGTON, D.C.

On behalf of the Americans currently serving in 72 countries around the world as Peace Corps Volunteers, I am pleased to present the Peace Corps' Performance and Accountability Report for Fiscal Year 2004 (PAR). This report summarizes the agency's achievements, measures its performance against pre-established objectives, and includes the financial results of our operations during the past year.

Since its inception in 1961, the Peace Corps has sent more than 171,000 Volunteers to serve in 137 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, 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) 2004, 7,733 Volunteers were serving in the Peace Corps[1]—the largest number of Volunteers since 1974. The Volunteers serving in FY 2004 provided 6,494 years of effort, which reflects their commitment to live in and integrate with the communities at their sites of assignment.[2] A historic program opened in Mexico after reaching an agreement on ways to better exchange technology between the U.S. and Mexico, allowing Americans to share their skills in information technology, small business development, science, and water and environmental technology with Mexican citizens. The program will also allow Mexicans to share their business skills, ideas, and culture with Volunteers. The Peace Corps also worked with six countries to participate in the President's Emergency Plan for AIDS Relief. The interest among Americans to serve in the Peace Corps continued to grow with applications up by 48 percent since October 2001.

Safety and security remains the agency's highest priority. Safety and security issues are fully integrated into all aspects of Volunteer recruitment, training and service, which all emphasize the importance of Volunteers taking personal responsibility for their safety at all times and for assimilating into their communities. The Peace Corps uses four key elements in establishing and maintaining its safety and security framework for Volunteers and staff: research, planning, training, and compliance. Safety and security information is tracked and analyzed on an ongoing basis. The data analysis is used to enhance existing policies or to develop new policies and procedures, as needed. Compliance is essential to ensure that safety

Safety and security remains the agency's highest priority.

and security measures are implemented and remain a top priority over the course of time. In addition to the associate director for safety and security and the chief compliance officer, a safety and security data analyst, four additional sub-regional safety and security officers and three safety and security desk officers have been added. Furthermore, safety and security coordinators have been hired at every post.

The Peace Corps sought and received a waiver of the Accountability of Tax Dollars Act of 2002 for the fiscal year ending September 2003. The waiver request contained a provision for a gap analysis to be performed in conjunction with the agency's inspector general and an independent audit firm in lieu of a formal financial statement audit. Much of the discussion of management controls that follows focuses on the results of this gap analysis. While the agency could not prepare financial statements in FY 2003, the auditors focused primarily on internal controls. They cited four financial management and six financial system weaknesses that severely impeded auditability.[3] Three of the four financial and five of the six systems findings have either been addressed or have actions in progress to alleviate the finding. The agency is developing plans for improving several management controls and systems (e.g., inventory and equipment, the accounting system Odyssey/FOR Post, and IT security requirements) in late FY 2005 and FY 2006.[4]

In FY 2004, the Peace Corps formulated financial statements for the fiscal year that are based, to the extent possible, upon the laws and regulations that govern the U.S. government federal financial statements. While the agency's new financial management and accounting system, Odyssey/FOR Post, monitors the use and expenditure of funds, the system remains to be fully reconciled. The agency plans to focus on technical improvements to the system during FY 2005. The conversion to Odyssey/FOR Post from a system that was not U.S. standard general ledger-compliant has made it difficult for the agency to confirm the beginning balances in the new system. The complexities of the integration of the system led to starting and finishing the fiscal year with un-reconciled balances. In combination, these factors prevent management from attesting to the accuracy and completeness of the FY 2004 financial statements. The Peace Corps will continue efforts to correct these problems in FY 2005 and FY 2006.

The agency also recognizes that our business processes need to be reassessed and further defined to better align them to the system's capabilities. We also plan to increase staff training to alleviate user error and to realize the system's full potential.

The Peace Corps revised its six-year strategic plan for the period FY 2003–2008 and received Office of Management and Budget (OMB) approval for the plan in May 2004. The previous strategic plan contained seven general goals; the new plan consolidated these into four key strategic goals. The new strategic plan reflects the Peace Corps' long-standing commitment to the unique role that its Volunteers perform to further the three goals set forth in the Peace Corps Act. The new plan also institutionalizes a comprehensive safety and security plan.

Once the strategic plan was approved, the Peace Corps developed its performance plan that establishes performance indicators for FY 2004–2006. These indicators were established to help ensure attainment of our strategic goals, but were based on past experience with the previous strategic plan. Thus, during fiscal year 2005, the Peace Corps will evaluate the indicators for upcoming years and make appropriate revisions so the agency meets its strategic goals.

On the whole, the agency's FY 2004 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 that covers the last quarter of the fiscal year. Additionally, since we are in a transition year—and this is the Peace Corps' first ever Performance and Accountability Report—we have identified changes and improvements we will undertake during FY 2005 to improve the quality, completeness and accuracy of future PAR submissions. For example, the final results of the 2004 biennial Volunteer survey are scheduled to be tabulated and published in January 2005—the timing of this survey needs to be realigned to provide data for our PAR.

The Peace Corps looks forward to continuing its mission by sending men and women who are young and old, married and single, and from an array of ethnic backgrounds to promote peace and friendship around the world. These dedicated Americans will serve in distant communities, sharing their skills, and then bring their experiences back home to educate others about the people and cultures in which they have served.

Gaddi H. Vasquez
Director
November 2004

Director Gaddi Vasquez of the Peace Corps and Director Jaime Parada of CONACYT (National Council on Science and Technology) sign a historic agreement that opens the way for Peace Corps to work with the people of Mexico for the first time.

1 *This number is an "on-board" count of all Peace Corps Volunteers and trainees, Crisis Corps Volunteers, and UN Volunteers serving under Peace Corps.*

2 *This measure displays the fact that Volunteers are engaged in their assignment 24 hours a day, seven days a week.*

3 *One sub-finding within the medium-risk findings for procurement was cited as high-risk—it is counted as medium risk along with the other sub-findings in procurement.*

4 *All plans mentioned in this report are subject to the availability of funds.*

OVERVIEW | CORE ISSUES

It has been an exciting time as the agency continues to carry out President Bush's call to public service and his goal to increase the number of Peace Corps Volunteers serving in the field. As of the end fiscal year 2004, 7,733 Volunteers are serving in the Peace Corps— the largest number of Volunteers since 1974[5]—in the areas of agriculture, business development, education, the environment, health and HIV/AIDS education and prevention, and youth development. In addition to these major sectors, Peace Corps Volunteers worked to introduce information technology into their work. The safety and security of Peace Corps Volunteers is the agency's top priority. As the number of Volunteers in the field increases, the Peace Corps remains committed to providing the optimum conditions for Volunteers, including a safe and secure environment and quality programming.

Currently, almost 20 percent of our Volunteers are serving in nations with predominantly Muslim populations in West and North Africa, the Middle East, Europe, and Central Asia. The Peace Corps' mission in these regions matches our efforts worldwide and continues to be important. Host communities experience positive and personal images of Americans, and returning Volunteers share their new understanding of these different cultures with friends and family in the United States.

Furthermore, more than 2,400 Peace Corps Volunteers were actively engaged in activities addressing HIV/AIDS at the grass-roots level. By knowing local cultures and communicating in local languages, Peace Corps Volunteers are uniquely positioned to focus on this presidential priority. Fighting the ravages of this disease is paramount to the survival of people across the globe, and important to this agency. All Volunteers who serve in our 26 African nations—regardless of their program sector—are trained to provide HIV/AIDS prevention and education.

The work of past, present and future Peace Corps Volunteers is more critical than ever. The Peace Corps is well positioned to safely achieve expansion and build upon the successes of the past 43 years.


White House photo by Eric Draper

"A spirit of sacrifice and service gave birth to the Peace Corps more than 40 years ago. We needed the Peace Corps then, and we need the Peace Corps today"

PRESIDENT GEORGE W. BUSH, 2002

[5] *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 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 even greater challenges as they work on demands for improved development, information technology, agriculture, education, sanitation and environment, health management, and business.

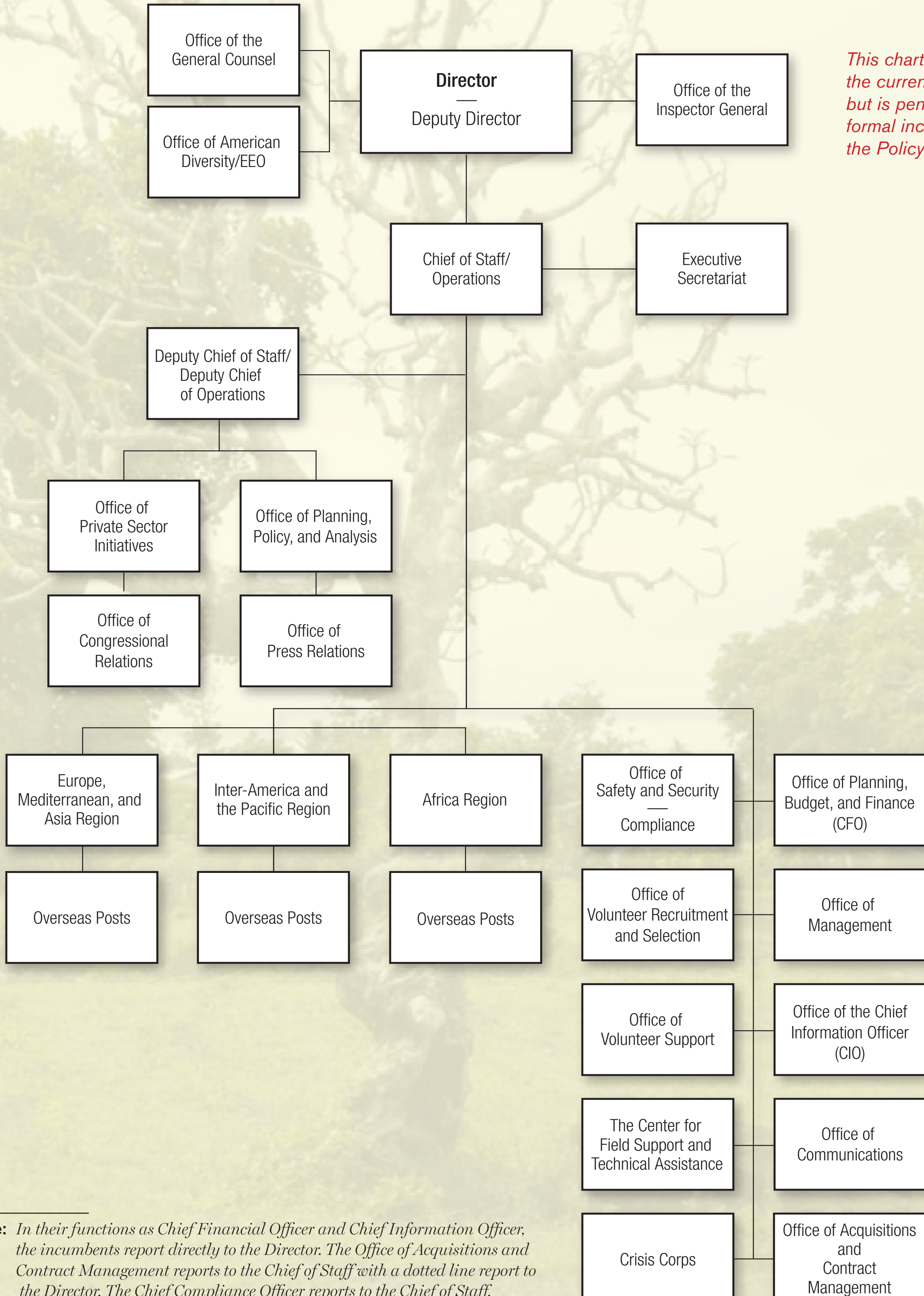
The Peace Corps combines development with people-to-people relationships that Volunteers forge with host country colleagues and communities. This serves as a crucial foundation for peace and friendship for generations to come.

President Bush's frequent references to the Peace Corps and the agency's new drive to reacquaint the American people with the mission of the Peace Corps has caused a significant increase in Americans seeking to serve. At the end of 2003, inquiries were up by 9 percent over the previous year, new applications rose 10 percent, and the Peace Corps website had a 32 percent increase, for a total of 5.7 million visitor sessions. Since January 2002, 27 countries have requested Peace Corps programs, 24 country assessments have been conducted, and the Peace Corps has entered or re-entered 14 countries.

The core values of the Peace Corps since it was established on March 1, 1961, remain relevant, vital, and strong. During the last 43 years, more than 171,000 Americans have served as Peace Corps Volunteers and promoted the agency's mission of world peace and friendship. The 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 about life overseas, the people they have served, and the cultures they have experienced.

Health Volunteer, Benin

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. The Chief Compliance Officer reports to the Chief of Staff.*

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 to double the size of the Peace Corps, we are focusing on growth while providing a positive experience for all Volunteers in a safe and secure environment.

The most important goals are from the strategic plan. Each strategic outcome goal is a key measure of the agency's overall performance. During FY 2004, the Peace Corps successfully met most of these goals. The most important goal—increasing the number of Volunteers in the field—was nearly realized and positioned the Peace Corps to grow at a rate consistent with the strategic plan. This increase in Volunteer strength is also validated by evidence of increased demand for Volunteers by foreign countries. We recorded more requests than anticipated by countries for Peace Corps programs, so the increase in Volunteer strength is warranted.

At the same time, the number of Volunteers on board at the end of FY 2004 fell short of strategic goal 1. One reason for this shortfall is an unexpected evacuation of the Peace Corps post in Nepal. Eighty-two Volunteers left Peace Corps after being evacuated from Nepal for safety concerns in September; additionally, 24 trainees who were scheduled to arrive in Nepal after the evacuation had their assignments deferred to FY 2005. These numbers are not included in FY 2004 totals. Despite great efforts in recruitment and retention, current congressional appropriation levels do not provide enough resources for the agency to meet this strategic goal. Therefore, the agency plans to review and revise this goal during FY 2005.

Other key results are the tremendous success with the redesigned Internet site and the marketing campaign. Both were re-launched in FY 2004, and showed great results. Visitor traffic to the website has increased 24.5 percent. More people are going online and visiting the website's resources than ever before. The new marketing campaign has been very successful, and recruitment has utilized more than double the marketing materials it expected to use.

Business/IT Volunteer, Tonga

With safety and security as a priority, the biennial Peace Corps Volunteer survey is a major tool to collect data on that subject. As data are being collected and analyzed, it appears that Volunteer opinion reflects this priority.

Returned Peace Corps Volunteer (RPCV) visits to schools and organizations in FY 2004 were the highest in the program's history. The Peace Corps has continued to witness a modest but steady growth in participation in Peace Corps Week (the main project where RPCVs visit schools), although the agency did not reach its FY 2004 target. The Peace Corps believes that much information about the number of RPCVs interacting with communities is not being captured. The Peace Corps is identifying steps to better capture this data and better understand the impact RPCVs have on improving the American people's understanding of other peoples.

Another key indicator is the early termination (ET) rate, a factor in maintaining Volunteer strength and as a measure of overall satisfaction of safety and security. There has been a steady decline in the ET rate, and FY 2004 data indicate that this trend is continuing.[6]

The Peace Corps is undertaking its new performance plan for the first time. This logically requires a critical look at the results in relation to the original targets. Were the targets set too high? Are the data from FY 2004 providing an "apples-to-apples" comparison with previous data? In any event, the Peace Corps will give special care to these areas, as there are clearly concerns among Volunteers. Volunteers' opinions will continue to be addressed in future performance plans and reports.

During the preparation of this performance report, the Peace Corps discovered that the timing of several data-producing efforts, including the biennial Volunteer survey, the project status report, and the year-end Volunteer and trainee count, are out of sync with the timing of the PAR. The agency will adjust the timing of future surveys and reports so results may be available on a timelier basis relative to its PAR.

OVERVIEW | ACTIONS TO ADDRESS CHALLENGES AND FUTURE CHALLENGES

In the next fiscal year, the Peace Corps plans to:

- Continue ongoing efforts to update its policy manual;
- Balance increased security needs against resources and growth commitments;
- Continue action to correct gap analysis findings;
- Stabilize, upgrade, and enhance the Odyssey/FOR Post financial system;
- 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;
- Undertake a reconciliation project to resolve imbalances with inherent accounts and external sources and create procedures and disciplines to regularly reconcile accounts;
- Reassess the financial management business processes and realign organizational structure to accommodate the new paradigm; and
- Train staff in the skills and disciplines of financial management.

[6] *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 | FINANCIAL STATEMENTS

For the first time in its history, the Peace Corps has prepared a financial statement in a timely manner that complies, to the extent possible, with OMB guidelines and the Accountability of Tax Dollars Act of 2002.

Where possible, the accompanying financial statement conforms to the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB); OMB Bulletin 01-09, Form and Content of Agency Financial Statements; and the Department of the Treasury's Treasury Financial Manual (TFM) and related bulletins.

The agency is committed to the principles and objectives of the Chief Financial Officers (CFOs) Act of 1990, the Federal Financial Management Improvement Act of 1996, and the Accountability of Tax Dollars Act of 2002.

Comparative data for the prior fiscal year are not presented in this debut financial statement. The statements should be read with the realization that they are a component of the U.S. government.

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 year ended September 30, 2004. These statements reflect activity of appropriated funds, even though the agency has a gift authority and stewardship over trust fund and special fund receipt accounts.

The agency had total assets of $126.4 million, primarily composed of a $95.5 million fund balance with Treasury as of September 30, 2004. Revenue and financing sources available totaled $319.5 million, of which $310 million was received in appropriations in FY 2004.

Agriculture Volunteer, Guatemala

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, with the objective of modernizing 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.[7]

The Office of IT Architecture Standards and Practices, reporting to the CIO, was established as the Program Management Office for 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 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 (ITIM) began. The agency's IT governance program was implemented through the investment review board (IRB). The IRB reviews all new project proposals over $10,000 for alignment with the mission of the agency, prioritizes investment decisions, and develops sound business practices.

Continuing into 2004, the Peace Corps has populated high- to mid-level as-is and to-be business, data, application and technical infrastructure component architectures for six major activity areas. These areas are: Volunteer delivery, human resources, safety and security, overseas posts, financial systems, and IT security. Starting in FY 2004 and continuing in FY 2005, components of these six architectures have merged into a complete end-to-end view of the main business line of the agency, the Volunteer delivery system (VDS). Initial mapping of agency business functions to the OMB business and performance reference models (BRM/PRM) was also completed.

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 has started and is in progress. Concurrently, development and implementation of a comprehensive policy, standards, and guidance framework are planned for continuation in connection with an enterprise-wide IT investment management program. Within this context, the agency plans a systematic identification of opportunities to leverage common IT solutions across the enterprise. Through its EA program, the Peace Corps is pursuing cross-program and enterprise-wide initiatives strategically and methodically to better meet the agency's mission and goals.

Financial Systems

Phase I of the Peace Corps' new 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 2005 and 2006. The core modules implemented were: gen-

[7] *The underlying theories and methodologies for the program include the* Zachman Framework, *published by John Zachman, and* Enterprise Architecture Planning Methodologies *published by Steven Spewak. General procedural guidance for program implementation is based on* A Practical Guide to Federal Enterprise Architecture, *published by the federal CIO council.*

eral 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 project began in FY 2001. 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. During development, it was determined that the commercial off-the-shelf (COTS) product could not provide the foreign currency management functionality in the core offering. Therefore, the Peace Corps, in collaboration with Oracle Consulting, customized the product to meet these requirements. JFMIP further enhanced its requirements, and Oracle Federal Financials 11.5.7 was no longer compliant with federal accounting processing and the U.S. standard general ledger. The agency will further assess enhancements once it has upgraded to the most recent version of Oracle Federal Financials.

Compliance

During FY 2004, the Peace Corps undertook efforts to monitor its compliance with congressional mandates, regulations and law, as well as its own policies. These efforts include the items in the following:

- Created and implemented an original compliance system for the agency focusing on establishing management controls and criteria for verification, including clarity of expectations, materials needed, deadlines, and tracking. Established proper tools for reporting and tracking, including revising existing material and creating new tools using the latest technology. Tracked manual section adherence and management compliance to directives from the Director.
- Established a comprehensive system of compliance with IG reports and recommendations, semi-annual review by region, active participation in IG visits before and during debriefing, and verifying closure and compliance to responses. Coordinated agency response to all IG reports and transmittal of the semi-annual report to Congress.
- Created a standard emergency action plan (EAP) template with accompanying Standard Operating Procedures. This included standardizing all major forms as well as providing clear guidance on uses, distribution, and dates due.

At the same time, the agency is committed to improving its monitoring efforts and the implementation of all such items.

The Peace Corps Director established the enterprise architecture program to modernize the systems and infrastructure to support the agency's mission in the 21st century.

OVERVIEW | INTEGRITY ACT CHALLENGES

The Peace Corps sought and received a waiver of the Accountability of Tax Dollars Act of 2002 for the fiscal year ending September 2003. The waiver request contained a provision for a gap analysis to be performed in conjunction with the agency's inspector general and an independent audit firm in lieu of a formal financial statement audit. While the Agency was not able to prepare financial statements, the auditors focused primarily on internal controls. In that the gap analysis did not provide an auditor's opinion, the findings were categorized by type—financial management and accounting or systems and applications—and high, medium or low risk.

The most critical findings centered around basic finance, accounting, and systems issues, such as policies and procedures; U.S. standard general ledger (USSGL) compliance; management and accounting of property, plant and equipment; internal controls and routine reconciliation; systems development life cycle; systems security, recovery, and contingency planning and execution; and data confidentiality, integrity and availability. The auditors cited four financial management and six financial system weaknesses that presented a severe impediment to auditability.

Corrective action plans were developed or areas of findings were planned for assessment and development in March 2004. As of September 30, 2004, three of the four financial and five of the six systems findings have either been addressed or have actions in progress which will alleviate the finding. The agency is developing plans for the management and recording of property, plant and equipment and will be re-engineering the overseas front end, FOR Post, to accommodate IT security requirements which are the findings not yet acted upon. These plans are to be implemented in late FY 2005 and FY 2006 presuming the availability of funding.

The appendix contains a complete list of the findings with management's response and status of corrective action plans at September 30, 2004. As a note, the overseas Posts that participated in the Gap Analysis were Philippines and Senegal. Therefore, wherever the term "Posts" is used in this discussion, it refers to these two offices. In addition, the implementation of plans is contingent on the funding available for the timeline established.

Table: Summary of Gap Analysis Findings

	AREA OF FINDING					
SEVERITY OF FINDING	Financial Management and Accounting	Status		Systems and Applications (IT)	Status	
High—presents a severe impediment to auditability	4	Complete		6	Complete	
		On-target			On-target	
		In-progress	3		In-progress	5
		Future plan	1		Future plan	1
Medium—presents significant internal control weaknesses	4	Complete		14	Complete	8
		On-target	1		On-target	
		In-progress	3		In-progress	3
		Future plan			Future plan	3
Low—requires management attention	5	Complete	1	1	Complete	
		On-target	1		On-target	
		In-progress	3		In-progress	1
		Future plan			Future plan	

Status Key

Complete—Completed during FY 2004
On-target—Corrective action plan timeline crosses fiscal years and progress is on target to complete according to plan
In-progress—Some portions of plan have been completed; others have been delayed or items are being affected without a timeline
Future plan—Causes of finding are being analyzed to develop corrective action plan

Summary of Gap Analysis Findings

Of the five most severe financial management and accounting findings, the one that presented the most challenge for the Peace Corps related to the management and recording of property, plant and equipment. While there has been progress in updating the property manual, the implementation of the fixed assets module of the new financial management system, Odyssey/FOR Post, was not a part of the initial system implementation. Current plans recommended by the agency's investment review board and approved by the agency's Director, have this activity slated for assessment in late FY 2005 with planned implementation in FY 2006. The advent and implementation of this module will help the agency complete the appropriate processes and systems for audit.

One finding from the systems and applications area is the insufficient security available in the agency's FTP (file transfer protocol) site for uploading financial data. The FOR Post front-end for overseas posts uses the FTP to load data into the official accounting system. Two initiatives must be completed before this risk is mitigated: the reconfiguration of the FTP site and the re-engineering and redeployment of the front end. Both are planned for design and development in late FY 2005 and implementation in FY 2006.

Findings that continue to require completion in the high-risk area:

Financial Management and Accounting

- Policies and procedures
- Asset management
- Reconciliation and reporting

IT Systems and Applications

- Finalize IT recovery plans
- Finalize system delivery life cycle (SDLC) for Odyssey/FOR Post/headquarters
- Create or complete contingency plans for Odyssey/FOR Post
- Secure overseas small business-servers (SBS) and workstation vulnerabilities

Geometry instruction, Tonga

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 are intended to 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 as a springboard—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 Planning, Budget and Finance'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 committed to 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 will implement an automated human capital management system in compliance with the agency's enterprise architecture. This system will modernize the classification and recruitment processes that were previously labor-intensive to applicants and Peace Corps managers. This will enhance the agency's competitive position in the marketplace, allow the Peace Corps to recruit quality staff, and greatly assist existing staff when staffing demands are high. This system will help make the Peace Corps a more attractive workplace for prospective and incumbent managers. Future module enhancements within the system have been identified as performance management/training, employee/labor relations, and diversity.

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 40-plus 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. As stated earlier: The Peace Corps is committed to workforce re-engineering, and that process has been an agency priority for a considerable time.

Every department and agency of the federal government faces significant challenges with employment issues, be they an aging workforce or the recruitment and retention of qualified individuals in skilled disciplines. The situation for the Peace Corps is compounded by its "five-year rule," which generally imposes a five-year term of employment for all U.S. citizen direct-hire employees. However, the average length of employment is two years. This has significantly impacted the culture, organization, and operations of the agency.

The mission of the Peace Corps—to promote world peace and friendship—has remained constant during the past 40-plus years.

On one hand, time-limited appointments can foster a non-bureaucratic, energized, can-do atmosphere where employees are committed to making the most of their limited tenure. Changes in needs for specific workforce skills also can be more readily addressed because of built-in turnover. The problem of less effective employees is minimized, as are long-term employee-relations problems, since supervisors and employees are more likely to forge a satisfactory working relationship, given the short-term nature of their employment cycle.

On the other hand, there are challenges created by the five-year rule, critical among them 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 Peace Corps is continuing to initiate improvements in how it recruits, selects, and places Volunteers and it is exploring alternative staffing patterns, both domestically and abroad, for Volunteer support functions. The agency will strengthen internal communication and staff training opportunities through its Intranet and Internet applications.

The Peace Corps is committed to institutionalizing the standards of accountability for all staff, increasing its efforts in the e-government arena, and fully implementing a competitive sourcing strategy. All of these will contribute to a more effective and responsive human resource management system that ensures mission-critical occupations are adequately staffed.

Competitive Sourcing

During FY 2004 the Peace Corps focused strongly on competitive sourcing by establishing a chief acquisition officer raising the visibility of competitive sourcing throughout the agency who now coordinates all potential opportunities to obtain efficiencies through the open market. The chief acquisition officer has direct access to the agency's Director on all acquisition issues to include competitive sourcing. The Peace Corps continues to improve the efficiency of its commercial activity functions by determining which functions can be performed more effectively through contractual vehicles. The agency is supporting its current performance-based contracts and converting additional commercial activities to performance-based contracts, when feasible and where they would prove to be effective. Part of the strategy to affect these performance goals includes continually reviewing and refining performance-based contracts (e.g., information technology management, voucher processing, and accounting services); performing a comprehensive analysis of the agency's commercial activity inventory and the potential for converting additional activities to performance-based contracts; and compiling the best practices of contractors and performance-based contracting.

To convert additional activities to a performance-based contract platform, the Peace Corps will explore effective approaches to identify and publicize opportunities for contract sourcing. Using the tools provided by 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. To be successful, the Peace Corps will also review the need to increase the level of knowledge of various OMB A-76 methodologies among its managers and support staff. The agency is committed to increasing competitive sourcing where and when it is beneficial to do so.

Identifying and accessing sources to productively enhance the agency's mission is an on-going process. Adjustments to operations because of budgetary resources have caused each office to examine how services are delivered. Of Peace Corps' FY 2004 appropriation of $310 million, approximately $130 million was contracted out to procure goods and a wide range of non-inherently governmental services that ranged from professional medical care to software development.[8]

Improved Financial Performance

The Peace Corps converted to Oracle Federal Financials in October 2003 and has prepared its first set of audited financial statements. Quarterly financial statements for the first three quarters of FY 2004 have been 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 FYs 2005–2006, the agency is planning additional improvements in the following areas:

- Restructure OPBF to better align with functions and processes.
- Complete the documentation of revised/new business processes.
- Upgrade to JFMIP-compliant version of Oracle Federal Financials.
- Implement additional functionality of Human Resources Management (HRM) system module to accommodate Volunteer payments.
- Assess, design, and implement next generation FOR Post front-end for Oracle Federal Financials.
- Plan and design 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 are also geared to overcome agency bureaucratic divisions and increase productivity and the ease of electronic access for citizens. This will increase 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 so applicants can 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 information flow, the Peace Corps can provide timely reports to the public at a reduced operational cost.

Another aspect of the Peace Corps mandate is to increase the understanding of other peoples on the part of the American people. The Peace Corps will continue expanding—to the fullest extent possible—the number of Paul D. Coverdell World Wise Schools (WWS) classrooms in the United States. It will do this by increasing videoconferencing capa-

[8] *This figure excludes personnel salaries and benefits and travel expenses.*

Volunteer training class, Malawi

bilities, increasing satellite downlinks between WWS classrooms and current Volunteers, and promoting the use of the Peace Corps online library.

The enterprise-wide information architecture approach will identify and document all agency computer systems and guide the management of the agency's IT portfolio. The Peace Corps continues to implement IT Security Policy and Disaster Recovery Plans to secure the wealth of information stored and processed on agency computers. The agency continues to move its legacy systems away from older mainframe technologies to Web-enabled ones, providing vast potential for e-government solutions and service delivery.

In FY 2004, the Peace Corps also implemented tools such as Web Inspector and SMS to ensure the secure utilization of our web-based assets. 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, and reached an agreement with OPM to use and implement an online personnel security application (E-QIP, electronic questionnaires for investigations processing). Other e-government investments included an electronic capital property inventory tool (in review and testing for a future planned integration) and "Prospect Manager," a software application to assist recruiters in tracking information from prospective Volunteers.

In summary, the Peace Corps plans to continue to align its information technology systems with core business processes to ensure that agency priorities are achieved. One means of accomplishing this objective is to define the strategic planning of information technology around processes that best use Web accessibility. Planned activities for FY 2005–2006 include:

- Assessing requirements of the Health Insurance Portability and Accountability Act (HIPAA) and recommending systems for compliance.
- Standardizing processes in the Volunteer delivery system to enable an automated, online administration and tracking system.
- Identifying areas to develop new and underutilized recruitment markets, reduce application processing time, and increase applicant-to-trainee retention rates via the Intranet.

- Streamlining the crime-reporting process for Volunteers through an electronic system with real-time incident reporting capabilities.
- Redesigning the Peace Corps Intranet site.
- Upgrading key Microsoft-based information to set the foundation for more innovative e-solutions.

Budget and Performance Integration

The integrated planning and budget system (IPBS) is the framework the Peace Corps uses to carry out its 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 timeframe is three years—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 in the process and micro-planning and budgeting occurring later, near the start of the 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 in those levels. Current operations' costing is a management and budget tool and 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 timeframes. 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 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. Regional and associate directors then present summary strategic plans and requests for budget enhancements/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 for preparation of the OMB submission for the following year. The OMB submission is presented in the Government Performance and Results Act (GPRA) performance plan format with goals and objectives linked to budget and full-time equivalents (FTEs). 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 an 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 plan is not forwarded, but remains at post or in individual offices for execution. The detailed budget is forwarded for associate and regional

Cross-cultural exchange in action, Benin

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 the opportunity to propose midcourse 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 in the planning process.

This year's three-year (FY 2005–2007) planning process began in the spring with the issuance of Director Vasquez'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 review activities, each overseas post, sub-office, and major office assembled its respective performance plan for the coming strategic plan period (FY 2003 through FY 2008) with emphasis on defining the outcome and performance goals with accompanying performance indicators.

In this capacity-building approach to development, 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 and in what ways these entities are involved in activities sponsored by the Peace Corps. All core criteria under this management agenda standard are being addressed. 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 quality statements and indicators project (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 conduct certain training, provide certain services, etc. 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 experience. 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. As 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 is meaningful, useful, and appropriate, and ensuring that both the data and any follow-up analysis are communicated in a language and the *right format* that allows 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.

The Peace Corps' management revised the agency's six-year strategic plan for FY 2003–2008 and finalized approval with OMB in May of 2004. The FY 2004 transition plan projects FY 2004–2006 indicator targets. Budget dollars and FTE will be aligned in the FY 2004 financial statements and provided in subsequent submissions. The plan for FY 2006 includes assessing the capabilities of the financial system to track performance by project and provide more timely performance budget information.

PERFORMANCE RESULTS

STRATEGIC GOALS

In response to President Bush's challenge to increase the size of the Peace Corps, the agency is focusing on growth while providing a positive experience for all Volunteers in a safe and secure environment. This section discusses the four strategic outcome goals the Peace Corps seeks to achieve from FY 2003 through FY 2008. Each strategic outcome goal has a set of measurable performance goals with accompanying means and strategies. Also discussed are their relationship to the agency's annual performance goals in the performance budget; key factors potentially affecting their achievement; and the methods used to assess that achievement.

STRATEGIC OUTCOME GOAL 1

Assist interested countries with their identified needs by increasing Volunteers in the field from 7,533 in FY 2003 to 11,250 by FY 2008, at a rate consistent with funding levels and infrastructure support.

STRATEGIC OUTCOME GOAL 2

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

STRATEGIC OUTCOME GOAL 3

Improve Americans' understanding of other peoples by increasing returned Peace Corps Volunteers' visits to schools and community organizations by 28 percent, from 7,000 in FY 2003 to 9,000 by FY 2008.

STRATEGIC OUTCOME GOAL 4

Reduce the Peace Corps' overall response time for those applying to the Peace Corps by 5 percent, from 222 days in FY 2003 to 212 days by FY 2008.

PERFORMANCE RESULTS

As indicated earlier, the agency's FY 2004 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 that covers the last quarter of the fiscal year. For example, as of October 12, 2004, the agency had received approximately 1,350 survey responses to the Peace Corps Volunteer survey via the Internet. The data from the online responses are instantly accessible, and have been used to create the responses in the performance report for questions pertaining to the Volunteer survey. However, these results are incomplete, as approximately 1,200 paper surveys have been received but not analyzed. Another 800 to 1,000 more responses are expected over the next couple of weeks. Thus, the results used to generate these findings represent only about 30 percent of the expected survey responses. Until the agency has a complete collection and analysis of all survey data, results are preliminary and incomplete, and they could change.

Since we are in a transition year, and this document is Peace Corps' first ever Performance and Accountability Report, the agency has changes and improvements that it plans to undertake during FY 2005 to improve the quality, completeness and accuracy of future PAR submissions. For example, the 2004 biennial Volunteer survey is scheduled to be tabulated and published in January 2005; the timing of this survey should be realigned to provide data for the PAR.

STRATEGIC GOAL 1:

Assist interested countries with their identified needs by increasing Volunteers in the field from the FY 2003 level of 7,533 to 11,250 by September 2008, at a rate consistent with funding levels and infrastructure support.

Outcome Goals:

1.1 Increase Volunteers in the field from the FY 2003 level of 7,533 to 11,250 (49 percent) by FY 2008, assuming full funding for FY 2005 and future requests.

1.2 Increase the combined number of applications to Peace Corps from under-represented ethnic and age groups from 19 percent to 25 percent by FY 2008 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 FY 2003 level of 11.6 percent to 9.1 percent by September 2008 through improved matching of Volunteers' skills and primary assignment, and improved satisfaction rate of Volunteer health and safety.

Performance Goal 1.1.1.

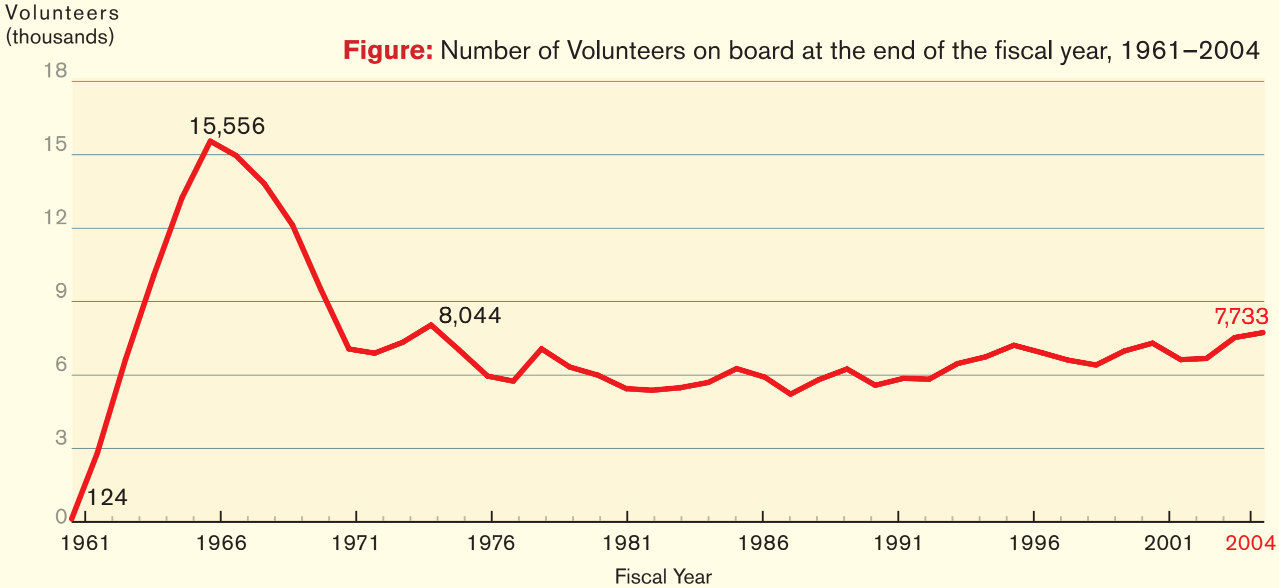
Incrementally increase in subsequent performance years Volunteers/trainees on board from the FY 2003 level of 7,533 to 9,300 (23 percent) by FY 2006.

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

Results and Analysis

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

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



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

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

9 *See Note 1.*

Results and Analysis

The Peace Corps received more requests from countries than expected, including preliminary inquiries on programming options and possible locations. Follow-up assessments are being planned for FY 2005, but these will depend on FY 2005 appropriations. However, the rising demand for Peace Corps and its programs throughout the developing world supports the agency's goal of increasing Volunteers. One recent request came from Indonesia, reflecting an appreciation of Peace Corps by predominately Muslim countries.

There was an increase in traffic to the Peace Corps' Internet site during FY 2004. Several factors contributed to the agency exceeding its target by nearly 25 percent. A redesign of the Peace Corps website and additional content placed on the Web has attracted many new and repeat visitors. A successful new marketing campaign also funneled additional visitors to the website. In addition, the current international climate has increased Americans' awareness of global issues. The Peace Corps provides an ideal way for Americans to exercise their sense of service and ambassadorship, and the successful reception of the marketing campaign, Internet resources, and related materials are key indicators of that success.

Along with visits to the website, nearly every aspect of the interactive site saw similar increases. Online applications were higher then expected. Inquiries about the Peace Corps made through the website were 33 percent higher than expected. The Peace Corps will review its goals and targets for subsequent fiscal year performance plans in light of these unexpected, positive results.

Performance Goal 1.2.1.

Increase the combined number of under-represented ethnic and age groups applying to the Peace Corps from 19 percent to 22 percent by FY 2006.

FY 2004 Goal	FY 2004 Actual
20%	19.6%[10]

Results and Analysis

While working to increase its numbers to meet the President's desire for growth, the agency is also attempting to increase under-represented, racial, ethnic, and age groups applying to Peace Corps. This effort is essential to ensure that Peace Corps truly reflects the diversity of America.

2004 was the third year in a row in which we increased the number of diverse applicants to the Peace Corps. Although FY 2004 results fell a bit short of the goal, the agency still saw an overall increase in the number of diverse applicants from 2,195 at the end of FY 2003 to 2,596 at the end of FY 2004. In comparison, at the end of FY 2002, 1,931 of all applicants were of diverse backgrounds.

At the end of FY 2002, the agency formed a working group on overcoming barriers to Volunteer service and establishing priorities to increase recruitment. An important priority of this working group is to significantly increase the number of diverse applicants. For example, the working group has focused on increasing diversity outreach through targeted local recruiting venues, conferences, publications, and website materials, on having web based materials during the application phase that increases awareness, on giving credit for service by colleges and universities, on having non-credit certificate programs for service that facilitates employment post service, on targeting community college students and expanding country programs for them, and on reviewing readjustment allowance levels following their service.

[10] *7.2% of all applicants did not specify their ethnicity.*

Performance Indicators 1.2.1.	FY 2004 Target	FY 2004 Actual
i. Percentage of minority trainees.	Measured on actual data only. No targets established.	16.5%
ii. Recruitment and support efforts focusing on applicants over age 50, diverse ethnicities, backgrounds, and level of education.	Expand recruitment and support for a diverse range of applicants and Volunteers, including seniors.	10 diverse conferences, 5 panel presentations
iii. Percentage of Volunteers over age 50.	Measured on actual data only. No targets established.	5.8%
iv. Visitors to website who access minority recruitment pages and/or scarce skills, family pages.	200,000	304,336 [a]
v. Collateral pieces used (i.e., all marketing material printed by Peace Corps) that target diverse audiences.	1 million	2 million [b]
vi. Articles placed in newspapers and other media that target diverse audiences	6	138 [c]
Resources Needed:		
Dollars in thousands	447	464
Full-time equivalents	4	4

Note: *a,b,c* Data as of August 31, 2004

Results and Analysis

It is critically important to the Peace Corps to attract under-represented racial, ethnic and age group applicants. The redesigned website, with additional content targeted to under-represented audiences, and the agency's overall marketing campaigns have attracted many new and repeat visitors to the website. This traffic is part of the significant growth in overall traffic to the website. The synergy of a new marketing campaign, international climate, improved Internet technology, and wide-reaching content again has caused results to exceed expectations. Based on this experience, the Peace Corps will review its goals for subsequent fiscal year performance plans.

The Peace Corps has targeted diverse audiences in all of its marketing materials, which were created for a variety of audiences. As this was the first year of a marketing campaign with all new materials, it was difficult to predict what number of pieces would be used during the year. Predictions based on previous recruitment materials generated these fiscal year goals; subsequent plans will allow the Peace Corps to review and revise targets with better information.

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 10.1 percent by September 2006.

FY 2004 Goal	FY 2004 Actual
11.1%	11.0%

Results and Analysis

The ET rate is declining, which is an improvement sought in the strategic plan. The Peace Corps developed a new survey instrument to collect data not previously captured from Volunteers and trainees who ET. This looks at reasons why an individual terminates early and will provide feedback to posts and headquarters to better understand and analyze this issue.

Early termination and the reasons for it can be complex. The additional focus on the subject, and the additional data being collected, will allow the agency to adjust recruitment information, pre-service training, in-service training, site and program development, and other factors that may contribute to ET rates.

Performance Indicators 1.3.1.	FY 2004 Target	FY 2004 Actual/ Estimate
i. Percentage of sites described "very well," "well," or "adequately" prepared in the biennial Volunteer survey	75%	N/A*
ii. Percentage of skill requests that align with available applicants	85%	85%
iii. Percentage of Peace Corps project plans complete and current	50%	50%
iv. Percentage of Peace Corps projects and training programs reviewed annually	95%	100%
v. Field-based project reviews and evaluations	30	29
vi. Project and training technical assistance events for posts	105	105
Resources Needed:		
Dollars in thousands	6,937	6,699
Full Time Equivalents	78	79

Note: * Final tabulation of the results of the 2004 biennial Peace Corps Volunteer survey is scheduled for January 2005. Thus, it is not possible to report on any of the indicators that rely on survey results. The agency plans to adjust the timing of future surveys to align with the timing of the PAR. At the time of producing this PAR, the agency had received approximately 30 percent of expected responses. *This note applies to all indicators that rely on the biennial Peace Corps Volunteer survey for data.*

Results and Analysis

FY 2004 results of the work to reduce the ET rate were positive, as Peace Corps focused on training, matching skills with projects, and reviewing programs implemented in the field. Early Termination is a complex issue, involving almost every aspect of the recruitment, application, training, and Volunteer experience. Significant attention was placed on this area in FY 2004, and the Peace Corps plans to continue to review and modify indicators to reflect the data we receive.

The agency will review and analyze the results of "i" above once the biennial Volunteer survey results are available—any lack of performance will be analyzed and addressed.

STRATEGIC GOAL 2:

Improve the health/safety of Volunteers by improving the Volunteer health-care satisfaction rate by 7 percent and increasing Volunteers' perceptions of their personal safety where they live by 3 percent by September 2008.

Outcome Goals:

1.1 Increase the percentage of Peace Corps Volunteers indicating feeling "well" or "completely" satisfied with their in-country health care 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 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.

Increase the percentage of respondents to the biennial Peace Corps Volunteer survey indicating feeling "well" or "completely" satisfied with their in-country health care by 5 percent, from FY 2003 level of 75 percent to 80 percent by September 2006.

FY 2004 Goal	FY 2004 Actual
78%	N/A[11]

Results and Analysis

The health, safety and security of every Volunteer is the Peace Corps' highest priority and this is reflected in the agency's strategic plan. Greater emphasis on this priority in FY 2004 has placed increased attention on training, both before and after Volunteers travel overseas to their posts.

Actual results for FY 2004 will only be available by January 2005 because the biennial Volunteer survey is still in the process of tabulation and analysis. When the results become available to the agency, attention to this area will be made to ensure any lack of performance is analyzed, and addressed.

Performance Indicators 2.1.1.	FY 2004 Target	FY 2004 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	95%	93%
ii. Percentage of Volunteer respondents reporting health training as effective or very effective as measured by the biennial Volunteer survey	85%	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	.0496
iv. Incidence of falciparum malaria in Africa region. Measure is in cases per 100 Volunteer/trainee years	Target <6.0	1.2397
Resources Needed:		
Dollars in thousands	57,602	57,604
Full-time equivalents	103	90

Note: See note for Performance Indicators 1.3.1. p.27. Additionally, the 2002 Volunteer survey questioned overall physical health. In an effort to further understand how the Volunteers feel about their care, the 2004 survey makes a distinction between mental and physical health. Thus, the results will not be totally comparative—the agency will review this performance goal in FY 2005.

[11] *See note for Performance Indicators 1.3.1., p. 27.*

Results and Analysis

The results of FY 2004 medevac surveys were two percent lower than the FY 2004 goal; this small difference can be attributed to the overall circumstances of each situation. A medical evacuation is a stressful time, and Peace Corps does everything it can to ensure the safety and health of its Volunteers. Reviews will be made of the survey results to identity any trends and address any needs for additional training. The agency will also review the survey instrument to ensure it is appropriately designed and executed. Currently, five out of twenty-one questions ask the medevac Volunteer about the quality of their medevac care.

The incidence of falciparum malaria exceeds the FY 2004 goal for several reasons. First, the medication is effective. Also, Peace Corps medical officers provide comprehensive malaria education to Volunteers, and those Volunteers are complying with that training.

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 2 percent, from FY 2003 level of 86 percent to 88 percent by September 2006.

FY 2004 Goal	FY 2004 Actual
87%	N/A[12]

Results and Analysis

The safety and security of every Volunteer is the Peace Corps' highest priority and is reflected as such in the agency's strategic plan. As shown in this measurement, this emphasis is paying off with Volunteers feeling safe and confidant in their overseas homes. In light of the current global climate, this achievement is especially notable.

In FY 2004, all posts received a standardized template for an emergency action plan (EAP) and standard operating procedures that accompany that plan. The agency wants them to be fully operational by March 2005. This will help ensure continuous testing, monitoring, and operations of all emergency plans in the agency. Also in 2004, EAPs were placed in an electronic format allowing for easier transmittal and tracking. During emergencies, headquarters can received and transmit the latest information electronically, including consolidation points and maps for all Volunteers. This is the first time the agency has achieved this interactive emergency operations system.

[12] *See note for Performance Indicators 1.3.1., p. 27.*

Performance Indicators 2.2.1.	FY 2004 Target	FY 2004 Actual/Estimate
i. Percentage of Volunteer pre-service training programs including safety training	90%	100%[a]
ii. Percentage of Volunteers demonstrating 10 safety and security competencies at end of pre-service training	75%	80%
iii. Posts undergoing safety and security assessments	75%	92%
iv. Posts receiving emergency action plan training	85%	85%
v. Percentage of posts testing emergency action plans at least once a year	95%	100%
vi. Percentage of posts complying with all sections of MS 270, beginning July 2003	95%	95%
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	85%	N/A[b]
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	85%	N/A[c]
Resources Needed:		
Dollars in thousands	9,668	9,598
Full-time equivalents	12	11

Notes: *a* Estimated based on FY 2003 Training Status Reports (TSR) results; FY 2004 TSR results will be available in the first quarter of 2005.

b See note for Performance Indicators 1.3.1., p. 27.

c Ibid.

Results and Analysis

The Office of Safety and Security is responsible for several training and review programs. Each region also continually reiterates the agency's emphasis on safety and security. FY 2004 reports indicate that this vigilance has been both 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 28 percent by September 2008.

Outcome Goal:

1.1 Increase RPCV visits to schools and organizations by 28 percent, from FY 2003 level 7,000 to 9,000 by September 2008.

Performance Goal 3.1.1.

Increase RPCV visits to schools and organizations by 17 percent, from FY 2003 level of 7,000 to 8,200 by September 2006.

FY 2004 Goal	FY 2004 Actual
7,400	7,031

Results and Analysis

RPCV visits to schools and organizations in FY 2004 were at the highest level in the program's history. Though the agency fell slightly short of its projected goal, it has continued to witness a modest but steady growth in participation in Peace Corps Week (the anniversary devoted to RPCV outreach to schools, community centers, libraries, etc.). Peace Corps Week participation is driven by RPCV participation.

One factor that impacts the performance in this measure is the number of RPCVs that give talks to schools and organizations, but do not report these interactions to the Peace Corps. The Peace Corps is taking steps to better capture this information and to gain a clearer picture of the impact RPCVs are having on improving Americans' understanding of other peoples.

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 make it easier to facilitate this, so improvements in meeting this goal are expected.

Performance Indicators 3.1.1.	FY 2004 Target	FY 2004 Actual*
i. RPCVs participating in Peace Corps Week activities	8,000	7,031
ii. RPCVs participating in career events	800	915
iii. RPCVs e-mailed the RPCV newsletter	7,000	7,702
iv. Percentage of active Volunteers (not trainees) during the year participating in the Coverdell World Wise Schools one-to-one correspondence match program	53%	47%
v. Average visitors per month to the Coverdell World Wise Schools (CWWS) section of the Peace Corps website	350,000	474,574
Resources Needed:		
Dollars in thousands	1,451	1,671
Full-time Equivalents	18	16

Notes: * Data as of early September, 2004.

Results and Analysis

Though the number of RPCV visits to schools and organizations in FY 2004 is the highest level ever recorded, much information is not being captured. Improvements in communication and database techniques will continue to make that task easier. In addition, more RPCVs than anticipated participated in a variety of career events, indicating a commitment to the agency's third goal. Although the Peace Corps exceeded its goal regarding the RPCV newsletter by about 10 percent, attaining next year's goal will require a concerted effort to build the database of e-mail addresses.

Forty-seven percent of active Volunteers participate in the CWWS match program. The absolute number of Volunteers participating in this program has not fallen. Transferring the application form for the correspondence match program to the online Volunteer toolkit should increase the number of Volunteers. The percentage in FY 2004 may have fallen due to the number of program closings, suspensions, and interruptions or to an anomaly with the new system reporting overall number of Volunteers.

The average number of visitors to the website as measured by page-view figures between October 2003 and August 2004 was 474,574, thus far exceeding the goal. This is attributed to user-friendly cosmetic and organizational changes to the website and the introduction of enhanced curriculum materials and programs. Plans are in place to continue adding new content and marketing it widely in FY 2005, which should increase visitors to the site.

STRATEGIC GOAL 4:

Reduce the Peace Corps overall response time for those applying to the Peace Corps by 5 percent, from FY 2003 level of 222 days to 212 days by September 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 3 percent, from FY 2003 level of 222 days to 216 days by September 2006.

FY 2004 Goal	FY 2004 Estimated
220	N/A[13]

Results and Analysis

The FY 2004 overall response time is an estimate based on the best available data. Changes in the online application and status check systems occurred in September 2004, with a launch of the online application system hosted by a new vendor. The new system will improve the timeliness and accuracy of data, and it will be a key tool in tracking this performance goal. It will be used to integrate the measurement of the various stages that compose overall response time.

In 2002, a task force was convened to look at ways to decrease the number of days that prospective Volunteer candidates spent in the application process. This task force documented the number in each of the following stages of the Application process from application through invitation (to a Volunteer assignment).

[13] *The Peace Corps does not currently have a system to track this performance goal, other than ad hoc, partially anecdotal data. The Peace Corps plans to develop a tracking system in FY 2005.*

In 2004, the agency initiated the process standardization and integration project (PSIP) and conducted a business practices survey. The results of this survey led to the creation of a test site in Rosslyn, Virginia to determine which recruitment practices in the application to nomination process should be standardized and streamlined. The agency expects results from this test in FY 2005. Additionally, the PSIP is expected to help the agency develop a better system to ensure accurate measurement of the average time applicants are spending in the process.

Performance Indicators 4.1.1.	FY 2004 Target	FY 2004 Actual[a]
i. Percentage of applicants who complete their Volunteer applications over the Internet	75%	75%
ii. Percentage of applicants who complete their health status review for medical screening over the Internet	73%	86%
iii. Average months between application and departure for overseas assignment	9.5	N/A[b]
Resources Needed:		
Dollars in thousands	1,822	1,493
Full-time Equivalents	4	4

Notes: *a* See note for Performance Indicators 1.3.1., p. 27.

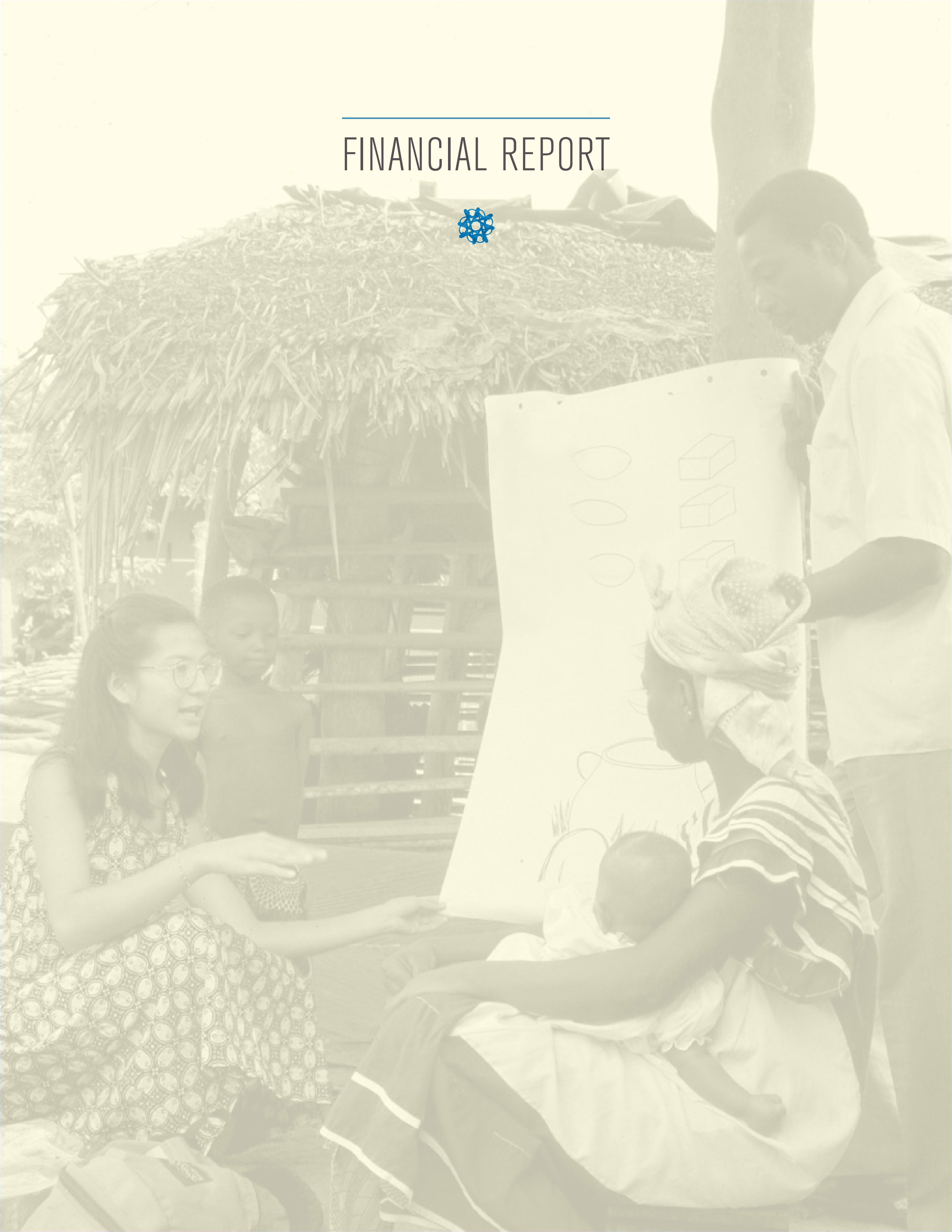
b Data as of early September, 2004.

Results and Analysis

The September 2004 launch of the new online application system should further improve the overall application process and timeliness. Already, the health status review (HSR) is ahead of schedule, due to the solid technology and process behind it. HSRs completed online have dramatically surpassed the 2004 goal. Persons of all ages have adapted to using the Web for interactive purposes, and the HSR is well-formatted and easy to fill out.

Similar gains are expected in other aspects of the application process. As the data are collected in the following fiscal years, the targets will be reviewed and modified to coincide with the new performance.

FINANCIAL REPORT



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

On behalf of the Peace Corps, I am pleased to report on the agency's FY 2004 performance and accountability with our first audited financial statements as planned and on time to meet the expedited submission requirement.

The Accountability of Tax Dollars Act (ATDA) of 2002, requiring auditable internal processes and procedures, has given the Peace Corps the opportunity to initiate a significant three year modernization plan changing systems and technologies that were in place for over 20 years.

When completed, Peace Corps will have the tools needed to generate auditable financial statements that can receive an unqualified opinion and fulfill the new financial reporting requirements. This modernization plan completely transforms systems, processes, and controls throughout the agency.

The plan includes:

Phase I (FY 2003, FY 2004) now completed:

- Bringing into production Odyssey/FOR Post, the new integrated, agencywide financial management system which provides the core accounting and financial management modules to the agency's 72 posts worldwide, 13 recruiting offices nationwide, and headquarters.

Phases II and III (FY 2005, FY 2006):

- Completing documentation and implementation of U.S. standard general ledger compliant business processes and practices;
- Building systems and processes that support management and accounting of property, plant, and equipment;
- Implementing the remaining modules, functionalities, and enhancements to the Odyssey/FOR Post system;
- Completing the reconciliation of account balances; and,
- Training staff throughout the agency

This modernizes the agency's financial management system to achieve accuracy, completeness, and the auditability of financial reporting.

We are pleased that we can draw on Phase I of our work to complete the FY 2004 financial statements. The FY 2004 financial statements were prepared using OMB Bulletin 01-09, FASAB Concepts and Standards, and other generally accepted accounting principles, and drew on data available through Phase I of our modernization program. The two additional phases are not yet completed, preventing me from assuring Peace Corps management that the information presented is either complete or accurate. ▶

Since the agency's legacy systems were designed for funds control management and not for financial reporting, the FY 2004 beginning balances cannot be fully supported from the conversion. Enormous data from earlier decades had to be converted from the legacy systems, many of which did not meet today's accounting and reporting requirements. Therefore, assumptions were made while bringing forward account balances into the new system for FY 2004 reporting. Manual records of the assumptions and the related transactions have been retained for audit purposes. These items are on record with the agency's cancelled-years files.

The agency's business requirements to track finances in multiple currencies and to be compliant with the Joint Financial Management Improvement Program (JFMIP) called for significant workarounds and customizations to the new commercial off-the-shelf (COTS) system. The increased data flow complexities led to account imbalances that could not be resolved prior to the end of the fiscal year. The new requirements for levels of reconciliation in FY 2004 made it difficult to bring all account balances in line. Adjusting entries was required in order to bring inherent account relationships in balance. The agency plans to determine the cause and resolve these issues in FY 2005.

We are committed to our plan for building the systems, processes, and controls needed to support the Peace Corps' mission in the 21st century, and to delivering financial statements in the years to come that can and will receive unqualified opinions. These efforts will help ensure full compliance with the laws and regulations and further the President's initiative toward improved financial management.

Gopal K. Khanna
Chief Financial Officer
November 2004

MESSAGE | MANAGEMENT CONTROLS

Authorities and Separation of Duties

Checks and balances were created to enable the distributed financial management approach for Peace Corps' execution of mission and mandate. The authorities from the Peace Corps Act and other applicable legislation have been codified within the Peace Corps Manual, sections 101 through 129. Briefly summarized, the manual sections establish that:

- Director and deputy director appointments are Senate-confirmed;
- Appropriate delegations ensure separation of duties;
- Delegations provide authorities and approvals at proper organizational levels; and
- Functional descriptions define roles of each organizational unit.

For other than those authorities reserved for the Director, the Director has written delegations that are included in the Peace Corps Manual, section 114. The "Authorities Reserved by the Director" reflect the current status within the agency, which includes some updates that are awaiting inclusion in the Peace Corps Manual. These authorities are frequently revised to reflect changes in personnel and in the organization. As these changes occur, relevant revisions and updates are scheduled for the manual. For example, inclusion of the "Chief Compliance Officer" has been approved, but is not yet reflected in the manual itself.[19]

Business Volunteer, Guatemala

[14] *During the past three years, the Peace Corps has been updating and revising its policy manual to ensure it reflects the most recent policy of the agency. This process is ongoing and is expected to continue throughout FY 2005.*

Authorities Reserved by the Director

Personnel

- Authority to approve initial selection, appointment, promotion, transfer, termination, or disciplinary action relating to the following positions and incumbents: Chief of Staff/Chief of Operations; Associate Directors; Regional Directors; Director of the Crisis Corps; Chief Financial Officer; Chief Information Officer; Inspector General; Country Directors; Deputy Country Directors; Regional Recruiting Office Managers; and the Director's Office staff heads, which consist of the General Counsel, the Director of Communications, the Press Director, the Marketing Director, the Director of Congressional Relations, the Manager of the American Diversity Program, Chief Compliance Officer, Director of Planning, Policy and Analysis, the Director of the Office of Private Sector Cooperation and International Volunteerism.
- Authority to approve all personnel actions relating to the Deputy Director.
- Authority to approve and authorize all time-limited appointments extended beyond five years under 22 U.S.C. 2506(a)(5) and (a)(6). (Appointments under 22 U.S.C. 2506(a)(6) are non-transferable by law.
- Authority to approve and authorize performance evaluations for the Chief of Staff/Chief of Operations; Associate Directors; Chief Financial Officer; Chief Information Officer; Inspector General; Regional Directors; Director of the Crisis Corps; Director of the Center for Field Assistance and Applied Research; General Counsel; Director of Communications; Press Director; Marketing Director; Director of Congressional Relations; Chief Compliance Officer, Director of Planning, Policy, and Analysis; and Director of the Office of Private Sector Cooperation and International Volunteerism.
- Authority to approve all agreements entered into with a labor organization as the exclusive representative of employees.
- Authority to approve all cash awards over $5,000 for agency employees and Meritorious Step Increases for Country Directors, Deputy Country Directors, and any other employees reporting directly to the Director of the Peace Corps.
- Authority to approve and authorize restoration of forfeited annual leave.
- Authority to review grievances at the third level of the grievance process. This authority includes authority to appoint an outside examiner if the grievance is not resolved at the third level; and
- Authority to decide appeals from General Counsel determinations of ineligibility for employment or Volunteer service under the Peace Corps Intelligence Policy.

Procurement, Budget, and Accounting

- Authority to approve the annual budget, including supplements, amendments, policies, and assumptions used in developing budget estimates; approve reprogrammings to be submitted to Congress.
- Authority to approve operating plans and budgets and employment ceilings and revisions thereto.
- Authority to reallocate funds within budget activities in excess of $25,000.
- Authority to approve and authorize allotments within the Peace Corps.
- Authority to accept on behalf of Peace Corps unconditional gifts of money or tangible personal property in excess of $10,000, and accept all conditional gifts where the condition is other than a restriction to a particular country or area
- Authority to approve all procurement requests over $800,000
- Authority to approve domestic and international travel for the Deputy Director.

Country Agreements

Authority to approve requests to the State Department for the initiation, modification, or termination of Peace Corps country agreements.

General Administration

- Authority to authorize telegrams during "minimize" conditions.
- Authority to approve and authorize changes to the agency's organizational structure at or above the following levels:
  - Major sub-divisions under the direction of the Associate Directors, Chief Information Officer, Chief Financial Officer, Regional Officers, Director of the Crisis Corps, and the Director of the Center for Field Assistance and Applied Research, and any program unit where the head of the unit reports directly to the Director;
  - Overseas posts; and
  - Regional Recruiting and Administrative offices.
- Authority to approve the production of newly designed print and audio-visual materials pertaining to the Peace Corps to be used externally, such as, new pamphlets, brochures, booklets, or films.

Record Dissemination, Privacy, and Management

- Authority to decide appeals from denials of requests for records under the Freedom of Information Act, other than OIG records, and refusals to waive overdue fees.
- Authority to decide appeals from denials of access to records and for requests for the amendment of records, other than OIG records, under the Privacy Act.

Equal Employment Opportunity Authority

- Settle and adjust any complaint of prohibited discrimination or reprisal.
- With the concurrence of the General Counsel, approve and authorize attorneys' fees permitted under the law in cases of prohibited discrimination or reprisal.
- With the concurrence of the General Counsel, concur with Justice Department proposals to settle any complaint in litigation that is related to EEO, prohibited discrimination, or reprisal matters.
- Take final action in all matters related to EEO, or prohibited discrimination or reprisal.

Volunteer and Trainee Claims

- Authority to make the final agency decision in Volunteer appeals from administrative separations.
- Authority to decide Volunteer appeals from determinations of ineligibility for benefits under Executive Order 11103, relating to non-competitive eligibility for federal employment.

Budget Controls: Integrated Planning and Budget System

The Office of Planning, Policy and Analysis develops the agency's strategic plan, which provides the basis for guidance to all parts of the agency in the annual preparation of its integrated planning and budget system (IPBS). The IPBS is the framework used by Peace Corps to carry out its planning and budget functions. In turn, the IPBS links back to the strategic plan through the agency's performance plan. The underlying principles of the IPBS are as follows.

- **Plan drives budget.** The Peace Corps strives to make its resource allocation decisions based on the goals and priorities of the agency. However, because of budget constraints, not every plan proposed is funded.
- **Performance substantiates requirements.** How well the office performs against the plan informs decision-making on funding allocation.
- **Reasonable planning horizon.** The strategic planning timeframe 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 Peace Corps operates. Looking ahead three years also evens the ups and downs of the government budget cycle, allowing plans to be accelerated in times of higher-than-expected budgets and decelerated in times of lower-than-expected budgets.
- **Right level of detail at the right time.** The system is iterative, with macro-planning and budgeting occurring first in the process and micro-planning and budgeting occurring later, near the start of the fiscal year.
- **Institutionalized vertical and horizontal communications.** The system prescribes both vertical and horizontal communication in its basic architecture. It serves as an agency integrator, since each part of the organization uses the same basic system.

PRINCIPLES OF IPBS

Plan drives budget

Performance substantiates requirements

Reasonable planning horizon

Right level of detail at the right time

Institutionalized vertical and horizontal communications

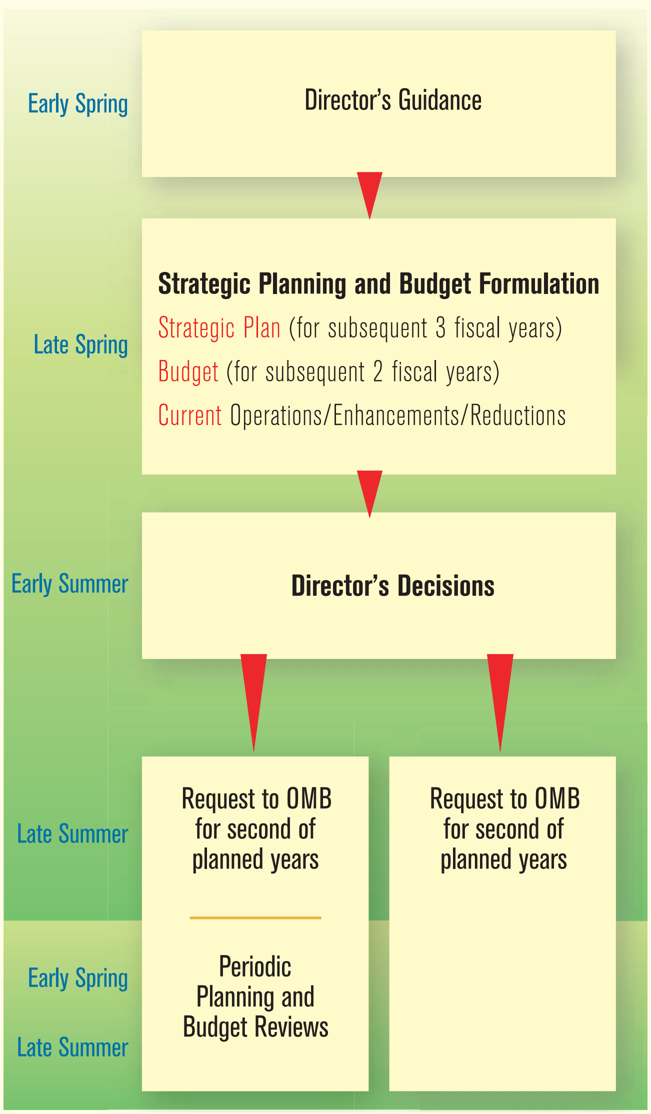
Current operations costing

- **Current operations costing.** The system formally recognizes that to repeat this year's operations in the next three years, costs will be different. Operations may cost or less, but will not cost the same. 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 budgeting tool only. It does not require the continuation of all current activities.

Major Processes

There are three major processes in the IPBS cycle. They are described below and displayed in the accompanying diagram.

- **Strategic Plan and Budget Process.** Peace Corps posts and offices, working with guidance from the Director, develop and/or update a three-year strategic plan that includes operational performance indicators. They submit the plan, performance indicators, and related requests for budget enhancements or reductions over the next two years to their regional and associate directors for review. These regional and associate directors subsequently present summary strategic plans, along with requests for budget enhancements or reductions, to the Director. Based on these presentations, and with senior staff input, the Director makes internal planning and budget decisions for the upcoming fiscal year and provides guidance for preparation of the OMB submission for the following year. The OMB submission is in the GPRA format. Regional and associate directors then pass back decisions to their posts and offices. This process takes place each spring, with Director's decisions occurring during the summer.



- **Operating Plan and Budget Process.** Based on the feedback and decisions from their regional and associate directors, each post and office prepares an operating plan and budget for the coming fiscal year. The plan takes the goals and objectives of the strategic plan and focuses on the next 12 months. (The strategic plan is resubmitted at this stage only if major changes are necessary.) The detailed budget is forwarded for associate or 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, and the fiscal year begins. This process occurs during the summer, with the Director's decisions occurring at the end of September. Detailed requests for assistance from the Center for Field Assistance and Applied Research accompany this submission.

- **Periodic Planning and Budget Reviews.** Two planning and budget reviews are conducted during the fiscal year. The plan portion provides a brief update on progress in accomplishing goals and describes proposed mid-course corrections if any are needed. The budget review focuses on budget execution and proposed reprogramming. Again there are two levels of review, one at the regional and associate director level and one at the agency level. In addition, a formal budget closeout review is conducted each November. A plan update is not required in this review because the second periodic review provides sufficient information.

Acquisition and Contract Management

Chief Acquisition Officer

In August 2004, the , Director established the chief acquisition officer (CAO) to champion better business acquisition practices at the Peace Corps and to effect implementation of acquisition policies, regulations, and standards providing sound acquisition decisions consistent with applicable laws.

The CAO has authority to:

- Authorize, execute, amend, terminate, or administer all contracts, leases, agreements, or other procurements; and make decisions, determinations, or findings relating thereto, unless otherwise specifically delegated to another employee for any amount.
- To delegate contracting authority to appropriate employees through Federal Contracting Officer warrants, Ordering Officer appointments, purchase card holder appointments and one time delegations to Country Directors for requirements above $50,000.
- When using other than full and open competition (sole source procurement), authority to approve and authorize the contracting officer's justification for each sole source procurement award and other determinations and findings related to such contract awards, in accordance with the Federal Acquisition Regulation for any amount.
- To maintain the Peace Corps Acquisition System as the Senior Procurement Executive/ Head of the Contracting Activity for the Peace Corps pursuant to E.O. 12931 (August 21, 1994).
- To implement EO 13170 (October 6, 2000), Increasing Opportunities and Access for Disadvantaged Businesses.
- To have direct communication with the Director's Office regarding contentious procurement matters when necessary to avoid legal or ethical ramifications.
- To act on all contracting authorities that are not reserved to the Director or specifically delegated to another employee.
- To authorize all interagency program agreements.
- To approve all interagency program agreements up to $50,000.
- To approve and authorize all personnel detail and fee-for-service interagency agreements.

Office of Acquisitions and Contract Management

- The Office of Acquisitions and Contract Management (OACM) was established in August of 2004 to provide support for Peace Corps supplies and services requirements through the Peace Corps acquisition system. This system defines outsourcing policy and processes for either contracts with the private sector or interagency agreements with other federal agencies. OACM is responsible for the policy and operational management of the agency's acquisitions domestically and overseas. Contracts, interagency agreements, memorandums of understanding transferring resources or funds, cooperative agreements, personal service contracts, and the government wide commercial purchase card fall under the purview of OACM. OACM awards all Peace Corps contracts above $50,000 and all interagency agreements. Country Directors at overseas posts maintain $50,000 contracting officer authority.

Financial Management

Chief Financial Officer

In 1991, the Peace Corps Director established the role and assigned the responsibilities for the agency's chief financial officer (CFO). The CFO has authority to:

- Establish effective financial management policies and internal controls.
- Ensure adequate systems to produce useful, reliable, and timely financial and related programmatic information.
- Develop useful financial analysis and performance reports.
- Integrate planning, budget formulation, budget execution and accounting functions.

- Ensure high-quality in financial management personnel.

The CFO reports directly to the Director regarding financial management matters, and provides the following functions to agency management:

- Oversees all financial management activities relating to the programs and operations of the agency;
- Develops and maintains an integrated agency budget accounting and financial management system, including financial reporting and internal controls;
- Directs, manages, and provides policy guidance and oversight to agency financial management personnel, activities and operations; and
- Monitors the financial formulation of the agency budget, the financial execution of the budget in relation to actual expenditures, and prepares and submits timely reports to the Director.

The CFO is both chief financial management policy officer and chief financial management advisor to the Director. The CFO has authority:

- To establish financial management policies for the agency and its component parts.
- To ensure compliance throughout the agency with applicable accounting standards and principles and financial information and systems functions standards (including the standard general ledger and the core requirements for financial systems).
- To establish, review and enforce internal control policies, standards and compliance guidelines throughout the agency involving financial management (including authority to require and ensure timely corrective actions regarding material weaknesses disclosed through audit findings and reports under the Federal Managers' Financial Integrity Act [FMFIA]); to establish, in coordination with senior managers, agency-wide internal control processes; to advise the Director on the accuracy and completeness of the annual FMFIA report; and to participate in monitoring and requiring corrective actions on reported material weaknesses (especially high-risk areas listed in the President's budget).
- To direct, manage, and provide policy guidance and oversight of, agency financial management personnel, activities, and operations, including preparation and annual revision of agency five-year financial management budgets.
- To ensure adequate controls over cash management operations; credit management and debt collection operations.

As the CFO's authority and responsibility for financial management systems covers the breadth of agency activity and the CFO's mandate is to integrate budget, financial, and programmatic data, the CFO is a voting member in the investment review board and may appeal decisions affecting financial management of which he/she disapproves to the CIO.

Within the CFO's responsibility to produce financial analysis and performance reports, the CFO has authority to:

- Mandate agency-wide, and for agency program and financial components, data and reporting formats (consistent with OMB guidance).
- Prepare all Peace Corps financial reports and statements for transmittal to the Director, OMB, the President, Congress, or external groups.
- Prepare consolidated and/or combined agency financial statements and work with the inspector general and other auditors to improve auditability.
- Develop, in coordination with senior managers, financial and programmatic performance indicators to include in financial systems and financial reports and statements.

Office of Planning, Budget & Finance and Other Financial Support Functions

The Peace Corps' Office of Planning, Budget and Finance (OPBF) carefully monitors the automated accounting reports and the monthly obligations of all budget holders. Also, Peace Corps regional directors and chief administrative officers monitor reports for Peace Corps countries to detect any apparent obligations in excess of approved country budgets. They promptly notify the CFO if an over-obligation is detected.

In the case of an over-obligation at the office or country level, the budget officer will verify the facts and determine the impact on the agency's administrative control of funds as well as what corrective action needs to be taken. This information is included in a report submitted by the budget officer to the CFO. In turn, the CFO may recommend appropriate administrative discipline up to and including suspension or removal of individuals responsible for serious or repeated over-obligation of administrative budgets.

The funds control system is fully integrated with the Peace Corps' financial management system. Reports against the operating plan can be generated at least monthly or as often as the budget holder wishes to review the status of funds. The accounting system also records and reports data on a cost basis against budget categories to aid funds control. Obligations and disbursements are entered into the agency accounting system through a combination of automated interfaces and user data entry (see "Financial Systems" below). Recording is based on proper documentation in accordance with 31 U.S.C. §1501, "Documentary Evidence Requirement for Government Obligations."

Overseas Financial Management

Budgets are issued to each country by the appropriate regional director (Africa; Inter-America and the Pacific; or Europe, the Mediterranean, and Asia). The issuance of country budgets represents a re-delegation of the obligation authority (delegated to the regional director by the CFO through the operating budget advice) to each country director. Country budgets are also reflected in the operating plan.

Regional directors are responsible for ensuring that country budgets within their region and their own headquarters budget does not exceed the amounts available to the region for obligation in any budgetary category. The Overseas Financial Management Handbook (OFMH) is issued to ensure that overseas posts have a reference guide that contains clear, concise, standardized financial management policies and procedures and to supplement the general policy guidance in the Peace Corps Manual. This handbook is continuously updated and revised to ensure posts have the most current information.

Business/Information Technology Volunteer in Moldova

MESSAGE | RESULTS OF THE GAP ANALYSIS AND PROGRESS ON CORRECTIVE ACTIONS

The Peace Corps sought and received a waiver of the Accountability of Tax Dollars Act of 2002 for the fiscal year ending September 2003. The waiver request contained a provision for a Gap Analysis to be performed in conjunction with the agency's Inspector General and an independent audit firm in lieu of a formal financial statement audit. While the agency was not able to prepare financial statements, the auditors focused primarily on internal controls. In that the Gap Analysis did not provide an auditor's opinion, the findings were categorized by type—financial management and accounting or systems and applications—and high, medium or low risk.

The most critical findings centered around basic finance, accounting, and systems issues, such as policies and procedures; US standard general ledger (USSGL) compliance; management and accounting of property, plant and equipment; internal controls and routine reconciliation; systems development life cycle; systems security, recovery, and contingency planning and execution; and data confidentiality, integrity and availability. The auditors cited five financial management and seven financial system weaknesses that presented a severe impediment to auditability.

Corrective actions plans were developed or areas of findings were planned for assessment and development in March 2004. As of September 30, 2004, four of the five financial and six of the seven systems findings have either been addressed or have actions in progress which will alleviate the finding. The agency is developing plans for the management and recording of property, plant and equipment and will be re-engineering the overseas front end, FOR Post, to accommodate IT security requirements which are the findings not yet acted upon. These plans are to be implemented in late FY 2005 and FY 2006 presuming the availability of funding. The Appendix contains a complete list of the findings with management's response and status of corrective action plans at September 30, 2004.

Volunteer in Ghana

MESSAGE | FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT

This fiscal year, the Peace Corps faced and addressed challenges in overarching transitions in staffing, technology, business processes, training and tools. During this past year, significant work toward strengthening the integrity of the data in the financial system has occurred. The conversion reconciliation efforts helped correct most errant beginning balances. However, much more needs to be done before the agency can provide reliable management information to support its decision-making and to provide sound, financial statements for audit.

The Peace Corps is restructuring financial management functions within the organization using a zero-based staffing model to create the optimal structure. While the approach has been deliberate and thoughtful, other workload priorities have hindered the agency's ability to bring forward a final plan as quickly as planned. At this point, the targeted implementation is December 2004.

Odyssey/FOR Post systems continue to present technical challenges. The complexity of the integration and the partial development of some of the functions led to maintaining technical expertise at higher levels of effort than originally planned. The changes in budget planning in FY 2004 required the agency to significantly scale back its technical support team and consequently its service-level delivery.

While some resources were identified in FY 2004 for training in federal accounting, the results of the training study performed in FY 2003 showed a 74 percent gap in staff knowledge of key areas. A reassessment of the training needs is planned for FY 2005 along with development of additional training curricula, if funding is available.

While the Peace Corps has trained more than 300 staff (200 overseas and 100 at headquarters) involved in its financial management function over the past year, at least 20 percent of the headquarters staff have turned over due to the agency's five-year rule. The Peace Corps is seeking innovative partnerships with other federal agencies to create the staff development opportunities needed to reduce this barrier to obtaining the appropriate skill base for financial management.

BUDGET, FINANCE, AND ACCOUNTING SEMINAR SERIES

Seminar 1:
Closing and Canceling Entries Using the SGL
Covered the quarterly and annual requirements to make adjusting and accrual entries in preparation for reporting. The reason and structure of the entries were discussed along with the sequencing. The year-end closing entries and ultimate canceling entries for appropriated funds were described in detail.

Seminar 2:
Federal Government Obligations—Concepts and Controls
Discussed the definition and concept of federal obligations as compared to cash based budgeting. The basic requirement for and types of documentation to support obligations will be discussed. The session will also discuss some of the basic legal controls and limitations of the obligation process. The process of creating, adjusting and reusing obligated authority will be explained.

Seminar 3:
The Federal Programming, Planning and Execution Concept
Explained the process of programming resources for the out-years, planning for the budget process and executing controls and reports of the current year. This overview included the discussion of the budgeting and distribution of resources and the need for establishing and tracking a financial plan.

Seminar 4:
Overview of the Federal Agency Reports and Reporting Process
Discussed the timeline and requirements for Federal reporting as required by the Office of Management and Budget. The discussion included a review of the form and content of the General Purpose Federal Financial Reports with all the requisite parts and supporting data to include the six basic federal reports.

Seminar 5:
Development and Relationships of Financial and Management Reporting
Discussed the requirements and structure of reporting in an organization. An explanation of how reports should be designed to meet the financial and managerial needs without creating additional workload was provided. Discussion included how to identify the key elements of information in designing internal reports while satisfying external report requirements.

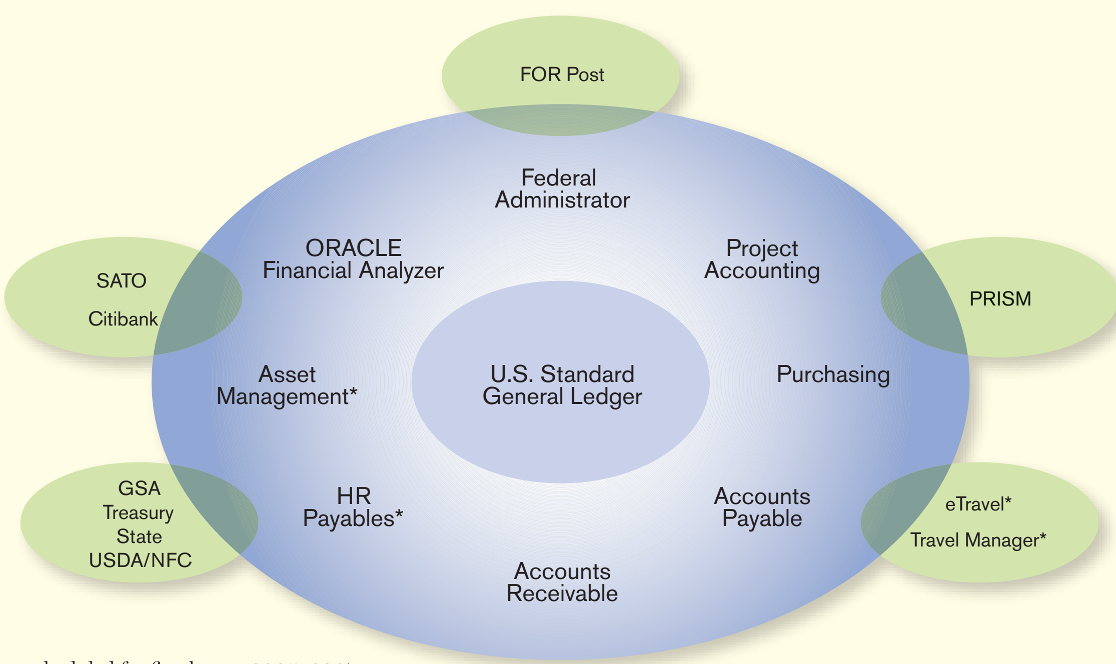
Financial Systems

Odyssey/FOR Post replaced an antiquated and inefficient mainframe technology and systems that could not satisfy current federal regulations or external financial requirements mandated by the OMB and the Department of Treasury on October 1, 2003. Prior to that date, the agency maintained a large number of stand-alone systems to satisfy financial management requirements beyond basic accounting. Most of the interfaces among these systems were manual and data was re-keyed multiple times. These systems included: IPBS (the detailed operating budget review system), procurement, international financial operations (IFO) software for administrative and financial operations performed in more than 70 posts, disbursing systems, domestic cuffs (the previous accounting system) maintained by the budget implementation teams, a Volunteer database for readjustment and other allowances, private-sector funds tracking, and many others. Maintaining interfaces among these systems was very time consuming, and keeping them in-sync required detailed reconciliation. The new financial management system is based on COTS software that integrates and streamlines the financial management and reporting process. Odyssey/FOR Post improves auditability and reduces duplicative and error-prone data entry. Data is entered only once. A transaction starts with a requester and passes through the entire financial process without data re-entry.

The Peace Corps investment review board, as configured at the time of investment, approved funding for the Odyssey/FOR Post project beginning in FY 1999, and again during the FY 2001, FY 2002, FY 2003 and FY 2004 IPBS approval processes. The Odyssey/FOR Post project is progressing toward full implementation and completion by FY 2007. The October 1, 2003, implementation date for domestic operations occurred as scheduled. Production operations and plans for project activities going forward are reviewed and monitored during the quarterly programming and budget review process, and through periodic reporting to the Director through the investment review board. As each phase of the Odyssey project completes, a post-implementation review will be conducted to ensure the investment continues to provide expected benefits.

The Odyssey project has been planned and is being implemented in three major phases to meet organizational capacity restrictions. A schedule of the planned release dates follows.

Figure: Odyssey/FOR post at Full Implementation



* Implementation scheduled for fiscal years 2005–2007

- **Phase I:** Odyssey/FOR Post phase I replaced the current financial systems with a COTS enterprise resource planning (ERP) package for better compliance, integration, and efficiency. Phase I includes the Oracle Federal Financial applications and which at that time was a JFMIP-certified ERP solution. General ledger management, core financial management, funds management and budget execution, accounts payable (including 1099/W2 tax processing), accounts receivable, financial reporting, project accounting, and human resources management system (HRMS) payroll. Implementation began October 1, 2003, with operations and maintenance thereafter.

  During FY 2004, the Odyssey team stabilized the production environment and planned, scoped and analyzed the next phase of implementation. JFMIP enhanced the certification requirements just prior to Peace Corps' implementation of Oracle Federal Financials, 11.5.7. Analysis, testing, documentation, and preparation for upgrading to the latest JFMIP-certified version of Oracle Federal Financial is now underway. An upgrade of the procurement management COTS software was completed in June 2004. This supports compliance with GSA reporting requirements for agency acquisitions and contracts management under FPDS.

- **Phase II:** The next phase of implementation planned for FY 2005, includes a full implementation of the JFMIP upgrade to Oracle Federal Financials; process and system changes to the U.S. Department of State financial system interface; foreign currency gains and losses enhancements; migration of the Volunteer readjustment allowance accounting and administration system to Oracle's HRMS, and COTS application system patches. Preparation for the implementation of a fixed assets and property management system, Volunteer in-country allowance, and budget formulation are planned for FY 2005.

ODYSSEY MODULES IN PRODUCTION

- Purchasing (PO)—reserves and obligates funds
- PRISM—contract management tool by CompuSearch
- Accounts payable (AP)—records items for payment
- Accounts receivable (AR)—reimbursable agreements, donors, travel advances, etc.
- Human resources (HRMS)—partial implementation—personal services contractor payments—Future: Volunteer readjustment and living allowances
- Project accounting (PA)—tracks Volunteer projects
- General ledger (GL)—basis for financial statements
- Oracle financial analyzer (OFA)—budget allocation and management
- Federal administrator (FD)—management reporting—information retrieval from all modules

FOR POST ADMINISTRATIVE AND FINANCIAL MANAGEMENT SYSTEM IN PRODUCTION

- Commit and obligate funds under budget authority
- Request check and EFT payments
- Transact cashiering activities
- Real-time financial management reports
- Single point of data entry—forms are generated from data entered into system
- Electronic interface to Odyssey
- Automatically reconciles to Odyssey records

- **Phase III:** Plans for Odyssey/FOR Post Phase III include implementation rollout to overseas installations as well as full-blown cost accounting across the agency. Agency IT infrastructure, communications and security capacities and resources are an integral part of Phase III planning and decision-making. Planning for travel management implementation and integration with Odyssey is scheduled for implementation in FY 2005, FY 2006 and FY 2007.

Peace Corps
Consolidated Balance Sheet
As of September 30, 2004
(In Thousands)

		FY2004	FY2003*
Assets			
Intragovernmental Assets			
Fund Balance With Treasury (Note 3)	$	95,488	
Non Entity Funds (Note 2)		25,287	
Accounts Receivable (Note 5)		1,127	
Total Intragovernmental Assets		121,902	
Assets With the Public			
Cash, Foreign Currency, and Other Monetary Assets (Note 4)		134	
Accounts Receivable (Note 5)		31	
General Property, Plant, and Equipment		-	
Other			
Prepaid Volunteer Living Allowances (Note 7)		3,665	
Other Assets (Note 8)		632	
Total Assets With the Public		4,462	
Total Assets	$	126,364	
Liabilities			
Intragovernmental Liabilities			
Other (Note 10)	$	46	
Unfunded FECA Liability (Note 9)		24,553	
Total Intragovernmental Liabilities		24,599	
Liabilities With the Public			
Accounts Payable		6,161	
Federal Employee and Veterans Benefits (Note 9)		125,709	
Other Liabilities With the Public			
Other Liability - Non-Entity Funds		25,287	
Other Unfunded Employment Related Liability (Note 9)		13,973	
Accrued Funded Payroll and Leave		2,880	
Unfunded Annual Leave (Note 9)		3,216	
Total Liabilities With the Public		177,226	
Total Liabilities (Note 10)		201,825	
Net Position			
Unexpended Appropriations		95,451	
Less: Cumulative Results of Operations		170,912	
Total Net Position (Note 14)	$	(75,461)	
Total Liabilities/Net Position	$	126,364	

***There were no reports submitted for End of Year FY2003**

The Accompanying Notes Are An Integral Part Of The Statements

Peace Corps
Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2004

(In Thousands)

		FY2004	FY2003*
Program Costs:			
Intragovernmental Gross Costs	$	55,347	
Less: Intragovernmental Earned Revenues (Note 15)		4,279	
Intragovernmental Net Costs		51,068	
Gross Costs With the Public		439,562	
Less: Earned Revenues From the Public		-	
Net Costs With the Public		439,562	
Total Net Costs		490,630	
Costs Not Assigned to Program		-	
Less: Earned Revenues Not Attributed to Program		-	
Net Cost of Operations	$	490,630	

***There were no reports submitted for End of Year FY2003**

The Accompanying Footnotes Are An Integral Part Of The Statements

Peace Corps
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2004

(In Thousands)

	FY2004 Cumulative Results of Operations	FY2004 Unexpended Appropriations	FY2003* Cumulative Results of Operations	FY2003* Unexpended Appropriations
Beginning Balances	$ (3,655)	$ 99,358		
Prior-Period Adjustments (+/-)	-	-		
Beginning Balances, As Adjusted	(3,655)	99,358		
Budgetary Financing Sources:				
Appropriations Received	-	310,000		
Other Adjustments (Rescissions, etc.) (+/-)	(8)	(2,543)		
Appropriations Used	311,364	(311,364)		
Transfers-In/Out Without Reimbursement	(1,153)	-		
Other Financing Sources	-	-		
Donations and Forfeitures of Property	7,885	-		
Transfers-In/Out Without Reimbursement	853	-		
Imputed Financing From Costs Absorbed by Others	4,448	-		
Other	(16)	-		
Total Financing Sources	323,373	(3,907)		
Net Cost of Operations (+/-)	(490,630)	-		
Ending Balances	$ (170,912)	$ 95,451		

***There were no reports submitted for End of Year FY2003**

Peace Corps
Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2004
(In Thousands)

		FY2004	FY2003*
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	$	310,000	
Unobligated Balance			
Brought Forward, Oct 1		17,501	
Net Transfers, Balances, Actual			
Spending Authority from Offsetting Collections (Gross)			
Earned			
Collected		4,069	
Receivable from Federal Sources		1,127	
Change in Unfilled Customer Orders			
Advance Received		29	
Without Advance from Federal Sources		(203)	
Recoveries of Prior-Year Obligations:		-	
Temporarily Not Available Pursuant to Public Law		-	
Less: Permanently Not Available			
Cancellations of Expired and No-Year Accounts		998	
Enacted Reductions		1,829	
Total Budgetary Resources	$	329,696	
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred (Note 15)			
Direct			
Category A	$	302,510	
Reimbursable			
Category A		4,105	
Unobligated Balances			
Apportioned:			
Balance Currently Available		9,673	
Unobligated Balances Not Available			
Other		13,408	
Total Status of Budgetary Resources	$	329,696	
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligated Balance, Net as of October 1	$	76,892	
Obligated Balance, Net, End of Period			
Accounts Receivable		1,127	
Unfilled Customer Orders from Federal Sources		618	
Undelivered Orders		65,246	
Accounts Payable		9,041	
Outlays:			
Disbursements		310,042	
Collections		4,098	
Net Outlays		305,944	
Less: Distributed Offsetting Receipts		-	
Net Outlays	$	305,944	

***There were no reports submitted for End of Year FY2003**

The Accompanying Footnotes Are An Integral Part Of The Statements

Peace Corps
Consolidated Statement of Financing
For the Fiscal Year Ended September 30, 2004
(In Thousands)

		FY2004	FY2003*
Resources Used to Finance Activities			
Budgetary Resources Obligated:			
Obligations Incurred	$	306,616	
Less: Spending Authority from Offsetting Collections and Recoveries		5,022	
Obligations Net of Offsetting Collections and Recoveries		301,594	
Less: Offsetting Receipts		-	
Net Obligations		301,594	
Other Resources			
Donations and Forfeitures of Property		7,885	
Transfers In/Out Without Reimbursement		853	
Imputed Financing from Costs Absorbed by Others		4,448	
Other Resources		(17)	
Net Other Resources Used to Finance Activities		13,169	
Total Resources Used to Finance Activities		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		8,711	
Resources that Fund Expenses Recognized in Prior Periods		-	
Credit Program Collections That Increase Liabilities for Loan Guarantees		-	
Resources that Finance the Acquisition of Assets		-	
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		8,411	
Total Resources Used to Finance the Net Cost of Operations		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		3,216	
Increase in Environmental and Disposal Liability		-	
Upward/Downward Reestimates of Credit Subsidy Expense (+/-)		-	
Increase in Exchange Revenue Receivable from the Public		-	
Other (+/-)		164,235	
***Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods* (Note 9)**		167,451	
Components Not Requiring or Generating Resources			
Depreciation and Amortization		-	
Revaluation of Assets or Liabilities (+/-)		(16)	
Other (+/-)		21	
Total Components Not Requiring or Generating Resources		*5*	
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		167,456	
Net Cost of Operations	$	490,630	

***There were no reports submitted for End of Year FY2003**

The Accompanying Footnotes 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 meet their need for trained men and women; promote a better understanding of the American people abroad; and, develop a better understanding of other peoples on the part of the American people.

The agency is presenting its first financial statements prepared in conformity with federal accounting standards, reflecting the results of operations to support the Volunteers in 73 countries.

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 in accordance with generally accepted accounting principles (GAAP) in the United States. The American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the body that established accounting principles for federal entities. These statements have also been prepared in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*, as amended, and the agency accounting principles which are summarized in these notes.

Since this is the first year to prepare statements in conformity with federal accounting standards, only the current year statements will be reflected.

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 non-governmental customers, including contributors, employees, contractors and vendors.

FEDERAL FINANCIAL STATEMENTS	
Statement	**Federal Objective**
Balance Sheet	The *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 Changes in Net Position	The *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 Net Cost	The *Statement of Net Cost* is intended to show 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 Budgetary Resources	The *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	The *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, funds 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 the 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 a statute that designates the fund as a special or trust fund.

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.

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 appropriations that provide the agency with authority to obligate funds for necessary expenses to carry out operations. The annual budget authority funds are available for one year beyond the close of that fiscal year for obligations and five years for those portions of unliquidated obligations. After the five year period, all unliquidated obligations 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 and 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, host country contributions, private sector funds, interagency agreements and non-expenditure transfers.

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.

Generally, donations received in the form of cash or financial instruments are recognized as revenue as their fair value in the period received.

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 restricted funds which include deposit and suspense accounts.

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.

Financial support is provided by the Department of State for operations overseas. For the overseas operations, monies provided through the Department's Financial Service Centers are held in an imprest fund by a Peace Corps cashier who is personally responsible for that fund. At each of the two Financial Service Centers, a U.S. Disbursing Officer has the delegated authority to disburse funds on behalf of the Treasury.

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.

i) Accounts Receivable

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

j) Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received. Advances are made principally to agency employees for official travel and 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)

The agency will review and revise the policies and procedures for capitalized property and equipment and related depreciation to be in accordance with Generally Accepted Accounting Principles (GAAP).

l) Accounts Payable and Other Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted and liabilities resulting from the agency's custodial activities. Also, the Government acting in its sovereign capacity can abrogate Peace Corps' liabilities (other than contracts).

m) 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 provided income and medical costs protection to cover Federal employees injured on the job or who have incurred a work-related occupational disease, and 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. Accrued annual leave is paid from future funding sources and is a liability that is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

IV. ***Employee Health Benefits and Life Insurance*** – The agency's employees are eligible to participate in the contributory Federal Employees Health Benefit Program (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 eligible to participate in the FEHEP and the FEGLIP may continue to participate in these programs during retirement. 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 (ORB) at the time the employee's services are rendered. 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. During fiscal year 2004 the cost factor related to FEHEP and FEGLI was $3 million and to FEGLIP was 0.02 percent of basic pay per employee enrolled.

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). Approximately 6 percent of Peace Corps employees participate in CSRS, 92 percent in FERS, and 2 percent in FSRDS.

Employees covered under CSRS contribute 7% of their salary; the agency contributes 7%. Employees covered under CSRS also contribute 1.45% of their salary to Medicare insurance; the agency makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.80% of their salary, with the agency making contributions of 10.70%. FERS employees also contribute 6.20% to Social Security and 1.45% to Medicare insurance. The agency makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the agency automatically contributes 1% of pay and matches employee contributions up to an additional 4%.

Foreign Service employees hired prior to January 1, 1984 participate in the FSRDS with certain exceptions. FSRDS employees contribute 7.25% of their salary; the agency contributes 7.25%. FSRDS employees contribute 1.45% of their salary to Medicare; the agency matches their contributions.

Foreign Service Nationals (FSN) 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. The agency does not report CSRS, FERS, FEHBP or FEGLIP assets, accumulated plan benefits, or unfunded liabilities applicable to its employees; OPM reports this information. As required by SFFAS No. 5, Accounting for Liabilities of the Federal Government, the agency reports the full cost of employee benefits for the programs that OPM administers. The agency recognizes an expense and imputed financing source for the annualized unfunded portion of CSRS, post-retirement health benefits, and life insurance for employees covered by these programs. The agency recognized $1.4 million in 2004 for unfunded pension and post-retirement benefits. The additional costs are not actually owed or paid to OPM, and thus are not reported on the Balance Sheet as a liability, but instead are reported as an imputed financing source from costs absorbed from others on the Statement of Changes in Net Position.

VII. ***Valuation of Foreign Service National (FSN) and Foreign National Personal Service Contractor (PSC) Separation Liability*** – Separation payments are made to eligible FSN employees and foreign national personal service contractors at posts in countries that require a separation payment. The amount required to estimate the current and future costs of the separation pay is determined annually.

The estimates for the FSN and Foreign National PSC Severance liability are based upon the same methodology. Until systems are in place to track the liability by individual and local labor law requirements, the estimate is based on an average of two months salary for every year of service.

n) 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.

o) Use of Estimates

The preparation of financial statements required management to make 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.

p) 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.

q) 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.

r) Beginning Balances

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 the Treasury Account Fund Symbol (TAFS). The obligations, receivables and payables detail from the legacy system were transferred. Data was 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 adjusted to the U.S. Treasury fund balances. Due to this approach there may be items that could create a future liability that have not been captured in the beginning balances.

s) Adjustments to Maintain Inherent Account Relationship Integrity

At the end of the 2004 fiscal year, the working trial balance was reviewed and a determination was made that the reports were out of balance due to missing relationships between funds and authority and authority and appropriated funds. For instance, an expense was incurred in the proprietary accounts, but the associated entries had not been taken to all of the related budgetary accounts. The problem was not with the data but with the posting logic that maintains the USSGL relationships between the proprietary and the budgetary activities.

Criteria were established to govern changes to the trial balance. Since the Treasury funds represent budget authority in the government system, the fund balances in the financial system were confirmed to match the Treasury balances. Budgetary and proprietary accounts are related in several dimensions. There is a direct correlation between the unused authority and the unused appropriation value. With the correct fund balances and the related authority in line, the unexpended appropriation would also be correct.

Once the analysis was complete, the adjusting entries were made to the accounting system at the highest levels of accounting. All adjustments were made based on standard posting logic of the U.S. Treasury’s approved USSGL transaction codes.

NOTE 2 Non-Entity Assets | Balance Sheet

Non-entity assets are comprised of deposit and suspense funds temporarily held on behalf of the U.S. Government. Below are the Treasury Fund balances as of September 30, 2004:

Trust Fund Accounts	September 30, 2004 In Thousands
Gifts and Contributions (Cash)	$ 849
Advances from Foreign Governments	52
Foreign Service National (FSN) Separation Liability Trust Fund	6,561
Special Fund Accounts	
Proceeds of Sales	1,490
Clearing Account	(91)
Deposit Fund Accounts	
Volunteer Readjustment Allowance	16,455
Volunteer Payroll Allotment Account (Payroll Savings Bond Account)	(29)
Total Non-Entity Assets	$ 25,287

Trust Fund Accounts – Gifts and Contributions represents funds from public, non-governmental 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 cost of Foreign Service National employees for separation pay based on local labor law.

Special Fund Accounts – The Proceeds of Sales funds represent cash received from the sale of a vehicle or non-vehicle asset and available to be reinvested in a like-kind replacement purchase; i.e., proceeds from vehicle used to purchase a replacement vehicle. The Clearing Account is a temporary holding account for unidentified intragovernmental fund activity to be analyzed and placed into proper fund account.

Deposit Fund Accounts – The Volunteer Readjustment Allowance is an allowance earned by volunteers for each month of satisfactory service and payable upon his or her 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.

Disclosure: Receivables for the Volunteer Readjustment Allowance Fund – On September 30, 2004, this Deposit Fund had a receivable in the amount of $274K. This amount consists of receivables from volunteers for $18K and from the Internal Revenue Service for $256K related to a Form 941 quarterly payment for withheld income and FICA taxes for volunteers.

NOTE 3 Fund Balance with Treasury | Balance Sheet

General Fund Balance		September 30, 2004 In Thousands
Status of Fund Balance with Treasury		
	(1) Unobligated Balance	
	(a) Available	$ 9,673
	(b) Unavailable	13,408
	(2) Obligated Balance not yet Disbursed	72,407
	Fund Balance with Treasury	$ 95,488

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

Available Unobligated Balance – Comprised of apportionments available for allotment plus allotments available for obligation or commitment.

Unavailable Unobligated Balance – Comprised 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 adjustment to existing obligations.

Statement of Differences – As of September 30, 2004, the Statement of Differences (SF6652) from the U.S. Treasury reflected a net difference of $783K for deposits and disbursements. The process and tools necessary to reconcile the details with the U.S. Treasury will be developed in Fiscal Year 2005.

NOTE 4 Cash and Other Monetary Assets | Balance Sheet

Cash and Other Monetary Assets	September 30, 2004 In Thousands
Cash	$ 134
Foreign currency	-0-
Other Monetary Assets	-0-
Total Cash and Other Monetary Assets	$ 134

The cash balance represents imprest funds at Headquarters ($100K) and at the East Timor post ($34K), both held in U.S. currency.

NOTE 5 Net Accounts Receivable | Balance Sheet

	September 30, 2004 In Thousands
Accounts Receivable - Intragovernmental	$ 1,127
Accounts Receivable from the Public	31
Total Accounts Receivable	$ 1,158

Intragovernmental receivables are due from other federal agencies for reimbursable agreements. All intragovernmental receivables are considered collectable.

Accounts receivable from the public are from non-federal entities consisting primarily of receivables from employees.

There will be no allowance for doubtful accounts as of September 30, 2004 due to the relatively small number and dollar amount of non-federal receivables, and to the lack of a standard procedure for estimating uncollectible accounts.

NOTE 6 General Property, Plant, and Equipment | Balance Sheet

The Fixed Assets module was not part of the implementation of the new financial management system, Odyssey/FOR Post. Current plans are to inventory and establish property values in the next year and bring the Fixed Assets module on line in the Fiscal Year 2006.

General PP&E has been recorded in the financial system as an expense for fiscal year ending September 30, 2004 reporting purposes. PP&E balances were not brought forward from the non-USSGL compliant legacy system.

NOTE 7 Prepaid Volunteer Living Allowances | Balance Sheet

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

Prepaid Volunteer Living Allowances – Volunteer allowances are sent to the posts prior to the due date so the posts can assure timely payments of the allowances. Payments received prior to the due date are held at the post until the payments are due. Volunteers are entitled to these allowances so they may serve effectively and safely overseas. Once paid, these allowances will cover from one to three months of future rent, utilities and local transportation.

NOTE 8 Other Assets | Balance Sheet

	September 30, 2004 In Thousands
Relocation Advances to Employees	$ 66
Advances to FN-PSCs	101
Travel Advances to Employees	465
Total Other Assets	$ 632

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

Advances to Foreign National Personal Service Contractors (FN-PSC) – The posts were forwarded the Foreign National Personal Service Contractors' bi-weekly payment prior to the pay period ending October 2, 2004. This amount represents one day of advanced pay processed for Friday, October 1, 2004.

Travel Advances to Employees – Travel advances are provided to employees when appropriate. Advances remain in the financial record until the obligation is cleared or cancelled.

The Peace Corps currently does not have any amounts for other assets on its books except for Advances. There is a current project underway to identify, value, and report all the property at its headquarters and 70 world-wide locations.

NOTE 9 Liabilities Not Covered by Budgetary Resources
Future Funding Requirements

Intragovernmental Liabilities	September 30, 2004 In Thousands
Unfunded FECA Liability	$ 24,553

Liabilities with the Public	
Unfunded Annual Leave	3,216
Other Unfunded Employment-Related Liability	13,973
Federal Employee and Veterans Benefits	125,709
Total Liabilities Not Covered by Budgetary Resources	$ 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; i.e., costs for the DOL 2004 billing period will be included in the agency's budget request for Fiscal Year 2006.

Unfunded Annual Leave – A liability for annual leave is accrued as leave is earned and paid when leave is taken. The balance represents the estimated value of annual leave for U.S. hired employees earned as of September 30, 2004. These payments are made when the individual terminates and paid for out of current appropriations.

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

Unfunded Liabilities Disclosure – The valuation of the accrued annual leave for Foreign Service National (FSN) employees and the Foreign National PSCs has not 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.

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

Intragovernmental Liabilities	September 30, 2004 In Thousands
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	$ 17
Advances from Others	29
Total Other Intragovernmental Liabilities	46
Unfunded FECA Liability *(Note 9)*	24,553
Liabilities with the Public	
Accrued Funded Payroll and Leave	2,880
Unfunded Annual Leave *(Note 9)*	3,216
Accounts Payable	6,161
Other Unfunded Employment-Related Liability *(Note 9)*	13,973
Non-Entity Assets *(Note 2)*	25,287
Federal Employee and Veterans Benefits	125,709
Total Liabilities	$ 201,825

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 disposition or reclassification.

Advances from Others – The balance of amounts advanced by other federal entities for goods and services to be furnished; i.e., money advance for SPA grants.

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; i.e., costs for the DOL 2004 billing period will be included in the agency's budget request for Fiscal Year 2006.

Accrued Funded Payroll and Leave – The estimated liability for salaries, wages and funded annual and sick leave that have been earned but are unpaid.

Unfunded Annual Leave – A liability for annual leave is accrued as leave is earned and paid when leave is taken. The balance represents the estimated value of annual leave for U.S. hired employees earned as of September 30, 2004. These payments are made when the individual terminates and paid for out of current appropriations.

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

Non-Entity Funds – Fund balances comprised of deposit and suspense funds temporarily held on behalf of the U.S. Government. For details of the fund balances, see Note 2.

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 11 Commitments and Contingencies | Disclosure

The agency is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $69,543K as of September 30, 2004.

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 neither probable nor measurable as of this statement date. The ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of the agency.

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 $1,050K as of this date.

Obligations related to canceled appropriations for which the agency has contractual commitments for payout are estimated to be $180K as of September 30, 2004.

NOTE 12 Leases | Disclosure

CAPITAL LEASES:
Inventory and valuation of capital leases will be included in the plans to complete the recording of the agency's inventory of property, plant and equipment (PP&E).

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 leases, whether commercial or government-owned properties, are managed by the General Services Administration (GSA) as GSA is the sole federal government manager of domestic leases.

Some leases provide for tenant improvement allowances and provide that these costs be amortized over the length of the leases. Under the terms of the lease, the agency agrees to reimburse the landlord for the principal balance of the unamortized portion of the tenant improvement allowance in the event the agency vacates the space before lease expiration. The lease expiration dates range from 2004 and 2012.

Domestic rent expenditures for the year ended September 30, 2004 were $9,112K.

The operating lease information represents the future cost of current contracts with GSA. Future minimum lease payments due as of September 30, 2004 are as follows:

Fiscal Year	In Thousands
2005	$ 7,945
2006	7,709
2007	7,497
2008	5,397
2009	1,293
Thereafter	3,499
Total future minimum lease payments	$ 33,340

International leases are local contracts authorized by the country director of the host country. The agency is committed to approximately 500 international leases, which cover office and functional properties, and residential units at overseas posts. The majority of these leases are short-term, operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases.

NOTE 13 Imputed Financing | Disclosure

	2004 In Thousands
Federal Employees Health Benefit Program (FEHBP)	$ 3,008
Federal Employees Group Life Insurance Program (FEGLIP)	11
Civil Service Retirement System (CSRS)	875
Federal Employee's Retirement System (FERS)	263
Foreign Service Retirement and Disability System (FSRDS)	291
Total Imputed Costs	$ 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 Net Position | Balance Sheet

Net position consisted of the following:

Unexpended Appropriations	September 30, 2004 In Thousands
Unobligated – Available	$ 25,908
Undelivered Orders	69,543
Total Unexpended Appropriations	95,451
Less: Cumulative Results of Operations	170,912
Total Net Position	(75,461)

Unexpended Appropriations – This amount reflects that portion of the entity's appropriations represented by undelivered orders and unobligated balances.

Cumulative Results of Operations – Net results of operations since inception plus the cumulative amount of prior period adjustments. This balance primarily includes liabilities requiring future funding. See Note 9, Liabilities Not Covered by Budgetary Resources, for details of liabilities requiring future funding.

NOTE 15 Exchange Revenues | Statement of Net Cost

	2004 In Thousands
Intragovernmental Earned Revenues	$ 4,279
Earned Revenues from the Public	-0-
Total Exchange revenues	$ 4,279

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

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

NOTE 16 Gross Cost and Earned Revenue by Budget Functional Classification Statement of Net Cost

Intragovernmental Gross Costs – Gross costs paid to other intergovernmental agencies for services provided to the agency; i.e., property rental paid to the General Services Administration, payroll services from the National Finance Center and overseas services provided by the Department of State.

Intragovernmental Earned Revenue – Earned revenue received from other intragovernmental agencies for services provided.

Gross Cost and Earned Revenue with the Public – Gross cost with the public are those incurred with non-governmental customers, including contributors, employees, contractors and vendors. The agency does not earn revenues from the public.

NOTE 17 Apportionment Categories of Obligations Incurred Statement of Budgetary Resources

In fiscal year 2004, the agency's apportionments received from the Office of Management and Budget (OMB) were all Category A, apportionments distributed by fiscal quarters.

NOTE 18 Incidental Custodial Collections | Disclosure

The agency collected immaterial custodial revenues that were incidental to the primary missions. Less than $200 was received to offset the cost of a Freedom of Information request (FOIA).

Supplementary Information

Disclosure on Contributions in 2004 –

1. Media Contributions received – The agency received $7,855K in print, radio and television media contributions through public service announcements.

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

   The estimated value of the cash contributions received in 2004 ranges from $800K to $900K in U.S. Dollar equivalents. These contributions are received in local currency and maintained at post to support the volunteers. As the agency changed its financial management system, so did the Department of State (DOS). Reconciliation of these cash contributions will be possible once the DOS is able to capture the agency's local currency amount and an identifier for the transaction agreed upon. The agency anticipates the issues will be resolved and the cash contributions reconciled in fiscal year 2005.

   Policies and procedures will be reviewed and revised to capture the valuation of the in-kind host country contributions.

Peace Corps

Office of Inspector General

To: Gaddi Vasquez, Director

From: Allan R. Gall, Acting Inspector General Allan Gall

Date: November 12, 2004

Subject: FY 2004 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 2004 financial statements. UKW's Report includes the firm's *Opinion 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
76 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 made 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 2004 financial statements. Because of matters identified in their report, UKW issued a disclaimer of opinion on Peace Corps' FY 2004 financial statements. UKW noted six material weaknesses in internal controls and identified that the Peace Corps' systems do not comply with federal financial management system requirements and Federal accounting standards.

Paul D. Coverdell Peace Corps Headquarters
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1.800.424.8580 · www.peacecorps.gov

OIG Evaluation of UKW Audit Performance

To fulfill our responsibilities under the The Accountability of Tax Dollars Act of 2002 and related legislation for ensuring the quality of the audit work performed, we monitored UKW's audit of Peace Corps' FY 2004 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 at key points;
- Examining its workpapers related to planning the engagement and assessing Peace Corps' internal control;
- Reviewing UKW's audit report 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 12, 2004, 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.

UK Urbach Kahn & Werlin LLP
&W CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Office of the Director
United States Peace Corps

Office of the Inspector General
United States Peace Corps

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

Peace Corps has not maintained adequate accounting records and sufficient supporting documentation for a substantial portion of the balances presented in the accompanying financial statements. Further, Peace Corps' internal controls were not adequate to ensure that its assets were properly safeguarded from loss, damage, or misappropriation, and that transactions were accurately and completely recorded. Accordingly, 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 maintain adequate accounting records and sufficient supporting documentation, or have adequate internal controls, 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 as of and for the year ended September 30, 2004.

The Management's Discussion and Analysis and supplemental schedules of transactions with intragovernmental trading partners are not a required part of the financial statements, but are Required Supplementary Information as established by the Federal Accounting Standards Advisory Board and Office of Management and Budget Bulletin 01-09, *Form and Content of Agency Financial Statements.* Because of the reasons explained in the preceding two paragraphs, we were unable to apply certain limited procedures prescribed by professional standards on the Management Discussion and Analysis and the omitted supplemental schedules of transactions with intragovernmental trading partners.

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An Independent Member of Urbach Hacker Young International

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued reports dated November 5, 2004 on our consideration of Peace Corps' internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. 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 5, 2004

UK Urbach Kahn &Werlin LLP
&W CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Office of the Director
United States Peace Corps

Office of the Inspector General
United States Peace Corps

We were engaged to audit the financial statements of the United States Peace Corps (Peace Corps), an independent executive branch agency, as of and for the year ended September 30, 2004, and have issued our report thereon, dated November 5, 2004, in which we disclaimed an opinion on those financial statements for the reasons noted in that report. We conducted our engagement in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

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 OMB Bulletin No. 01-02. 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 performing their assigned functions in the normal course of business. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected.

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

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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 processes.

3. Peace Corps did not have adequate controls over financial reporting processes.

4. Peace Corps did not have adequate controls over Fund Balance With Treasury accounts.

5. Peace Corps did not have adequate controls over Property, Plant and Equipment.

6. 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, for Peace Corps, which we have reported to the management of Peace Corps in a separate letter dated November 5, 2004.

This report is intended solely for the information and use of the Peace Corps' Office of Inspector General, the management of Peace Corps, 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 5, 2004

UK
&W

REPORTABLE CONDITION 1 (Material Weakness)

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

Financial management structure and control environment

During fiscal year 2004, we noted that Peace Corps began to take measures to improve the financial management structure, including increased involvement of senior management and its Office of Inspector General in the financial reporting process. Additionally, Peace Corps retained external consultants to assist with implementing Peace Corps' new financial management and accounting system (Odyssey). The consultants assisted with reconciling beginning balances, organizing the periodic reporting function, and compiling Peace Corps' financial statements. Peace Corps also implemented a corrective action plan to address findings reported in our Gap Analysis report, dated July 15, 2004. These measures have resulted in the improvement of certain elements of Peace Corps' financial management.

However, 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. We found that Peace Corps' accounting records were incomplete, many policies and procedures were not finalized, supporting documentation was not available, and critical accounting and reconciliation procedures were not performed.

Peace Corps overseas Post accounting and reporting functions

During fiscal year 2004, Peace Corps financial management officials initiated improvements related to the coordination of the accounting and reporting functions between the Post activities and Headquarters. However, significant deficiencies resulting from this process remained. While transaction data is initially entered at the Posts and flows through Headquarters where it is centralized in Odyssey, Headquarters may make changes to the data submitted. There is no validation of the resulting records by Posts. Separately, Posts inconsistently accounted for checks and cash received from the State Department and Peace Corps Headquarters. As a result, Peace Corps was unable to reliably report the status of cash and prepaid Volunteer living allowances at year-end.

Inadequate monitoring of the account reconciliation process

Peace Corps management has a responsibility to ensure the propriety of general ledger transactions and account reconciliations. We noted that Peace Corps management did not adequately monitor or require the preparation of account reconciliations. System limitations were noted as the primary reason that detailed reconciliations were not performed. Odyssey cannot currently generate detailed subsidiary ledgers or reconciliation reports. Without proper monitoring, management was unable to ensure that

REPORTABLE CONDITION 1 (Material Weakness), CONTINUED

Peace Corps financial statements were prepared in accordance with relevant authoritative guidance. Peace Corps used an external consultant to compile the fiscal year 2004 financial statements. The consultant used their own software and formulas, posting logic and adjustments to perform this task. Peace Corps accounting and reporting personnel were not able to explain the procedures performed or provide support for the adjustments made by the external consultant. Peace Corps personnel were not properly trained to compile financial statements and ensure they were prepared in accordance with applicable standards.

GAO's *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. 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.*
>
> *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.*

We recommend the Director of Peace Corps ensure that:

1. Accounting and reporting policies and procedures are finalized and implemented throughout Peace Corps. These policies should include responsibilities and required reconciliations for each accounting area.

2. The CFO document the current cash and check handling procedures at Posts, outline any discrepancies with Peace Corps policy, and propose a corrective action plan to management, including any necessary policy changes.

3. The detailed subsidiary ledgers, agings and reconciliation reports necessary for Peace Corps accountants and managers to perform their responsibilities are programmed into Odyssey.

REPORTABLE CONDITION 1 (Material Weakness), CONTINUED

4. Peace Corps accounting personnel are given responsibilities for financial reconciliation and reporting. Require them to team with the external consultant to learn the reconciliation and financial statement preparation process in order for Peace Corps accounting personnel to perform these functions independently by the end of FY 2005.

5. There is a combined Odyssey and accounting team tasked to evaluate the processes the external consultant used to compile the financial statements; and work to implement those capabilities into Odyssey so the financial statements can be prepared directly from the general ledger system. Ensure all proposed adjustments are fully supported.

6. The Posts are provided with their site's Odyssey data transmission activity and the Administrative Officer is trained to be responsible for reviewing and resolving their Post's data at least quarterly.

REPORTABLE CONDITION 2 (Material Weakness)

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

Unsupported balances

Significant unsupported amounts were reported in the fiscal year 2004 financial statements related to ending balances in Fund Balance with Treasury, Other Assets/ Prepaid Volunteer Living Allowances, Accounts Payable and Undelivered Orders, and the majority of beginning balances. Research is being performed by Peace Corps in an attempt to resolve the unsupported balances.

Inability to provide accounting records and supporting documentation

Peace Corps was unable to provide adequate accounting records and supporting documentation for numerous account balances, which precluded us from performing sufficient procedures to express an opinion on the financial statements.

Improper handling of receivables and advances

Peace Corps does not charge interest on overdue readjustment allowance overpayments and other receivables. In addition, advances are not monitored and reclassified as receivables after a reasonable time period. Thus they are not being subject to normal interest, collection and write-off procedures. Peace Corps has not established a policy on monitoring of advances.

Intragovernmental and transactions with the public were not properly classified

The Federal/non-Federal distinction is not being utilized at the transaction level and therefore intra-governmental 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, the accounting personnel were not aware of this capability and have not used it.

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.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

OMB Circular A-123 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.*

We recommend the Director of Peace Corps ensure that:

7. Research is continued to locate supporting documentation for the balances that are recorded in financial statements. A solution should be defined and approved for the final disposition of any remaining unsupported balances. Ensure approved policies and procedures name key responsible positions for reconciliation and maintenance of supporting documentation for their assigned accounts.

8. Peace Corps' record retention policies and procedures are enhanced to allow for the timely production of adequate supporting documentation to substantiate Peace Corps financial statement account balances.

9. An approved policy is prepared for management to review advances and reclassify to receivables after a reasonable period of time.

10. Interest is calculated and charged in accordance with applicable debt collection guidance.

11. The Odyssey team reviews the Federal and non-Federal classification functionality to ensure the proper reporting results can be achieved; and then work with accounting managers to ensure this classification procedure is included in the policies and procedures and accounting personnel are properly trained.

REPORTABLE CONDITION 3 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER FINANCIAL REPORTING PROCESSES

As discussed in Reportable Condition 1, Peace Corps used an external consultant to assist with preparing the financial statements. The trial balance data from Odyssey was manually entered into an ancillary Excel-based model and then additional processing and compiling was performed, using a United States Standard General Ledger (USSGL) financial statement template, to arrive at the financial statements in the format required by OMB. Many on-top adjustments were made to force accounts to balance with the decision to research them later. Certain logic formulas were incorporated to balance the accounts.

Peace Corps management has the responsibility to ensure the propriety of general ledger transactions and adjustments generated by the external consultant. We noted that management did not adequately monitor the preparation of the financial statements by the external consultant, including adjustments to the financial statements. Additionally, the extensive processes (specialized worksheets and adjustments) required to generate the Peace Corps financial statements preclude the availability of perpetual financial statement data as a management and monitoring mechanism throughout the fiscal year.

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.*

REPORTABLE CONDITION 3 (Material Weakness), CONTINUED

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.*

Recommendations

We recommend the Director of Peace Corps ensure that:

12. Peace Corps management, in conjunction with the external consultant, review and refine the current process of generating financial statements in an effort to improve the accuracy and usefulness of reporting.

13. Peace Corps management review 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 authorization of adjusting entries.

14. Opening balances in Odyssey at October 1, 2004 agree with ending balances as presented in the September 30, 2004 financial statements, inclusive of all adjustments posted (for example, Federal Employment Compensation Act adjustments or account reclassifications).

REPORTABLE CONDITION 4 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER FUND BALANCE WITH TREASURY ACCOUNTS

Peace Corps receives the Department of Treasury 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 was unable to reconcile its monthly cash activity from its general ledger with Treasury's FMS 6653, creating the risk that the cash activity and the related general ledger transactions for the year may have been misstated. Instead, Peace Corps manually adjusted its general ledger balance by approximately $1.8 million to agree with Treasury's balance at September 30, 2004.

In addition, Treasury sends a FMS 6652, *Statement of Differences,* to Peace Corps each month that reports the differences between the SF224, *Statement of Transactions* that Peace Corps submits to Treasury compared to Treasury's recorded transactions. The differences reported to Peace Corps are not being researched and resolved. As of September 30, 2004, there were net differences of approximately $2 million related to disbursements and approximately $2.8 million for deposits. Peace Corps indicated that Odyssey cannot generate a detailed report listing all the disbursements and deposits that make up the total on the SF224 they submit and therefore they do not currently have a way to research the Treasury differences in Odyssey.

Recommendations

We recommend the Director of Peace Corps ensure that:

15. Peace Corps' Odyssey general ledger cash balance is being reconciled to Treasury's SF 6653 throughout the fiscal year to demonstrate that the Fund Balance With Treasury is properly reported. Management should review the reconciliation and approve any necessary adjustments.

16. The Odyssey team is tasked to correct the detailed reporting deficiency so the accounting division can reconcile disbursements and deposits with Treasury recorded transactions.

17. Policies and procedures include the responsibility of researching and resolving differences noted by Treasury.

REPORTABLE CONDITION 5 (Material Weakness)

PEACE CORPS DID NOT HAVE ADEQUATE CONTROLS OVER PROPERTY, PLANT AND EQUIPMENT

The lack of reconciled schedules supporting the Property, Plant and Equipment (PP&E) general ledger account precluded Peace Corps from determining the propriety of their pre-closing PP&E balance. Therefore, they expensed the entire balance that was brought forward from the legacy system and reported a zero balance for Property, Plant and Equipment on the Consolidated Balance Sheet.

Peace Corps did not maintain a consolidated listing of assets comprising PP&E along with the related depreciation that could be used as a basis for valuing PP&E. Separate listings were maintained at each site where the assets were located. Posts could not properly support the date that certain assets were acquired or disposed of during fiscal year 2004, and in some cases, the acquisition cost of the asset was not supported. The PP&E spreadsheets Peace Corps Posts were keeping were not in a module or software that interfaced with Odyssey to comply with financial management system reporting requirements issued by OMB.

Further, we noted that Peace Corps did not communicate and monitor their capitalization policy at the Posts and Headquarters.

OMB Circular A-123, 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.*

SFFAS Number 6, *Accounting for Property, Plant and Equipment* states,

> *In the period of disposal, retirement, or removal 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.*

REPORTABLE CONDITION 5 (Material Weakness), CONTINUED

OMB Circular A-127, states,

> *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. 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.*

Recommendations

We recommend the Director of Peace Corps ensure that:

18. Policies and procedures are developed to generate a baseline consolidated reconciled schedule supporting the balance of Peace Corps' Property, Plant and Equipment.

19. Detailed property listings and reconciliations are periodically reviewed by appropriate personnel to identify potential misstatements and errors, and to ensure consistency of accounting treatment related to asset acquisitions and disposals.

20. Peace Corps Property Management System Database and Odyssey are integrated, and the Fixed Asset Module of Oracle Federal Financials is implemented to capture all acquisitions and disposals of Property, Plant and Equipment and depreciation-related transactions and to support the Property, Plant and Equipment balance.

REPORTABLE CONDITION 6 (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 fiscal year 2004, including the continued implementation of its accounting systems, Odyssey, and FOR Post/HQ. However, the following significant internal control weaknesses related to Odyssey, the FOR Post/HQ systems and Peace Corps Overseas Information Technology (IT) environment were identified as of September 30, 2004.

Control Weaknesses

Weaknesses exist in the Peace Corps IT environment that present risk to the Agency's financial data confidentiality, integrity, and availability. Specifically:

- The Peace Corps IT Recovery Plans have not been completed and do not reflect the current IT environment. For example, the plans do not include recovery information for the new Odyssey or FOR Post/HQ financial systems. Therefore, the Odyssey and FOR Post/HQ systems do 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 only have an Interim Authority to Operate (IAO). The systems have not been fully certified and accredited. 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.

- The Peace Corps Odyssey system does not use appropriately secured methods for data transmissions. Specifically, Odyssey connections with internal Peace Corps systems are not encrypted. The Peace Corps uses File Transfer Protocol (FTP) for data transmissions. Therefore, sensitive data is at increased risk of unauthorized disclosure as it is transmitted across the network. By relying on the standard FTP sign-on and without encrypting files to be transferred, both user authentication and file transfer take place in plain text and both are easily readable by individuals if the line of transmission were to be intercepted or compromised. Because of this inherent vulnerability, FTP is considered an insecure data transmission protocol, and one that presents a significant risk to the transmission of sensitive Peace Corps data.

- The FOR Post/HQ applications have inadequate data integrity validation controls in place. Proper controls are not in place to detect modification of data prior to the FTP process. Proper procedures have not been implemented to ensure the safeguarding of data during the transfer phase. Should data become corrupted in transit from the Post to Headquarters or vice-versa, verification of the validity

REPORTABLE CONDITION 6 (Material Weakness), CONTINUED

of the data must come from manual intervention. This risk could be mitigated by using a digital checksum on data prior to transmission and checksum verification on receipt assuring its integrity. Without proper data integrity features, it is not possible for Peace Corps to ensure data input, processing and output is accurate and efficient. Without an effective means of protecting FOR Post/HQ data, the risk of loss, misuse, unauthorized access, or unauthorized modification increases substantially.

- The Systems Development Life Cycle (SDLC) methodology for FOR Post/HQ is currently in draft form and has not been finalized. Changes to the application are occurring without a formalized change control process. Without a documented life cycle methodology, critical factors may not be taken into consideration throughout the software development and implementation process, in order to limit cost, management, and technical risk during the implementation of complex systems. Full documentation ensures that adequate planning, documentation, security analysis, and testing are performed.

- Peace Corps overseas Posts have 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 becomes 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 under support.
  - Post proxy server was no longer supported.
  - Budget for training, security, or otherwise, of IT personnel was currently non-existent.

  In FY 2004, the Peace Corps overseas IT budget decreased significantly. This contributes 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 that security vulnerabilities will not be addressed.

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

REPORTABLE CONDITION 6 (Material Weakness), CONTINUED

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:

> *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.*

Federal Information Processing Standards Publication (FIPS PUB) 46-3 states:

> *Data that is considered sensitive by the responsible authority, data that has a high value, or data that represents a high value should be cryptographically protected if it is vulnerable to unauthorized disclosure or undetected modification during transmission or while in storage.*

REPORTABLE CONDITION 6 (Material Weakness), CONTINUED

OMB Circular A-130, Appendix III, requires federal agencies to establish life cycle management (LCM) controls, configuration management controls, and the use of software standards for all system software configuration management and change controls.

Additionally, NIST 800-14, Generally Accepted Principles and Practices for Securing Information Technology Systems, requires security to be managed and planned for throughout the IT system life cycle of initiation, development/acquisition, implementation, operation, and disposal.

Recommendations

We recommend the Peace Corps Director ensure that:

21. 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.

22. 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.

23. A secure data transmission protocol for the Odyssey system is implemented to protect user sign-ons to FTP services. It is also recommended that management consider encrypting sensitive files prior to loading them into the FTP service, if FTP will continue to be relied upon.

24. Adequate data integrity controls are implemented for the FOR Post/HQ applications to ensure data integrity during the transfer of data.

25. The Peace Corps SDLC methodology be implemented and incorporated for the FOR Post/FOR HQ system.

26. 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Office of the Director
United States Peace Corps

Office of Inspector General
United States Peace Corps

We were engaged to audit the financial statements of the United States Peace Corps (Peace Corps), an independent executive branch agency, as of and for the year ended September 30, 2004 and have issued our report thereon, dated November 5, 2004, 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 and regulations 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 and regulations, 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, 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 and regulations applicable to Peace Corps.

The results of our tests of compliance with the laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

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 at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances, described below, where Peace Corps did not substantially comply with Federal financial management systems requirements and applicable Federal accounting standards. 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. Consequently, Peace Corps' system does not comply with applicable Federal accounting standards.

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

Specific conditions attributable to this noncompliance and related recommendations for corrective actions are more fully described in our Independent Auditor's Report on Internal Control dated November 5, 2004.

The results of our tests disclosed no instances in which the Peace Corps' financial management systems did not substantially comply with the United States Standard General Ledger at the transaction level.

Providing an opinion on compliance with certain provisions of laws and regulations 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 Peace Corps' Office of Inspector General, the management of Peace Corps, 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 5, 2004

Office of Inspector General

To: Gaddi Vasquez, Director

From: Allan R. Gall, Acting Inspector General Allan Gall

Date: October 29, 2004

Subject: Management Challenges for the Peace Corps in FY 2005

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 and evaluation work and general knowledge of the agency's operations.

Managing Resources

In his first State of the Union address, President Bush called for a doubling of the number of Peace Corps Volunteers in the field. The agency accepted this challenge and submitted budgets that would support annual, incremental increases in the number of Volunteers. The agency reports actual growth from 5925 to 7733 Volunteers in the field from the end of FY 2002 to the end of FY 2004.

Management, rightly, takes pride in the agency's increased total applications (80% of them on-line), its increased number of diverse Americans serving as Volunteers, the highest appropriation in the history of the Peace Corps, and the highest number of Volunteers in the field in 29 years. The Peace Corps has entered or reentered 16 new countries in the past three years and has requests from another 30 to open programs.

Unfortunately, the agency's appropriations for FY 2002, 2003, and 2004, while up modestly, did not match the requests in the President's budget and have not supported the growth in Volunteer numbers proposed in the President's budgets. The proposed levels of growth were trimmed each year, but the agency maintained its commitment to growth and succeeded in that as noted above.

Growth occurred despite the fact that during this same period the agency incurred several new financial obligations. 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 the 70+ programs overseas that belts have been too severely tightened. 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. One of the more questionable cost-saving decisions by some country programs has been to shorten the training period for Volunteers at the beginning of their service.[1]

The challenge in FY 2005 and beyond—absent significant increases in appropriations—will be to make hard choices. At what appropriation level does the agency abandon growth? Should the agency ignore requests for programs in new countries, some of which have a compelling need, or should it accommodate this opportunity by closing some current programs? What does the Peace Corps need to do to make a case based on the effectiveness of its programs overseas to justify increases in budget that do not show increases in numbers of Volunteers in the field?

Budget Development and Budget Execution

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. There is every reason to expect that the FY 2005 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 often 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 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 made progress in recent years on the improvement of its information technology architecture and security management. The agency has reconstituted an investment review board to review major information technology projects, worked to develop an enterprise-wide architecture, and shown incremental

[1] Some posts have cut Pre-Service Training as a strategy to spend more for in-service training. This is not what is meant here. This is a reference to cuts made solely in order to meet budget.

improvements in its information technology security management program. With these improvements in place, management is in a position to address a number of challenges it still faces with regard to information technology, some of which are listed below:

- Many of the agency's information systems have not received their final accreditations and certifications 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.
- Components of the information technology architecture of the agency's 70+ overseas posts will no longer be supported by the manufacturers after December 2004. Funding for and implementation of replacements for these critical components needs to be accelerated.
- 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

This has been a watershed year for the Peace Corps in its efforts to improve financial management. At the beginning of FY 2004, the agency completed the implementation of its core financial accounting systems at headquarters and its 70+ posts worldwide. This was the culmination of several years of effort to design and implement a modern financial accounting system for the Peace Corps. Much of the financial management team's effort in FY 2004 has been dedicated to the post-implementation challenges associated with this effort. These challenges included ensuring that transactions were processed properly and timely as agency financial personnel learned the capabilities of the new financial accounting system.

Looking forward, the next challenge for the agency is for the financial management team to move from a transactional processing focus to a financial management focus. This includes: (1) setting policies and procedures in place that enable the staff to systematically manage the financial system; (2) strengthening internal controls, such as financial reconciliations, to ensure the integrity of the data processed and reported; and (3) developing reporting tools that facilitate management of the agency's day to day and month to month activities.

During FY 2004, the agency also made some interim changes in the financial management team's structure in response to the requirements of the new financial accounting system. The agency needs to follow through on the restructuring initiative to align staff resources with the new financial processes and internal control environment. In addition, the agency needs to hire and retain personnel with the appropriate skills and experience needed to maintain and improve upon the considerable progress that has been made in FY 2004. The implementation of a sophisticated and integrated financial system increases the need to develop a comprehensive strategy to reduce staff turnover and mitigate the effects of turnover that occurs. A high staff turnover rate will continue to negatively affect the agency's ability to implement sound financial management.

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 extended considerable effort on the requirements of this section 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 and their position descriptions 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:

- Documenting that the considerable resources devoted to safety and security positively affect Volunteers' safety.
- Reducing the occasional risky behavior of some Volunteers.[2]
- Managing 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.

Programming

The most important challenge for the agency is to meet the first of the three purposes articulated in the Peace Corps Act "…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 a Peace Corps Volunteer's experience that contributes to their safety and security and makes their two years of service satisfying.

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[2] 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.

The agency's historic and continued emphasis on numbers of Volunteers in the field exerts pressure on country staff to develop programs that can utilize generalist skills. We do find some countries where the Peace Corps is demonstrating that generalist Volunteers with sufficient training, site development, and program structure can contribute effectively to the needs of local communities. But, they succeed with intensive staff work up-front and on-going.

Projects utilizing Volunteers without technical skills must have concrete activities and roles for Volunteers, must have rigorous site selection, must nurture sponsoring agencies and counterparts, and must have exemplary technical training and support for Volunteers. This is challenging, staff-intensive work. Examples of programs in which Volunteers serve without technical skills include health and environmental education, youth development, rural and community development, and municipal and business development. In these programs, Volunteers often report that their host country sponsors are unclear, uninterested, or inadequately prepared 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 from the time they arrive at their site until they leave.

Unfortunately, some posts place Volunteers in the field under a broad program umbrella with little structure and with the directive to find something to do. A few Volunteers even in that situation thrive and become the "super Volunteers" whose success is used to justify their program, but this is unfair to the majority of Volunteers who do not have much success in unstructured settings or, if they succeed, may do so only after many months of frustration. Volunteers' own estimate of productivity show that many work only a few hours per week on their primary assignment.[3] This self-reporting is likely high. But even taking the reporting at face value, we find underutilization of Volunteers a significant weakness for the Peace Corps.

We find that lack of meaningful work is closely linked to 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 and are less likely to engage in risky behavior, which most often occurs off-site.[4] Staffs overseas expend considerable effort to enforce policies designed to keep Volunteers at their sites. But 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.

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[3] The agency's most recently available data on this is from 2002. 38% of the Volunteers reported working 20 or fewer hours per week on their assignment— 30% reported 30 or more hours. Some Volunteers find engagement with secondary projects, and these are encouraged by all posts. But this, again, puts the onus on the Volunteer to find something productive to do, and 55% of the Volunteers in the same survey reported working 10 or fewer hours per week on a secondary project.

[4] In our surveys and interviews Volunteers report their site as the place where they feel safest.

Volunteers' motivation for joining the Peace Corps is to help the people of other countries meet their needs. The challenge for the agency is to make goal one a reality for more of its Volunteers. Some programs demonstrate that this is possible.

A further challenge related to programs is the early termination rate. Approximately a third of all Volunteers terminate service before the end of their two years of service.[5] We find that this is clearly affected by the quality of the programs. We find the early termination rates in effective programs to be low, sometimes less than 10%. But we find the early termination rate for some programs—often those with little structure—to be unacceptably high. In recent evaluations, we found early termination rates of 100% in several small, ill-conceived programs, and 50% is not uncommon in programs for which the Volunteers and their communities are not prepared and not clear about the Volunteer's purpose. This is inefficient and counterproductive to the goal to increase Volunteers in the field. The challenge to the agency is to use early termination data—real data based on the difference between the number who entered training and the number who completed service—as a management tool to hold program managers accountable to develop programs in which Volunteers are feeling too rewarded to leave early except for reasons unrelated to their experience as a Volunteer.

Training

The challenge for management in Volunteer training is better technical preparation. The majority of Volunteers report that their technical training fails to provide them the skills they need for credibility in the work they are asked to do. This is critical in unstructured programs utilizing Volunteers recruited without technical skills. As noted earlier, we believe it is not cost effective to achieve savings by cutting Volunteer training.

The most favorable reports about technical training and technical support come from Volunteers in countries where the program staff are principals in providing the pre-service technical training. This model assures an early bond between the program support staff and the Volunteers and a sense of accountability in the staff for how well the Volunteers have been prepared for their assignments. This model is the exception, not the rule.

The agency, rightly, prides itself on its language training, and Volunteers most often rate their language training high. 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 do a better job of identifying sites early so that Volunteers can receive training in the local language of their prospective sites.

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[5] We use this term here to mean the percentage difference between the number of Volunteers in a specific group when it begins training until the group's end of service date 27 months later. We recognize that some Volunteers leave for medical or other reasons not related to the quality of their assignment. Nevertheless, for comparative purposes the rate presents an accurate picture.

Technical support

A significant challenge for the agency is to improve technical support. Volunteers report few site visits by the program managers with insufficient content. This situation is exacerbated by the pressure to increase the numbers of Volunteers. Country directors who accept additional Volunteers routinely do not receive authority and money to increase program staff. We find the program support staff stretched thin in many countries and frustrated with the time spent responding to the administrative requirements of the agency.

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 Special Project Assistance (SPA) funds from USAID, the Ambassador's fund, funds raised by Volunteers' friends and family, and funds raised from private corporations. This phenomenon leads in some countries and in some projects to an expectation that Volunteers will be a source of funds. This is particularly a problem for Volunteers assigned to assist local non-government organizations that depend exclusively on foreign sources for funding. Volunteers feel pressured to be fund-raisers generally—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.

Leadership and Management

The agency staffing configuration has inadequate capacity to oversee the 70+ programs overseas and hold country directors accountable. Country directors do not have adequate program staff to develop and support programs that place the number of Volunteers the agency is fielding in assignments that have them engaged for 30 or more hours per week in meaningful and satisfying work.

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 always 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 for headquarters management is to get this message out there as the top priority, support country directors in doing it,[6] and 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 implement programs 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 the top priority, 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. But this is not impossible. Resources follow crises.

The challenge for management is to make programming the Peace Corps' top priority and set targets for numbers of Volunteers in the field[7] commensurate with its ability to assure them a quality experience.

[6] Country directors we interview report feeling pressured to increase their number of Volunteers without adequate staff and budget support.

[7] It is not intended by this statement to imply that this is a challenge precipitated by actions unique to current management. The emphasis on numbers is a problem that dates back to the Peace Corps' beginnings. This happens to be one of the times in the agency's history when numbers appear to be outstripping appropriations.

Peace Corps

MEMORANDUM

From: Gaddi H. Vasquez, Director

To: Allan R. Gall, Acting Inspector General

Date: November 9, 2004

Subject: Response to October 29, 2004 Memorandum on 'Management Challenges for the Peace Corps in FY 2005'

Thank you for your memorandum of October 29, 2004 on the management and performance challenges faced by the Peace Corps, as required by the Reports Consolidation Act of 2000 and OMB guidance.

The work of the Inspector General continues to be well integrated with agency activities, and to provide important insights. It is through this partnership that the agency has been able to address, and in most instances resolve, outstanding issues and recommendations from the Inspector General's Office.

106 The Inspector General's memo accurately acknowledges that the Peace Corps has responded to the President's goals for growth, but has faced challenges along the way. Namely, the funding provided in the appropriations process has fallen significantly short of the amounts necessary to reach the goal of doubling the number of Volunteers in the field. Thus, the Peace Corps has pursued the strongest growth possible within the constraints of our resources while staying focused on safety and security and preserving the quality of the Volunteer experience.

The Peace Corps strives to overcome challenges with strategically targeted efforts.
The Inspector General's memo noted particular challenges for the agency, and the below items reflect agency responses to a few key issues.

<u>Pre-Service Training</u> – The Peace Corps is proud of its exemplary training program that equips Volunteers to become effective in their host communities. Management does not support cuts in essential training as a cost-saving measure and is reviewing the matter across the agency. While it is not an agency-wide trend, a handful of posts currently have plans to shorten the length of their Pre-Service Training (PST). Although the Peace Corps must always evaluate the effectiveness of its training and make decisions accordingly, shortening PST across the board for budget reasons will not be permitted.

<u>Underutilized Volunteers</u> – A Volunteer's primary assignment is of great importance, but should be considered in relation to all three of Peace Corps' goals in mind. Thus, a Volunteer who has a robust secondary project, is connecting with local host country nationals, and is sharing his or her cross-cultural experiences with Americans, is well-rounded in accomplishing the Peace Corps' goals, even if the Volunteer is not spending forty hours a week at his or her primary assignment. In fact, the same survey data used to note that 30% of Volunteers reported spending

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30 or more hours a week on their primary assignments also shows that 43% of Volunteers reported spending 10 to 40+ hours of their average work week on a secondary assignment. While a handful of Volunteers may not reach their full potential, the majority of Volunteers work hard to fulfill all three of Peace Corps' important goals.

Programming – The agency acknowledges programming as an essential component of a positive Volunteer experience, and that 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 new programs are established or host country needs require additional Volunteers, the Peace Corps uses the annual Integrated Planning and Budget System (IPBS) process to outline the appropriate staff levels necessary to provide a quality experience for an increase in the 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.

In concert with the IPBS, the Peace Corps requires overseas posts to develop plans for their Volunteer projects that describe the goals, objectives, and life span of the project. The Peace Corps also has an annual Project Status Review (PSR) process, which provides a comprehensive review of current programming to help ensure maximum effectiveness. The plan is reaffirmed or altered based on lessons learned in the iterative planning process. This review helps the Peace Corps to assess whether Volunteers have useful assignments that feed into the development goals of the host country.

Through the PSR process, budget reviews, project evaluations, and staff training, the agency will continue to strengthen its efforts to provide quality programming for all Volunteers.

Overall, the agency will continue to address the challenges of operating the Peace Corps in the 21st century within the world climate and budget realities. The Peace Corps is pleased to be on a pathway for growth and will continue efforts to provide an excellent Volunteer experience, while positively contributing to the development of host countries around the world

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 voluntary 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 also 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

The Peace Corps Strategic Plan:
Answering the Call to Service Around the Globe

Opportunity in the Twenty-First Century

The Peace Corps is pleased to present the agency's strategic plan for fiscal years 2003 to 2008. Not only does the strategic plan 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, but it institutionalizes a comprehensive safety and security approach and furthers the modernization of the agency's support infrastructure to help achieve the vision to meet the growing needs of the world in this century.

The mission of promoting world peace and friendship, as well as the three goals of the Peace Corps, have remained the same since its inception. Development indicators suggest that there will be even greater challenges for nations on all continents as they deal with the demands for improved development, information technology, agriculture, education, sanitation and environment, health management, and small business.

Recognizing the strategic relevance of the Peace Corps in the 21st century, President Bush declared in numerous speeches over the past two years, that "…the United States remains committed to ensuring a future of peace, hope, and promise for all people, and the Peace Corps is playing a critical role in these efforts."

President Bush's frequent references to the Peace Corps and the agency's new drive to reacquaint the American people with the mission of the Peace Corps has resulted in a significant increase in the number of Americans seeking to serve. At the end of 2003, inquiries were up by 9 percent, new applications rose 10 percent, and the Peace Corps website had a 32 percent increase, for a total of 5.7 million visitor sessions. Since January 2002, over 30 countries have requested Peace Corps programs, 24 country assessments have been conducted, and the Peace Corps has entered or reentered 14 countries.

In September 2003, the Peace Corps achieved a 28-year high of 7,533 Volunteers serving in 73 countries. Peace Corps is pleased to be on a pathway for growth; however, the amounts provided in the appropriations process for the past two years have fallen significantly short of that needed to meet the goal of doubling the number of Volunteers over five years. Thus, we are pursuing the strongest growth possible within the constraints of our resources, while preserving the quality of the Peace Corps Volunteer experience and focusing on safety and security.

Vision

The Peace Corps' vision is to assist interested countries around the world while providing an effective and satisfying Volunteer experience for a diverse group of Americans in a safe and secure environment, and to build an operational infrastructure to efficiently and effectively support the Volunteer in the 21st century.

Mission

The mission and three goals of the Peace Corps are as relevant today as they were 43 years ago when they were first defined in the Peace Corps Act of 1961. 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.

Strategic Planning Process

The integrated planning and budget system (IPBS) is the Peace Corps' primary strategic planning mechanism. IPBS is consistent with the planning process defined by the Government Performance and Results Act (GPRA). It features a multilevel strategic planning process that requires each Peace Corps office and sub-office to set goals and establish measurable objectives and specific tasks—in essence, a performance plan—with related timelines. IPBS is based on a three-year planning cycle, and every Peace Corps office and overseas post is required to define its goals and objectives and develop a strategic plan and budget that will enable the office to meet them. These plans are based on projected levels of funding; however, they are adjusted accordingly if these levels are not realized through actual appropriations. This is possible through the annual update of the three-year plan. IPBS begins with an assessment and evaluation of the previous year's plans and projects. It then identifies lessons learned, potential improvements, and plans for the future.

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

This year's agency planning process began in the spring with the issuance of Director Vasquez's guidance. In addition to reaffirming the agency's mission and goals, the offices specifically 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 review activities, each overseas post, sub-office, and major office assembled its respective performance plan for the coming strategic plan period FY 2003 through FY 2008 with emphasis on defining the outcome and performance goals together with accompanying performance indicators.

The director has also established the inter-office quality statements and indicators project (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 actually result in higher quality operations and service.

For example, each office's individual 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 to meet the GPRA goals, they need to conduct certain training, provide certain services, etc. QSIP provides a means by which the Peace Corps can measure if these plans actually work by asking for feedback from Volunteers about the quality of their experience. 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 for evaluating progress in these areas is the biennial Peace Corps Volunteer survey because this survey is completed by approximately 70 percent of serving Volunteers. It is, therefore, a useful source of feedback by which Peace Corps can track its progress.

The Peace Corps' Goals for Fiscal Years 2003–2008

In response to President Bush's challenge to increase the size of the Peace Corps, the agency is focusing on growth while providing a positive experience for all Volunteers in a safe and secure environment. This document presents the four strategic goals the Peace Corps seeks to achieve from FY 2003 through FY 2008. 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 increasing the number of Volunteers in the field from 7,533 in FY 2003 to 11,250 by FY 2008, at a rate consistent with funding levels and infrastructure support.

Strategic Goal 2

Improve the health and safety of Volunteers by improving the Volunteer health care satisfaction rate by 7 percent, from 75 percent in FY 2002 to 82 percent in FY 2008; and increasing Volunteers' perceptions 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' visits to schools and community organizations by 28 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 222 days in FY 2003 to 212 days by FY 2008.

Strategic Goal 1

Assist interested countries with their identified needs by increasing the number of Volunteers in the field from 7,533 in FY 2003 to 11,250 by FY 2008, at a rate consistent with funding levels and infrastructure support.

Strategy

The Peace Corps is committed to growing the number of Volunteers in the field. This growth, which is strategically and incrementally implemented, is balanced with the need to preserve the core values of the Peace Corps and provide the infrastructure necessary to support the work of the Volunteers and the business of the agency. To meet the challenges for growth in the 21st century, the Peace Corps is focusing action items in the following areas.

Infrastructure Support

Under the direction of the Offices of the Chief Information Officer and Chief Financial Officer, the Peace Corps is developing the necessary technical infrastructure to streamline current operational processes that will support the Volunteers in the field. In addition, management is reviewing personnel practices to identify and analyze trends and future needs among Volunteers and staff that will be used to inform workforce processes and resource allocations. These analyses will also inform policy decisions and maximize resource efficiency and quality of service.

Recruitment

While four-year institutions have been the main source for Volunteers over the years, the Peace Corps is now working with the American Association of Community Colleges to expand recruiting activities at community colleges. Assignment areas, such as health and information technology, can often be filled by community college graduates who are trained in these qualifying skills.

Efforts to expand the applicant pool also include reaching out to those of diverse age groups and ethnic backgrounds who have previously been under-represented in the Peace Corps. The Peace Corps is currently identifying venues, such as national conferences or publications, and developing partnerships with key agencies and organizations to assist with recruitment. Efforts to increase the number of older Americans serving in the Peace Corps involve identifying senior Peace Corps officials and returned Peace Corps Volunteers (RPCVs) who can be spokespersons at national conferences and other speaker forums. The Office of Medical Services (OMS) is developing materials for use in informing older Volunteers about issues of interest to them, such as the impact on retirement benefits, insurance, and medical benefits.

Communications

The Peace Corps launched the new awareness and recruitment campaign “Life is calling. How far will you go?” in September 2003. This campaign included the placement of a significant number of public service ads in strategic venues. To date, this campaign has earned over 2 million dollars in free media and has garnered over 251 million audience impressions.

Retaining Applicants and Volunteers

Significant effort has been made to retain applicants, trainees, and Volunteers from the time that they apply until the time they close their service. The training framework project provides a means by which applicants can start preparing for their service using online educational tools. During the application process, the training modules can help them get a head start in learning about culture, languages, and the personal responsibility requirements, which increase their chances for success. The Peace Corps also completed an applicant dropout study and a newly expanded early termination study to help identify reasons that applicants and Volunteers drop out of the system. This helps enhance the agency’s systems and addresses issues that negatively impact retention rates.

In addition, both the programming and training and the recruitment and placement QSIP committees have developed performance goals to ensure that Volunteers are satisfied and effective. To achieve this, Volunteers are trained to live and work successfully in the context of their assignments and cultural environment. Their satisfaction will be measured by questions in the next Peace Corps Volunteer survey and the newly designed completion-of-service study. Outcome goals related to the satisfaction levels of Volunteers in this area will be established next year.

Outcome Goal 1.1
Increase the number of Volunteers in the field from the FY 2003 level of 7,533 to 11,250 (49 percent) by FY 2008, assuming full funding for FY 2005 and future requests.

Performance Goal

1.1.1 Incrementally increase in subsequent performance years Volunteers/trainees on board from the FY 2003 level of 7,533 to 11,250 (49 percent) by FY 2008.

1.1.1.1 Increase Peace Corps Volunteers to 7,840 (4 percent) over FY 2003 level by FY 2004.

1.1.1.2 Increase Peace Corps Volunteers to 8,704 (16 percent) over FY 2003 level by FY 2005.

1.1.1.3 Increase Peace Corps Volunteers to 9,300 (23 percent) over FY 2003 level by FY 2006.

1.1.1.4 Increase Peace Corps Volunteers to 10,200 (35 percent) over FY 2003 level by FY 2007.

1.1.1.5 Increase Peace Corps Volunteers to 11,250 (49 percent) over FY 2003 level by FY 2008.

Outcome Goal 1.2
Increase the combined number of applications to the Peace Corps from under-represented ethnic and age groups from 19 percent to 25 percent by FY 2008 to provide Volunteers to interested countries that better reflect American diversity.

Performance Goal

1.2.1. Increase the combined number of underrepresented ethnic and age groups applying to the Peace Corps from 19 percent to 25 percent by FY 2008.

1.2.1.1 20 percent of applicants will be from under-represented groups by FY 2004.

1.2.1.2 21 percent of applicants will be from under-represented groups by FY 2005.

1.2.1.3 22 percent of applicants will be from under-represented groups by FY 2006.

1.2.1.4 23 percent of applicants will be from under-represented groups by FY 2007.

1.2.1.5 25 percent of applicants will be from under-represented groups by FY 2008.

Outcome Goal 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 FY 2008 through improved matching of Volunteers' skills and primary assignment, and improved satisfaction rate of Volunteer health and safety.

Performance Goal

1.3.1. Reduce the overall Volunteers' 12-month ET rate by 2.5 percent from FY 2003 level of 11.6 percent to 9.1 percent by FY 2008.

1.3.1.1 Reduce the overall 12-month ET rate to 11.1 percent by FY 2004.

1.3.1.2 Reduce the overall 12-month ET rate to 10.6 percent by FY 2005.

1.3.1.3 Reduce the overall 12-month ET rate to 10.1 percent by FY 2006.

1.3.1.4 Reduce the overall 12-month ET rate to 9.6 percent by FY 2007.

1.3.1.5 Reduce the overall 12-month ET rate to 9.1 percent by FY 2008.

Strategic Goal 2
Improve the health and safety of Volunteers by improving the Volunteer health-care satisfaction rate by 7 percent, from 75 percent in FY 2002 to 82 percent in FY 2008; and increasing Volunteers' perceptions of their personal safety where they live by 3 percent, from 86 percent in FY 2002 to 89 percent in FY 2008.

Strategy
Because the Peace Corps Volunteer survey in 2002 captured these data, the baselines have been set. The Peace Corps will continue to measure performance against the results of the survey to determine if target outcomes are met. If they are not met, however, the following areas can be used to evaluate and reassess processes and practices and implement changes to ensure that these targets are achieved.

Office of Medical Services Technical Guidelines
OMS recognizes that technical guidelines are established to provide comprehensive health services and preventative education to Volunteers. These guidelines provide for rigorous training requirements, licensing and certification, and performance standards for medical staff. They also establish critical guidelines for training and medical care for Volunteers. Finally, these policies ensure that screening guidelines are based on current research, best practices, and knowledge of the field that is reviewed every two years.

Emergency Care
OMS provides medical evacuation and support to Volunteers who require medical and/or psychological care beyond what is available in-country. To achieve this, the medical staff conducts prompt field consults (within 48 hours) and responds to the immediate medical and emotional needs of the Volunteer or trainee in-country. Medevac Volunteers also receive timely and quality Medevac care, and, if appropriate, may return to country.
Special Services for Volunteers

The Office of Special Services provides comprehensive services and training to Volunteers that advocate for and promote healthy emotional adaptation to their Peace Corps service. This is critical to ensuring that Volunteers have a positive and productive experience in-country and the support necessary to handle crises and challenging situations.

Safety and Security Personnel
The new Office of Safety and Security, in coordination with post-level and regional safety and security personnel, provides for a safety and security framework for Volunteers. This involves training in how to maintain one's safety while serving in a foreign country as well as assistance in addressing any safety related issues. When Volunteers feel adequately prepared and have access to guidance and assistance from safety and security staff, they are more likely to feel safe at home and at work.

Safety Policies
The safest and most secure Volunteer is one that is at site, well-known, accepted, and integrated into the community. This comes by learning the local language, the culture, working in a well designed project, and staying close to host families. The safe Volunteer takes responsibility for his or her own behavior and knows how to minimize personal risks. The recent Volunteer survey indicates that these policies are being followed, and that most of the time, Volunteers feel safe where they live and work. The Peace Corps will, however, always continue to review and enhance its safety and security policies.

Outcome Goal 2.1
Increase the percentage of Volunteers indicating feeling “well” or “completely” satisfied with their in-country health care from the FY 2002 level of 75 percent to 82 percent by FY 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 health care.

2.1.1.1 75 percent Volunteers’ satisfaction rate on their health care by FY 2002

2.1.1.2 78 percent Volunteers’ satisfaction rate on their health care by FY 2004

2.1.1.3 80 percent Volunteers’ satisfaction rate on their health care by FY 2006

2.1.1.4 82 percent Volunteers’ satisfaction rate on their health care by FY 2008

Outcome Goal 2.2
Increase the percentage of Peace Corps Volunteer survey responses indicating that Volunteers feel safe most of the time where they live from the FY 2002 level of 86 percent to 89 percent by FY 2008.

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.

2.2.1.1 86 percent of the Volunteers feel safe most of the time where they live by FY 2002.

2.2.1.2 87 percent of the Volunteers feel safe most of the time where they live by FY 2004.

2.2.1.3 88 percent of the Volunteers feel safe most of the time where they live by FY 2006.

2.2.1.4 89 percent of the Volunteers feel safe most of the time where they live by FY 2008.

Strategic Goal 3
Improve Americans’ understanding of other peoples by increasing returned Peace Corps Volunteers’ visits to schools and community organizations by 28 percent, from 7,000 in FY 2003 to 9,000 by FY 2008.

Strategy
The Peace Corps achieves its third goal of improving Americans’ understanding of other peoples by providing opportunities and resources to RPCVs and educators to promote a better understanding among Americans about other cultures and other people around the world. The Peace Corps seeks to increase the number of these opportunities by increasing the number of colleges and universities participating in the USA/Fellows programs. This goal is also achieved by ensuring that RPCVs have the information about and support they need to engage in third goal activities.

Outcome Goal 3.1
Increase the number of RPCV visits to schools and organizations by 28 percent from the FY 2003 level of 7,000 to 9,000 by FY 2008.
Performance Goal

3.1.1 Increase RPCV visits to schools and organizations by 28 percent from the FY 2003 level of 7,000 to 9,000 by FY 2008.

3.1.1.1 Increase RPCV visits to schools and organizations by 400 from the FY 2003 level of 7,000 to 7,400 in FY 2004.

3.1.1.2 Increase RPCV visits to schools and organizations by 800 from the FY 2003 level of 7,000 to 7.800 in FY 2005.

3.1.1.3 Increase RPCV visits to schools and organizations by 1,200 from the FY 2003 level of 7,000 to 8,200 in FY 2006.

3.1.1.4 Increase RPCV visits to schools and organizations by 1,600 from the FY 2003 level of 7,000 to 8,600 in FY 2007.

3.1.1.5 Increase RPCV visits to schools and organizations by 2,000 from the FY 2003 level of 7,000 to 9,000 in FY 2008.

Strategic Goal 4
Reduce the Peace Corps' overall response time for those applying to the Peace Corps by 5 percent, from 222 days in FY 2003 to 212 days by FY 2008.

Strategy
The application process to become a Volunteer can be lengthy and efforts are being made to reduce the application time. However, because the Peace Corps must determine if a potential Volunteer would be suited for two years of service overseas, it must assess each applicant thoroughly. These assessments include medical and psychological screenings as well as comprehensive skills assessments. In order to streamline this process and reduce the application time, the following areas are being targeted for enhancement.

Application Redesign and Use of Online Application Forms
Online applications have increased dramatically and currently comprise an average of 70 percent of all applications. The agency is continually reviewing opportunities for more efficiencies and greater user compatibility.

Medical Screening
OMS and Volunteer Recruitment and Selection (VRS) have established regionally based medical screening and placement teams to better identify matches between future Volunteers and potential countries. They have reviewed the mental health screening process to reduce screening time; clarified mental health guidelines so screening nurses can make most decisions without mental health care professionals; reduced the number of mental health reviews per applicant; and, moved alcohol and drug suitability determinations to VRS. In addition, the redesign of the health status review form and its availability online have significantly reduced the processing time.

Enterprise Architecture
The CIO has worked closely with VRS to prioritize new software and hardware requirements for the Volunteer delivery system. This review has included: updated activity models; data models;

organizational interfaces; and information exchanges that make the application process more efficient and less labor intensive.

Outcome Goal 4.1
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 5 percent from FY 2003 level 222 days to 212 days by FY 2008.

4.1.1.1 Reduce overall response time to applicants by 1 percent (to 220 days) by FY 2004.

4.1.1.2 Reduce overall response time to applicants by 2 percent (to 218 days) by FY 2005.

4.1.1.3 Reduce overall response time to applicants by 3 percent (to 216 days) by FY 2006.

4.1.1.4 Reduce overall response time to applicants by 4 percent (to 214 days) by FY 2007.

4.1.1.5 Reduce overall response time to applicants by 5 percent (to 212 days) by FY 2008.

Summary of the FY 2003 Gap Analysis

The Peace Corps' FY 2003 Financial Management Gap Analysis resulted in a series of findings much like those from a financial statement audit, but focused primarily on systems and controls. Management's response and status of corrective action plans at September 30, 2004 against each of the findings follows. The findings were categorized by type—financial management and accounting or systems and applications—and level of risk. Three risk levels were identified as:

- High—presents a severe impediment to auditability
- Medium—presents significant internal control weaknesses
- Low—requires management attention.

The status of corrective action plan maps to the summary table in Section I.B.8. accordingly:

- Complete—Completed during FY 2004
- On-target—Corrective action plan timeline crosses fiscal years and progress is on target to complete according to plan
- In-progress—Some portions of plan have been completed, others have been delayed or items are being effected without a timeline
- Future plan—Causes of finding are being analyzed to develop corrective action plan.

As a note, the overseas Posts that participated in the Gap Analysis were Philippines and Senegal. Therefore, wherever the term "Posts" is used in this discussion, it refers to these two offices. In addition, the implementation of plans is contingent on the funding available for the timeline established.

High Risk Findings

Type of Finding: Financial Management and Accounting
Area of Finding: FY 04 Beginning Balances
Summary of Finding: FY 04 beginning balances are considered unsupportable to date.

Summary of Management's Response: While management concurred with the finding, the methodology provided to the auditors prior to and during accounting systems conversion allowed for the beginning balances to be adjusted during the fiscal year. The balances are to be validated at end of 2nd quarter, 2004. The agency plans to develop additional reconciliation procedures and controls, as OPBF grows in its proficiency in the new system.

Summary of Status at September 30, 2004: Complete—Complete for those account balances that could be confirmed under the conversion methodology. The FY 2004 financial statements contain footnotes accordingly.

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Type of Finding: Financial Management and Accounting
Area of Finding: Overall Policy and Procedures

Summary of Finding:

A. The Peace Corps does not have Management approved, detailed authoritative guidance in the Peace Corps Manual for the following processes:

- Budget Process (Formulation by HQ & Posts)
- Strategic Plan/Operating Plan (HQ & Posts)
- Periodic Budget Review Procedure (HQ)
- Payroll Procedures
- Medical Services
- PRISM
- RADBMS
- Procurement Request
- Purchase Card
- Disbursements (BIT & IFO)
- Oracle Instructions
- FOR Post

B. The Peace Corps-approved authoritative guidance needs to be updated and/or revised. Roles and responsibilities of personnel need to be more clearly defined and key functions need to be assigned to personnel and described in detail for the following processes:

- Periodic Budget Review process (Posts only)
- Readjustment Allowance
- Procurement/Obligations/Disbursements into FOR Post
- Payroll
- Reconciliation (Posts only)
- IFO System
- Vouchering (Posts only)
- Travel Advance/Authorization
- Volunteer allowance

Summary of Management's Response:

A. OPBF will initiate the process of updating, recording, and formalizing procedures through a business process reengineering (BPR) activity in FY 2004 – 2005. A plan and timeline will be developed to facilitate this process.

B. The BPR will provide the necessary information to analyze and update the Peace Corps guidance on roles, responsibilities, and procedure. The timeline developed in the BPR will include updating guidance and position descriptions as well as desk manuals.

Summary of Status at September 30, 2004: In-progress—OPBF has prepared a list of processes and procedures to be documented, established priorities and a plan, and assigned staff to monitor progress. As of September 30, 80 of 151 procedures have been documented and published. Roles and responsibilities are being identified within the appropriate documentation.

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Type of Finding: Financial Management and Accounting
Area of Finding: Property, Plant, & Equipment
Summary of Finding:

A. The Peace Corps was not adhering to documented procedures for recording in accounting system or maintaining property data. In addition, existing procedures are not detailed at the working level identifying roles and responsibilities for key functions.

B. The Peace Corps has not appointed an Asset Management Director to provide leadership and general supervision in implementation and maintenance of property management. Headquarters and Posts do not have a property management database that is linked directly to the Financial Management System.

C. All property purchased, contributed or otherwise acquired and retained by the Peace Corps, including Host Country Contributions, were not consistently recorded by Peace Corps HQ or Posts and also was not recorded in the Peace Corps Financial Management System (PCFMS).

D. In gathering property data, no distinction is made between non-capitalized and capitalized property.

E. Accounting personnel were not utilizing the appropriate useful life when calculating depreciation and the resulting depreciation expense was not recorded in PCFMS

F. There were inadequate controls of acquisition, management and disposal of property at Peace Corps Posts.

G. Host Country Contributions of property, plant & equipment were not recorded on the inventory/vehicle report sent to headquarters.

Summary of Management's Response:

A. The Head of Building Operations and Asset Management will develop a process and the associated mapping for the Asset Management Process. Once developed the asset management process will be codified into a Peace Corps Manual Section. The related procedures will be documented in a procedures manual. An organizational restructure is also being planned.

B. Approval of the Asset Management organization and the manager position are pending. Position development is in the proposal stage. COTS systems are being evaluated for implementation to track assets on a worldwide basis. The capability and market assessment are complete and the agency is prepared to select a vendor from a short-list of finalists. It has been made a requirement that this asset management program have the capability of interfacing with the accounting system. However, integration work is un-funded. The purchase price of the software is small in comparison to implementation costs. Funding for integration beyond HQ is not likely to be available in FY 2004.

C. Peace Corps Management will ensure that adequate internal controls are implemented and maintained with the management of Property, Plant, & Equipment. Management will also provide consistent, thorough and effective training at Headquarters and Posts as it pertains to Property, Plant, and Equipment.

D. Peace Corps Management will develop and revise the policy and procedures for fixed assets.

E. With the implementation of the fixed assets module in Oracle Federal Financials, and inventorying all the existing assets with their remaining useful life, we plan to calculate depreciation accurately by the end of FY 2005 and in accordance with Generally Accepted Accounting Principles.

F. The newly established policy will require an annual reconciliation of property. This reconciliation will include a verification of property disposed of and acquired.

G. Peace Corps Management will update the Peace Corps Manual to include policy on recording of host country contributions and property, plant, and equipment. These elements will be included in the property accounting policy when developed. M/AS will issue policy guidelines that will require the Posts to provide to headquarters host country contributions in the form of property, plant, and equipment on the annual inventory and vehicles listings.

Summary of Status at September 30, 2004:

A. Future plan—The organizational realignment that formally establishes the position as Management/Chief of Asset Management (M/CAM) is currently under executive review and is pending approval. The position's function is currently being handled within Management/Administrative Services. This position is responsible for documenting procedures as well as the oversight and monitoring of their execution.

B. Complete—The Chief of the RRDD is the designated Agency Property Officer for the AGENCY. M/AS maintains the Peace Corps Property Management System Database as a single point of control to track each Peace Corps office property, including capital assets, provide a uniform process for data-entry of all property, track assets, generate property management reports, and create a web-based interface to the Fixed Assets database. Each Peace Corps office/organizational entity is set up as a separate site to allow the M/AS to determine what data each office can access online. Upon executive approval of the Capital Asset management organization real property accounting and development, and the oversight of the procurement and life cycle management of investment equipment (over $10K) will be transferred to this unit.

C. Complete—M/AS issued a new Peace Corps Property Management Handbook emphasizing that all property purchased, contributed or otherwise acquired and retained by Peace Corps, including Host Country Contributions, be consistently recorded by Peace Corps HQ or Posts, in cooperation with the OBPF staff responsible for the Financial Management System on an annual basis and upon request by M/AS. During the next quarter, the agency is planning to conduct property management training for Property Account Holders, Property Officers, and Property Custodians in both the new property management procedures and the Property Management Database Automated system.

D. Complete—A new Property Management Handbook has been issued that changed the definition of "capitalized property" from $500 US to $10,000 US or more.

E. In-Progress—While a new Property Management Handbook has been issued that defines "depreciation" under two distinct categories so that accounting personnel will be able to identify the appropriate category of depreciation for recording in PCFMS, the Fixed Asset Module of Odyssey/FOR Post is not due for assessment and implementation until late FY 2005 and into FY 2006.

F. In-Progress—The new Property Management Handbook requires an annual reconciliation of property or upon request by the M/AS, including verification of property disposed of and acquired. Under that handbook, property holders will be trained and the reconciliation performed during FY 2005.

G. In-Progress—Chapter 4.0 Acquisition and Recording Property Value of the new Property Management Handbook provides that all property purchased, contributed or otherwise acquired and retained by the Peace Corps, including Host Country Contributions, shall be recorded by the Property Officers at Peace Corps HQ or Posts in the Property Database, and in the Financial Management System by a designee(s) in OPBF. Training is planned during FY 2005 for those identified as responsible in this process. The updated inventory is planned to be recorded during FY 2005.

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Type of Finding: Financial Management and Accounting
Area of Finding: Overall Financial Reconciliation and Reporting

Summary of Finding:

A. The organizational structure of the Peace Corps Headquarters needs to be reviewed and revised to properly establish lines of authority and internal controls in some areas. In particular, the accounting and management groups need to be properly staffed and organized to manage the year-end financial reporting process.

B. Policies and Procedures to perform monthly reconciliations and periodic reporting functions are not formally documented in the Peace Corps Manual. There are draft BP-080s that address these functions, however they need to be updated and formally approved by management.

C. The periodic reconciliation process needs improvement. Although some reconciliations are performed by accounting, they are attempting to reconcile to unreliable data in the PCFMS system, which also includes very old items. Other important reconciliations do not appear to be tasked:
   - Property, Plant, & Equipment
   - Accounts Receivable
   - Accounts Payable
   - Contributions
   - Obligations
   - Unliquidated Obligations

D. The accounting system should be closed each month and a trial balance report run and reconciled. These reconciled balances are then used for, among other things, governmental reporting. Although the Peace Corps is reporting, they do not have confidence in the balances reported.

E. General Ledger accounts are not supported by detailed subsidiary ledgers of supporting documentation or transactions.

Summary of Management's Response:

A. OPBF will undertake reorganization in FY 2004.

B. Reconciliation processes have begun in FY 2004.

C. Sub-ledger reconciliation has begun with the installation of Oracle in October 2003.

D. The system is closed at the end of each month beginning in October 2003.

E. All but two sub-ledgers are now integrated to the core financials and readily available. The two remaining are Fixed Assets and Volunteer Readjustment Allowance. Volunteer Readjustment Allowance is to be implemented in FY 2005, subject to the availability of funding and Fixed Assets in FY 2006 under the same condition.

Summary of Status at September 30, 2004:

A. In-progress—Operational demands and funding restrictions have slowed the Reorganization Development for OPBF. The functional structure has been developed and plans are in place to implement an organizational change December 1, 2004. Interim organizations have been established to mitigate the internal control conflicts and streamline payment processes.

B. In-progress—Varying levels of reconciliation are occurring. Gaps in staffing and additional modular implementation have slowed formalization of the process. During the first two quarters of FY 2005, a dedicated reconciliation project is planned to reconcile general ledger account imbalances (i.e., budget authority to cash), imbalances with external entities (i.e., cash with US Treasury and statement of accounts with the Department of State), as well as sub-ledger accounts to the general ledger. This project includes documenting the procedures and revising any policy necessary to support FASAB and GAAP requirements.

C. In-progress—Varying levels of reconciliation are occurring. Gaps in staffing and additional modular implementation have slowed the process. The Peace Corps has negotiated with the Department of Transportation to re-engineer their automated reconciliation programs for Oracle Federal Financials. The reconciliation project incorporates the reverse engineering, testing, and documentation of these reconciliation programs.

D. Complete—Each month in FY 2004 has been closed and financial statements prepared for each quarter.

E. On-target—The migration of the Volunteer Readjustment Allowance process and assessment and implementation of the Fixed Assets module are still planned for FY 2005-2006.

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Type of Finding: Information Technology
Area of Finding: Recovery Plans
Summary of Finding:

The Peace Corps Information Technology Recovery Plans have not been finalized.

Summary of Management's Response:

The Peace Corps IT is currently developing IT Recovery / Contingency Plans under the guidance of the Agency's COOP initiative. These plan will be tested prior to the upcoming Presidential Challenge Forward and periodically (quarterly or semi-annually) after this effort (on a regular, planned basis).

Summary of Status at September 30, 2004:

In-progress—Critical systems have been identified and the recovery of their operating systems was successfully tested in July 2004. The financial systems will be further assessed to determine any additional critical components. An exercised is planned in FY 2005 to test the recovery of the operating systems and data files. A test on user data is planned for FY 2006.

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Type of Finding: Information Technology
Area of Finding: Systems Development Life Cycle
Summary of Finding:

The auditors noted that the Systems Development Life Cycle (SDLC) methodology for FOR Post/HQ is currently in draft form and has not been finalized. Changes to the application are occurring without a formalized change control process.

Summary of Management's Response: The Office of the CIO does have a documented SDLC methodology that complies with OMB Circular A-127 and A-130. We are in the process of implementing this methodology in concert with our Agency IT governance and project management initiatives.

Summary of Status at September 30, 2004: In-progress—The process is being implemented.

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Type of Finding: Information Technology
Area of Finding: Contingency Plans
Summary of Finding:

The Peace Corps FOR Post/HQ applications do not have a contingency plan in place.

Summary of Management's Response: The FOR Post database at each post can be recreated from FOR HQ up to the point of the last successful data synchronization. There is not a formal disaster recovery and contingency plan for FOR HQ. Odyssey and FOR HQ data is being backed up each night and the tapes are being shipped off-site the following morning. In the event of a disaster these systems would have to be restored from the previous nights backup tapes. Both systems will be included in the Odyssey disaster recovery and contingency plans.

Summary of Status at September 30, 2004:

In-progress—The COOP team is evaluating the incorporation of FOR HQ server into the disaster recovery plan with SunGuard.

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Type of Finding: Information Technology
Area of Finding: Contingency Plans
Summary of Finding:

The Peace Corps Odyssey system does not have a contingency plan in place.

Summary of Management's Response:

As part of the Agency's COOP initiative, the Office of the CIO has created disaster recovery procedures for all major systems including Odyssey. In partnership with SunGard, the Peace Corps' major systems will be restored within 72 hours which is our service level agreement (SLA) with our disaster recovery vendor. In response to the President's Challenge Forward in May 2004, we will be testing notification and communications components of our COOP function. Ongoing testing will be conducted on a periodic basis.

Summary of Status at September 30, 2004:

In-progress—COOP successfully conducted the recovery of Odyssey UNIX servers twice during May 12-14th challenge.

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Type of Finding: Information Technology
Area of Finding: Access Control
Summary of Finding:

The auditors found severe access control issues within the Peace Corps Oracle Financials server, FRIENDS, and its database, which compromise the controls ensuring Confidentiality and Integrity of the financial data residing in the system.

Summary of Management's Response:

The Peace Corps has addressed the password, unnecessary users, and unnecessary services issues. The Peace Corps will analyze 777 file system privileges and reduce access where possible. The recommended change to upgrade to Trusted HP-UX will be submitted to OPBF for analysis and funding consideration. Upon review, approval, and funding, the Office of the CIO's Change Control Board will review these items and assist the Odyssey project team with implementation support. Due to current budget constraints, these changes will have to be reviewed by the Investment Review Board.

Summary of Status at September 30, 2004:

Future plan—Will implement upon approval of the IRB and funding.

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Type of Finding: Information Technology
Area of Finding: Data Confidentiality, Integrity, and Availability
Summary of Finding:

The auditors noted several conditions with the Posts Small Business Server (SBS) and workstations that present risk to the Peace Corps data confidentiality, integrity, and availability.

Summary of Management's Response: The O/CIO at headquarters will work with local IT Specialist to continue their practice of storing backup tapes off-site and to place the server above the floor. If funded, O/CIO will deploy a new method for distributing patch updates in a timely manner with its proposed technology lifecycle refresh.

Summary of Status at September 30, 2004:

In progress—All server and workstation configuration issues and a new method for patch deployment will be resolved with the deployment of overseas software refresh (pending funding) that includes a new overseas architecture redesign.

Complete—CIO staff conduct periodic check with post IT Specialist to ensure IT Support and security procedures are followed.

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Medium Risk Findings

Type of Finding: Financial Management and Accounting
Area of Finding: Contributions, Accounts Receivable, and Cash Receipts
Summary of Finding:

A. Accounts Receivable through Interagency Agreements was not recorded in the general ledger account.

B. The Peace Corps Host Country Contributions were not captured in the financial management system and not disclosed to Treasury within the SF 224.

Summary of Management's Response:

A. The financial system in production for 2003, PCFMS, did not have the capability to record Accounts Receivable through Interagency Agreements. This function is available in Oracle Federal Financials. Opening balances and detailed transactions have been stated according to the procedures used with the prior manual system. The new financial management system corrected this problem.

B. OPBF will update existing policy and procedures and work with the Regions to distribute and re-educate overseas staff to ensure compliance of capturing Host Country Contributions where we are able. Processes and procedures will be documented with responsibilities for recording assigned by 1st quarter FY 2005.

Summary of Status at September 30, 2004:

A. Complete - Odyssey and the system records the opening balances (in PA) and the receivables(in AR) information for Interagency Agreements.

B. In-progress—We are continuing to work to correct this reporting problem. Since the last update we discovered that the Department of State changed their financial system which is causing the underlying problem for us. State has advised us that they will correct their problem in January 2005, which should enable the Peace Corps to fully correct our reporting problem by the second quarter's financial statement.

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Type of Finding: Financial Management and Accounting
Area of Finding: Procurement/Obligation/Disbursement
Summary of Finding:

A. Policies and detailed procedures on the Procurement/Obligation/Disbursement Cycle need to be compiled, updated, revised and/or strengthened in the following areas:

- Generating a Procurement Request
- Entering information into PRISM/sending to GSA
- Purchase card policies and procedures
- Entering obligations into the new systems
- Headquarters disbursement process
- Entering disbursements into the Financial Management System
- Description of data entered into the Department of State provided System (SPFMS)
- Operations of the Office of Medical Services

B. Currently, the Office of Contracts reports directly to the Chief Financial Officer. [Note: This sub-finding was classified as HIGH RISK. However, because the primary portions of the finding were considered MEDIUM RISK, the Peace Corps reports this sub-finding with the medium risk findings.]

C. US dollar invoices received at Headquarters for payment are not certified by a U.S. Treasury Certifying Officer within the same division that they are processed in (BIT & IFO). This certification is as to the legality, existence, and accuracy of the computation, voucher information, and supporting records.

D. A Claims Officer has been given the Certifying Officer function for all US dollar disbursements. The Claims Officer transmits payments through ECS, but does not verify the legality and accuracy of the proposed vouchers and applicable support.

E. During testing at Peace Corps/Senegal, the auditors determined the Country Director was not set up in FOR Post as the alternate approver.

F. At Peace Corps/Senegal, the Cashier is calculating the Volunteer Living Allowance and depositing the checks at the bank.

G. The Peace Corps is not in compliance with the Prompt Pay Act. The auditors noted that not all offices (HQ and Posts) time/date stamp the invoices when received from vendors, or otherwise begin tracking the 30-day time period in which they need to pay the invoice. Subsequently, invoices are sometimes paid after the 30 days due date with no interest payment included.

Summary of Management's Response:

A. OPBF will initiate the process of updating, recording, and formalizing procedures through a business process reengineering activity in FY 2004 – 2005. A plan and timeline will be developed to facilitate this process.

B. The Office of Contracts will be reassigned during FY 2004.

C. OPBF will be reorganizing during FY 2004.

D. OPBF will document a procedure to ensure and demonstrate proper internal controls are established and followed.

E. OPBF will send a notice to Post to ensure there is an alternative approver on file.

F. OPBF will send guidance to Posts.

G. Oracle Federal Financials has been configured to support prompt pay. During FY 2004 – 2005 additional procedures will be implemented to further enhance the system's functionality.

Summary of Status at September 30, 2004:

A. In-progress—OPBF has completed documentation of 50% of identified processes and procedures. As the update and revision process had already been initiated prior to conversion to the new system, a timeline was not developed. The OPBF Training Managers were assigned to monitor progress to completion. Funding is also being sought for consulting assistance to speed the documentation. At fiscal year end, OPBF had completed 50% of the documentation online. Work will continue on publication in FY 2005.

B. Complete—As of October 1, 2004, the Office of Contracts has been reorganized to report to the Office of the Director.

C. In-progress—Operational needs and funding restrictions have slowed the Reorganization Development for OPBF. The functional structure has been developed and plans are in place to implement an organizational change in FY 2005.

D. In-progress—Within the reorganization plan, a certifying officer position has been identified within the Budget Implementation Team structure.

E. Complete—Posts have been notified to provide for an alternate approver and the guidance has been incorporated into the Overseas Financial Management Handbook.

F. Complete—Posts have been notified of proper segregation of duties and the guidance has been incorporated into the Overseas Financial Management Handbook.

G. Complete—Staff have been reminded to date stamp all invoices received. These dates are now entered into Odyssey to ensure that any interest due will be paid. The is standard functionality in the system.

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Type of Finding: Financial Management and Accounting
Area of Finding: Laws and Regulations
Summary of Finding:

A. For FY 03, the Peace Corps did not submit a FMFIA Assurance Report to the President and Congress as required by Financial Managers Federal Integrity Act.

B. In FY 03 and prior years, the Peace Corps did not charge debtors interest on delinquent debts as required by the Debt Collection Improvement Act of 1996.

C. The Peace Corps does not consistently refer receivables over 180 days to Treasury as required in the Debt Collection Improvement Act of 1996.

Summary of Management's Response:

A. The Peace Corps has noted this oversight and will submit a FMFIA Assurance Report in the future.

B. The Peace Corps has not had a financial system capable of handling the calculation of interest. With the installation of Oracle Federal Financials, future upgrades will be able to handle the calculation of interest charges. The Peace Corps will develop appropriate policies and procedures to be effective 4th quarter FY 2004.

C. The Peace Corps did refer nine debts to Treasury on September 3, 2003. Currently the Peace Corps is referring debts to Treasury over 180 days once due process is complete and eligible for referral. The responsible person for referring these debts is the Claims Officer. Additionally, quarterly reviews will be incorporated with the new quarterly reporting requirement on receivables required by the Department of the Treasury.

Summary of Status at September 30, 2004:

A. In-progress—FMFIA reporting for FY 2003 was submitted to OMB with the FY 2005 Budget Submission. Unfortunately, the official copy could not be provided. The FMFIA Report for FY 2004 is contained in this Performance and Accountability Report in Section III.A.3.

B. Complete—The new financial system provides the capability to charge interest to debtors—a functionality that the old system did not have. The Odyssey/FOR Post team is currently reviewing and testing this functionality. Implementation of this feature is planned in FY 2005. A policy decision regarding exclusion of Volunteer debt from interest charges should be made in FY 2005 as well.

C. Complete—As of September 2003 all receivables over 180 days old have been referred to Treasury as required by the Debt Collection Act of 1996.

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Type of Finding: Financial Management and Accounting
Area of Finding: Budget Cycle

Summary of Finding:

A. The Peace Corps Manual does not document detailed budget formulation procedures performed by Headquarters' budget employees.

B. The Peace Corps compiled Headquarters' and Posts' Fiscal Years 2003 and 2004 budgets manually. The Peace Corps is unable to track execution, status or monitor budget resources.

Summary of Management's Response:

A. OPBF will update the current documentation, incorporate reference for it in the Peace Corps Manual, and distribute the updated guidance. This will be done according to the timeline established in the business process reengineering activity in FY 2004 – 2005.

B. Oracle Financial Analyzer has been developed to integrate budget formulation to Oracle G/L. This automated process was implemented with the installation of Odyssey in October 2003.

Summary of Status at September 30, 2004:

A. On-target—All but one process has been updated at September 30. Final process is planned to be released in FY 2005.

B. Complete—The Peace Corps' new financial management system provides for the automated process of budget formulation integrated to the general ledger.

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Type of Finding: Information Technology
Area of Finding: Systems Security

Summary of Finding: The auditors noted that the Overseas Microsoft NT General Support System Security Plan exists in draft form.

Summary of Management's Response: Overseas Microsoft NT General Support System Security Plan HQ systems has been completed.

Summary of Status at September 30, 2004: Complete—Copy provided to the auditors with FY 2004 FISMA Audit.

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Type of Finding: Information Technology
Area of Finding: Systems Access

Summary of Finding: The auditors noted that the Peace Corps has termination procedures in place; however, the Personnel Tracking System (PTS) does not automatically update when an employee is terminated; it has to be manually entered into the system by the supervisor or system administrators. In addition, PTS does not interface with the Odyssey system. Therefore, any change in payroll status would not be automatically detected by PTS.

Summary of Management's Response: The Peace Corps has processes for managing the termination of employees and contractors but these processes need to be documented. A task force, sponsored by the CIO and the AD/M, has begun the process of documenting these processes, identifying owners of these processes, and making recommendations to both the process and the PTS application. The Human Capital Modernization working group, under the Agency's Enterprise Architecture initiative, will be engaged to make sure the recommendations are in line with the desired new human capital management system (approved by the Agency's IT Investment Review Board and business case is in development).

Summary of Status at September 30, 2004: In progress—The Taskforce is continuing the process of mapping the automated personnel tracking system. We are beginning the phase of interviewing the system stakeholders to identify data entry triggers.

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Type of Finding: Information Technology
Area of Finding: Systems Security

Summary of Finding: The auditors noted that there is no security plan in place for the FOR Post/HQ applications.

Summary of Management's Response: The Office of the CIO and OPBF are working to complete the security plans for the For Post and HQ applications. These plans are currently in development and in final draft stage due to be completed by 3/31/04.

Summary of Status at September 30, 2004: Complete—Final plans in place at September 30, 2004.

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Type of Finding: Information Technology
Area of Finding: Systems Risk Assessment

Summary of Finding: There is no risk assessment in place for the FOR Post/HQ applications.

Summary of Management's Response: The risk assessment for FOR Post / HQ systems was completed in February 2004..

Summary of Status at September 30, 2004: Complete

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Type of Finding: Information Technology
Area of Finding: Systems Security

Summary of Finding:
The auditors noted the following conditions in regards to application security for FOR Post/HQ:

- No complexity constraints on passwords for the FOR Post/HQ applications;
- No set login attempts threshold has been defined (one super account exists); and
- User account is not automatically disabled after specified period of inactivity.

Summary of Management's Response: The ability to implement stronger password controls for FOR Post will require the acquisition of additional software and the modification of the FOR Post application. Due to current budget constraints, these changes will have to be reviewed and approved by the IRB process.

Summary of Status at September 30, 2004: Complete—Completed with the release of FOR Post Version 2.4.19 in August 2004.

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Type of Finding: Information Technology
Area of Finding: Application Monitoring

Summary of Finding: The auditors noted that are no audit logs that are automatically generated by the FOR Post/HQ applications.

Summary of Management's Response: The FOR Post application currently does not create audit logs that can be audited or reviewed. The development of this functionality will have to be reviewed by the OPBF project team, prioritized, funded, developed, and implemented by the OPBF Odyssey/FOR Post project team.

Summary of Status at September 30, 2004: Future plan—Project plan will be developed in FY 2005 and presented to the Investment Review Board.

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Type of Finding: Information Technology
Area of Finding: Systems Data Integrity

Summary of Finding:

The auditors noted that that FOR Post/HQ application data validation may not be adequate since data integrity is conducted through referential checks only.

Currently, financial data files traveling between the Peace Corps Overseas Posts and the Peace Corps headquarters is only restricted as to the manner of data which may be placed in a particular data entry field. For example, a cashier may not be able to put a monetary sum into a date field. After, passing this test the data becomes "trusted".

Should data become corrupted in transit from Post to Headquarters or vice-versa, verification of the validity of the data must come from manual intervention. This risk could be mitigated by using a digital checksum on data prior to transmission and checksum verification on receipt assuring its integrity.

Summary of Management's Response:

The FOR Post application needs to be enhanced to provide the necessary data integrity controls. The development of this functionality will have to be reviewed by the OPBF project team, prioritized, funded, developed, and implemented by the OPBF For Post / Odyssey project team.

Summary of Status at September 30, 2004: Future plan—Project plan will be developed in FY 2005 and presented to the Investment Review Board.

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Type of Finding: Information Technology
Area of Finding: Systems Access
Summary of Finding: The auditors noted that FOR Post/HQ developers have access to the production environment of FOR Post/HQ.

Summary of Management's Response: The Peace Corps Office of the CIO has implemented logical access controls that restrict developers from having access to the production environment of FOR Post/HQ.

Summary of Status at September 30, 2004: In-progress—FOR HQ developers have access to production. No developers have access to FOR Post data at posts.

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Type of Finding: Information Technology
Area of Finding: Systems Security

Summary of Finding: The auditors noted that there is no security plan in place for the Odyssey application.

Summary of Management's Response: The Office of the CIO is in the process of developing security plans for the Odyssey system, and all other systems managed by the Peace Corps. The Office of the CIO's Security Chief is leading this effort. This plan will be final by March 31, 2004.

Summary of Status at September 30, 2004: Complete.

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Type of Finding: Information Technology
Area of Finding: Systems Risk Assessment
Summary of Finding: There is no risk assessment in place for the Peace Corps Odyssey system.

Summary of Management's Response A comprehensive risk assessment of the Peace Corps Odyssey system has been conducted by SRA, and completed as of February 27, 2004.

Summary of Status at September 30, 2004: Complete.

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Type of Finding: Information Technology
Area of Finding: Systems Security

Summary of Finding:

The auditors noted the following conditions in regards to application security for Odyssey:

- No complexity constraints on passwords;
- No set login attempts threshold has been defined;
- There is no limit set on when a password should expire; and
- The application allows for unlimited failed login attempts with no account lockout.

Summary of Management's Response:

The Odyssey/FOR Post project team in collaboration with the operations offices within the Office of Planning, Budget, and Finance are working to review the password and security needs of the Odyssey application. The recommendations from this report will be analyzed, prioritized, and the resulting cost will be estimated. Upon completion of this activity, the proper response will be determined.

Improvements in account passwords were made in the third quarter FY 2004 but the user account passwords were not part of these improvements.

Summary of Status at September 30, 2004: Complete—Complexity restraints, login attempt thresholds, password expiration and account lockout were all effected in the fourth quarter FY 2004.

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Type of Finding: Information Technology
Area of Finding: System Audit
Summary of Finding: The auditors noted that Odyssey generates audit trails; however, there are no documented Standard Operating Procedures (SOPs) for the review of Odyssey audit logs.
Summary of Management's Response: OPBF and the Odyssey project team are working to develop policies and procedures to address the monitoring and review of Odyssey audit logs.
Summary of Status at September 30, 2004: In-progress—This requirement has been included in the list of policies and procedures described in the High Risk Findings section.

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Type of Finding: Information Technology
Area of Finding: Data Confidentiality, Integrity and Availability
Summary of Finding: The auditors noted several conditions with Posts' IT environment that present risk to the Peace Corps data confidentiality, integrity, and availability.

Summary of Management's Response: The Country IT Binder will be completed and organized as required, at the direction of the Chief, International Technical Support. In addition, the Chief ITS, will work with the Country Directors to provide the required direction, leadership, and funds needed to address the issues at off-site facilities.
Summary of Status at September 30, 2004: Complete-CIO conducts periodic checks with post IT Specialist to review standard operating procedures and server health.

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Type of Finding: Information Technology
Area of Finding: Data Confidentiality, Integrity and Availability
Summary of Finding: The auditors noted several conditions with the PEACE CORPS/Manila Post IT environment that present risk to the Peace Corps data confidentiality, integrity, and availability.

Summary of Management's Response:

CIO/OI/ITS will work with Posts to implement existing Agency standard form, "Temporary Access and Permanent Transfer Request Form".

The Peace Corps will work with the State Department Regional Security Officer to ensure all local hires overseas are investigated. No locally hired staff receives a specific security clearance. The Peace Corps will continue to conduct a National Agency Check with Inquiries for all US Direct Hires and PSCs.

Summary of Status at September 30, 2004:

Complete—O/CIO staff conduct periodic reviews with post IT Specialist to ensure proper support procedures are followed.

Future plan—O/CIO will review security clearance of IT Specialist staff.

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Low Risk Findings

Type of Finding: Financial Management and Accounting
Area of Finding: Imprest Fund Cycle
Summary of Finding:

The Peace Corps Manual and the Overseas Financial Management Handbook need to be revised and strengthened with regard to detailed procedures of the responsibilities and procedures of the Cashier at Headquarters, entering disbursements into FOR Post; and description of fiscal data and field data entered into FOR Post to create the Bill of Collection. Posts do not utilize a process to ensure consistent delegation of the Billing Officer responsibilities to the Administrative Assistant as set forth in the Overseas Financial Management Handbook.

Difficulties in the implementation of FOR Post at Posts resulted in funds availability not being verified before disbursements were processed at Post; obligations and disbursements were not being entered into FOR Post timely; and data was not available to Odyssey.

Bill of Collection at Posts does not contain an adequate explanation and sources of components to support the calculations and fiscal data on the form was not completed in accordance with the Overseas Financial Management Handbook.

Summary of Management's Response: As a part of the BPR, new position descriptions containing updated roles and responsibilities will be created for Post staff. Thereafter, headquarters management will request annual updates. For those items requiring development or updating of a policy and/or procedure, the actions are planned for FY 2005. For those items requiring retraining of current procedures, notices will be distributed advising of proper action.

Summary of Status at September 30, 2004: In-progress—A training memorandum was issued with FOR Post Update 5.13.04 to reinforce current policies and procedures. The new position descriptions and updated roles and responsibilities will be issued once the BPR is complete.

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Type of Finding: Financial Management and Accounting
Area of Finding: Volunteer Readjustment Allowance
Summary of Finding:

A. The Peace Corps Manual does not have procedures for entering or maintaining Volunteer data in RADBMS (Readjustment Allowance Database Management System) regarding readjustment allowance.

B. Posts are not consistently sending Volunteer information to Headquarters in a timely manner.

C. Posts are sending inaccurate close of service (COS) data. In some cases, outstanding Volunteer bills or other withdrawals are not indicated on the close of service cable from Posts.

D. The auditors' testing indicated that one Post does not consistently use the check register to record Volunteers' receipt of their readjustment allowance check at Posts.

Summary of Management's Response:

A. Volunteer Financial Operations (VFO) is scheduled to convert to Odyssey's Human Resources Management System (HRMS) from the Readjustment Allowance Database Management System (RADBMS) during FY 2004, which will change data processing and disbursing procedures in their entirety. Once HRMS is implemented the procedures will be clearly defined by management and Manual Section 223 will be updated to reflect all appropriate systems processes.

B. VFO will work with posts through training communications and regular feedback to ensure that systems are in place and that responsibilities are delegated to the appropriate personnel to ensure that all posts submit documents containing Volunteer information within the time frame outlined in the Manual Section.

C. VFO will inform posts of the required information that is needed to complete COS cables accurately. Further, we will work with posts to have Volunteer bills paid prior to their departure from post or, when within our control, report outstanding bills in the COS cable.

D. Although MS-223.9.2.1 does not require Posts to send completed check registers to VFO, as indicated in the auditors' Notice of Finding, it is appropriate to require Posts to do so for better internal control of One-Third RA checks in-country. Effective immediately, management will institute the procedural change by notifying all Posts of said change and updating MS-223.9.2.1 accordingly.

Summary of Status at September 30, 2004:

A. On-target—The planned date for the implementation of the HRMS is December 1, 2004. MS-223 will be updated after implementation.

B. Complete—Ongoing, regular communication between VFO and Posts to reinforce deadlines has been effected in FY 2004.

C. Complete—Ongoing, regular communication between VFO and Posts to reinforce deadlines has been effected in FY 2004.

D. On-target—The planned date for the implementation of the HRMS is December 1, 2004. MS-223 will be updated after implementation. Posts were notified of changes in advance of the Manual Section update.

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Type of Finding: Financial Management and Accounting
Area of Finding: Payroll
Summary of Finding:

A. The Peace Corps Manual does not have adequate procedures for the following:
   - Reconciliation of the transmission to National Finance Center (NFC) and/or the payroll data received from NFC
   - Budget Analyst's review of applicable Posts or departments payroll report of payroll expenses
   - Correction of payroll data errors by the Accountant

B. The Peace Corps Manual Section 742 does not have updated procedures for using Time Peace as the time and attendance recorder for the Peace Corps.

C. The Overseas Financial Management Handbook does not have adequate procedures for recording time and attendance for overseas staff paid through Headquarters.

D. At Peace Corps/Senegal and Philippines Posts, the guard logbooks were not always consistent with the timesheets submitted by staff. Additionally, in some cases leave slips were not submitted for leave taken.

E. The policies and procedures in the Overseas Financial Management Handbook Section 27 need to be revised to document the current process for the fiscal coding for Personal Service Contractors (PSC) and should include all of the Posts' responsibilities regarding vouchering and all payments for PSCs.

Summary of Management's Response:

A. The Operating Procedures for transmitting and reconciling data to NFC is located in the Human Resource Office. HRM submits the bi-weekly data to NFC though the agency mainframe. The staff receives reports from NFC verifying the number of time and attendance (T & A) data transmitted and received by NFC. Corrections of data errors are resolved through a review and analysis of the original T & A and the personnel database. HRM also submits a report that identifies employees that were paid and unpaid. HRM is working on a formal Standard Operating Procedure Manual. OPBF will document the remaining procedures in a procedures manual.

B. We concur that the Peace Corps Manual Section 742 does not have updated procedures for using Time Peace as the time and attendance recorder for the Peace Corps. We will update the Peace Corps Manual to reference the handbook as the authority for the procedure.

The Peace Corps website has a copy of the Time and Attendance Handbook – Time Peace. HRM is working on the update of this procedures manual.

C. The Agency will examine their policies and procedures as they refer to documentation of overseas staff paid through Headquarters.

D. The Regional offices acknowledge this was an issue at the time of the audit. They have responded to and resolved it by clarifying that the guard report comings and goings for security purposes not for time and attendance, which is now monitored separately.

E. OPBF is currently working to revise the Overseas Financial Management Handbook and review at Section 25 for update and/or modification.

Summary of Status at September 30, 2004:

A. In-progress—An SOP has been drafted in HRM. The manual will be updated to reflect that the SOP resides in HRM. The procedures and training for budget analyst payroll reconciliation and accountant adjustments are incorporated in the list of policies and procedures to be documented in the BPR exercise.

B. In-progress—The Time Peace Handbook is being refined to reflect changes in Time Peace, in addition, we are reviewing the feasibility of placing the handbook in CD-ROM format for distribution to the overseas posts. HRM is in the process of reviewing all personnel related manual sections for update and will incorporate the appropriate reference with the proposed changes.

C. In-progress—In the Guide for Overseas Staff and Their Families, revised in April, 2004, there is a section titled "Hours of Work/Time and Attendance. This section speaks to the biweekly reporting of post personnel to the Peace Corps/HQ payroll office. The information is maintained on an attendance record (PC-57). This is the official record of time worked and leave taken. This information may be incorporated into the Overseas Financial Mgmt Handbook.

D. In-progress—The guard logbooks are not authorized for use in reconciling employee time and attendance sheets, this information is maintained on an attendance record (PC-57). This is the official record of time worked and leave taken. HRM has communicated this guidance to the regions for dissemination to the posts.

E. In-progress—OPBF is currently working to revise the Overseas Financial Management Handbook and review at Section 25 for update and/or modification of the PSC payment and recording processes.

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Type of Finding: Financial Management and Accounting
Area of Finding: Medical Services

Summary of Finding:

A. The Peace Corps does not have a management approved policies and procedures guide which addresses the need to account for Medical Services. Medical Services uses an intra-office handbook for guidance.

B. Post inventory procedures for medicines is inadequate.

C. Internal controls surrounding country inventory, located at Peace Corps/Senegal need to be strengthened.
   - Controls surrounding the transfer and inventory of medicine to Training Centers need to be strengthened.
   - No review by Headquarters or Posts' Medical Officers' supervisor to monitor purchase, usage or disposal of medical supplies for reasonableness.

Summary of Management's Response:

A. The Office of Medical Services agrees with the recommendation that the medical services section in the Peace Corps Manual needs to be reviewed and updated to reflect current policy especially in MS 264 Medical Evacuations. In addition, the manual section needs to state that OMS has the authority to establish clinical/practice guidelines for use by the Peace Corps Medical Officers at post and staff at headquarters. The manual section should define the policy and the authority of OMS to implement clinical practice standards and guidelines to manage the quality of care provided to the Volunteers. The clinical practice standards and guidelines implementing these policies and should be separate from the Peace Corps manual as they reflect current clinical practice and standards.

B. Whether medical inventory records are done manually or electronically, the Peace Corps Medical Officer and the Country Director are responsible for the procurement and handling of medicine as noted in MS 734, Section 2.1.6.

C. Effective inventory controls are already identified in MS 734, Section 2.1.6. PCMOs maintain and inventory control system and a general inventory of supplies must be taken at least every month by the Country Director or designee. Current Peace Corps policy (2.1.6.1) establishes the requirement for headquarters to perform semi-monthly reconciliation of controlled medical substance requisitions received from posts. Position development and approval for a Property and Supply Chief is in the proposal stage. Inventory and reconciliation systems are being reviewed and updated to meet the criteria established in OMB circular A-123 and GAO-01-1008G.

Summary of Status at September 30, 2004:

A. In-progress—The update to the Peace Corps Manual is in the revision and approval process.

B. Complete—Overseas Services Division (M/AS/OSD) has updated the inventory system to assist the PCMOs in recording the proper inventory amount. This system tracks all medicine ordered, received, dispensed and disposed of for each Post. The inventory is routinely reviewed by staff at Headquarters to track the purchasing and dispensing of medicine. New ordering procedures have been issued by M/AS/OSD to posts. A new Property Management Handbook (M/AS Property Management Office Procedures) has been issued to assist Country Directors and their designees with the inventory and accountability process.

C. Complete—M/OSD has been working with the posts to ensure that a general inventory of supplies is taken at least every month by the Country Director or designee. The Chiefs of M/OSD and M/RRDD or their designees perform semi-monthly reconciliation of controlled medical substance requisitions received from posts. The duties and responsibilities of programs and the Agency Property Officer (Chief of M/RRDD) has been re-emphasized in the M/AS Property Management Handbook (PMH). The PMH is being provided to each Property Account Holder and Property Custodian to provide property management guidance and associated deadlines. Inventory and reconciliation systems continue to be reviewed and updated to meet the criteria established in OMB circular A-123 and GAO-01-1008G.

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Type of Finding: Financial Management and Accounting
Area of Finding: Reconciliation & Financial Reporting – SF 224

Summary of Finding: The monthly Statement of Transactions SF 224 submitted to Treasury is not properly reviewed and approved by the supervisor.

Summary of Management's Response: Due to oversight, some SF 224s are not physically signed by the Director, Accounting Operations. We will ensure that in the future, these are reviewed and signed by the Director before submission to the Treasury. Necessary changes will also be made in SF 224 procedures manual to reflect this change.

Summary of Status at September 30, 2004: Complete—The finding was resolved with the submission of the July 2004 SF 224 report. The report was signed by the Accounting Operations Supervisor prior to the submission of the report to Treasury and this procedure has been followed by the subsequent reporting months. All future reports will comply with this process.

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Type of Finding: Information Technology
Area of Finding: Systems Access
Summary of Finding: The auditors noted that the Peace Corps has not implemented a formal process for granting user access to the FOR Post/HQ applications. No written formal policies and procedures exist for granting user access. Also there is no management approved access request form that is used for granting access to the application.
Summary of Management's Response: The Peace Corps will establish a formal process for FOR Post/HQ user administration, including the use of user access forms.
Summary of Status at September 30, 2004: In-progress—Draft of the FOR HQ user access form has been completed. The request process and a request form are planned to be finalized by the end of December 2004.

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 Employee Compensation Act
FEGLI	Federal Employee Government Life Insurance
FEHB	Federal Employees Health Benefits Program
FEHBA	Federal Employee 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	General Accounting 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
OFMH	Overseas Financial Management Handbook
OIG	Office of the Inspector General
OMB	Office of Management And Budget
OMS	Office of Medical Services
OPBF	Office of Planning, Budget and Finance
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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