

The Peace Corps
Performance and Accountability Report
FISCAL YEAR 2006



45th
Peace
Corps
Anniversary



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The Peace Corps' mission is to promote world peace and friendship. While much has changed in the world since the Peace Corps' founding in 1961, its mission has not. The Peace Corps' goals are as relevant today as they were 45 years ago.

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

On behalf of the Americans serving as Peace Corps Volunteers around the world, I am pleased to present the Peace Corps' Performance and Accountability Report (PAR) for fiscal year (FY) 2006. The PAR is a key report to the President, Congress, and the American people on the agency's achievements, performance against pre-established objectives, and financial information regarding its operations during the past year.

The Peace Corps has been celebrating its 45th anniversary since March 1, 2006. The agency traces its roots and mission to the early 1960s, when then-Senator John F. Kennedy inspired Americans to serve their country in the cause of peace by living and working in developing countries. Over the past 45 years, Volunteers have continued their efforts to help those who want to build a better life for themselves, their children, and their communities. Since 1961, the Peace Corps has partnered with 139 countries, and more than 187,000 Americans have served around the world carrying out the agency's mission of promoting world peace and friendship.

Volunteers share their time and talents by serving as teachers, business advisors, information technology consultants, agriculture and environmental specialists, and health and HIV/AIDS educators carrying out the agency's three goals:

- 1) to help the people of interested countries in meeting their need for trained men and women;
- 2) to help promote a better understanding of Americans on the part of the peoples served; and
- 3) to help promote a better understanding of other peoples on the part of Americans.

As of the end of FY 2006, 7,749 Americans were serving as Peace Corps Volunteers at 67 posts in 73 countries, encouraging sustainable development and cross-cultural understanding at the grassroots level.¹ While fielding over 7,700 Volunteers is a significant achievement, the Peace Corps did not meet its target number of Volunteers in the field due to events in Bangladesh, Chad, and East Timor during FY 2006, which necessitated suspending operations in those countries. However, the agency broadened its international reach with the historic announcement of a new country entry into the Kingdom of Cambodia in FY 2006 that will bring Volunteers to that country for the first time.

The Peace Corps' Crisis Corps program—which sends returned Peace Corps Volunteers on short-term assignments to assist with critical needs—experienced several historic firsts during FY 2006, including sending its 1,000th Volunteer into service. Throughout FY 2006, Crisis Corps deployed more than 130 Volunteers to the Gulf Coast region to assist with relief efforts following Hurricanes Katrina and Rita. This deployment was funded by, coordinated with, and under the authority of the Federal Emergency Management Agency and marked the first time Volunteers had been deployed domestically. Additionally, working through an interagency agreement with the U.S. Agency for International Development, Crisis Corps sent 21 Americans to provide relief to those affected by the devastation caused by the tsunami in Southeast Asia.

¹ This 7,749 is an "on board" count of all Peace Corps Volunteers and trainees, Crisis Corps Volunteers, and United Nations Volunteers from all funding sources serving under the Peace Corps as of September 30, 2006. It includes 111 Volunteers funded by the President's Emergency Plan for AIDS Relief, as well as 10 Volunteers funded through an interagency agreement with the U.S. Agency for International Development on tsunami relief efforts in Thailand. The "on board" count for posts includes posts in which the Peace Corps is active or suspended, but not closed.

Recognizing the Peace Corps' unique ability to play a positive role in the global fight against HIV/AIDS, in November 2005, the agency created the Office of AIDS Relief within the Office of the Director. The Office of AIDS Relief provides agency-level policy guidance; overall leadership; and general supervision, direction, and coordination of Peace Corps' HIV/AIDS activities, including the agency's participation in the President's Emergency Plan for AIDS Relief (PEPFAR). The Peace Corps continues to be a valuable participant in the PEPFAR program with 111 PEPFAR-funded Volunteers serving in nine of the 15 focus countries.² Peace Corps Volunteers, by living and working at the grassroots level in communities and speaking the local language, are uniquely suited to share culturally appropriate messages in HIV/AIDS education and prevention. The agency has seen positive results from the increased efforts to incorporate HIV/AIDS messages into all Peace Corps projects and its participation in PEPFAR. In the 2006 Peace Corps Volunteer survey, 55 percent of Volunteers reported being engaged in HIV/AIDS activities as part of their Peace Corps work, which is a pronounced increase over the 2004 survey results, which reported 25 percent participation.

Volunteer safety and security remains the agency's highest priority. The Peace Corps' approach to safety and security acknowledges that Volunteer service has inherent risks, but emphasizes that the agency will do its part to ensure that safety and security systems and support are in place. Volunteers do their part by taking personal responsibility for their behavior at all times and by integrating successfully into their host communities. The Peace Corps ensures that safety and security issues are fully integrated in all aspects of Volunteer recruitment, training, and service. Though the Peace Corps has been tracking crimes against Volunteers for more than 15 years, FY 2006 marked the introduction of a new crime reporting process. An electronic Crime Incident Reporting Form (CIRF) was created to ensure that violent crimes and medical issues are reported immediately, confidentially, and to the appropriate support staff. The CIRF also clarifies crime definitions so future trends analyses can be as accurate as possible. Since under-reporting of crimes is a concern for the agency, the CIRF will help simplify the reporting process and is one step in encouraging more reporting of crimes. The data are collected, analyzed, and used to enhance existing policies and practices or to develop new policies as needed. The agency has committed considerable staff to the area of safety and security and will review its efforts to ensure that it is providing the best possible programmatic support to its overseas posts.

In FY 2006, the Peace Corps made significant strides in improving the process of performance reporting for the agency. In fall 2005, the agency began revising its 2003-2008 strategic plan to provide an interim adjustment for fiscal years 2006-2008. Improvements were made to better align the plan to the Peace Corps' three goals and internal processes, including new and modified strategic objectives with outcome-oriented targets and indicators. The Peace Corps completed, and the Office of Management and Budget (OMB) approved, the revised version of the agency's strategic plan, which was included in the fiscal year 2007 Congressional Budget Justification.

Thus, FY 2006 marks the first year for the agency to report out on its current set of ambitious but achievable performance goals and indicators as outlined in the strategic plan. This fiscal year, the agency was on or above target for five of the eight performance goals and 26 of the 33 performance indicators. The Peace Corps' FY 2006 performance results are based on reliable, actual data that are complete as of the production of the results at the close of the fiscal year. However, the data are limited by instances of unforeseen challenges with technology and data that flow in beyond the reporting dates. Overall, the Peace Corps has made great progress in documenting and streamlining its performance reporting process at the agency and can provide solid results on performance measures.

² PEPFAR has identified 15 focus countries. The Peace Corps has posts in nine of these focus countries—Botswana, Guyana, Kenya, Mozambique, Namibia, South Africa, Tanzania, Uganda, and Zambia. The other focus countries are Ethiopia, Haiti, Ivory Coast, Nigeria, Rwanda, and Vietnam.

The accompanying statements summarize the agency's financial position; disclose the net cost of operations and changes in net position; and provide information on budgetary resources and financing for fiscal years ended September 30, 2006, and 2005. These statements reflect activity of appropriated funds, with footnote recognition for those trust fund and special fund receipt accounts over which the agency has fiduciary stewardship. These statements were prepared to comply with the Accountability of Tax Dollars Act of 2002 and OMB guidelines and were prepared using generally accepted accounting principles for federal entities.³

The Peace Corps' financial statements were prepared from its financial systems and processes using the most reliable and complete data available. The Peace Corps has made tremendous strides in the past year in improving financial management to include capitalizing on a fully integrated financial management system and reengineering key processes. There are, however, always portions of financial processes that warrant improvement or refinement. In this report the letter from the chief financial officer provides details of actions to be taken to enhance the Peace Corps' future financial management.

The agency had total assets of \$173 million as of September 30, 2006, and \$176 million as of September 30, 2005. Budgetary sources available for use by the agency totaled \$344 million in FY 2006 and \$338 million in FY 2005, of which appropriated funds (net of rescission) totaled \$319 million and \$317 million, respectively. The agency has implemented an internal management controls program that, once the testing phase is completed, will fully comply with the Federal Managers' Financial Integrity Act and its implementing directive, OMB Circular A-123, *Management's Responsibility for Internal Control*. This program has resulted in the qualified statement of assurance provided later in this document.

I am pleased to report out on the agency's financial and performance results. I am proud of the Americans serving as Peace Corps Volunteers around the world. By living, working, and integrating into their local communities, Volunteers have a unique role in empowering people in countries across the globe to take charge of their own futures and to strengthen the bonds of friendship and understanding between Americans and the people of other cultures. The agency will continue its leadership, management, and stewardship of resources to enable more Americans to have the opportunity to carry out the Peace Corps' noble mission.



Ronald A. Tschetter, Director

November 15, 2006

³ The statements should be read with the realization that they are a component of the overall statements of the U.S. government.



MANAGEMENT'S DISCUSSION AND ANALYSIS



Overview | Core Issues

The Peace Corps provides practical assistance to developing countries by sharing America's most precious resource—its people. The close interaction between Peace Corps Volunteers and local communities has allowed the Peace Corps to establish a record of service that is admired and recognized around the world.

As of the end of fiscal year (FY) 2006, 7,749 Americans were serving as Volunteers at 67 posts in 73 countries, encouraging sustainable development and cross-cultural understanding at the grassroots level.⁴ Volunteers work in the areas of agriculture, business, education, the environment, health and HIV/AIDS, and youth development and on cross-cutting themes such as information and communications technology. Currently, about 20 percent of Volunteers are serving in nations with predominantly Muslim populations. Since the agency's inception 45 years ago, the Peace Corps has partnered with 139 countries, and more than 187,000 Volunteers have served around the world.

In addition to transferring skills to host country nationals and promoting cross-cultural understanding between Americans and other peoples, Peace Corps service also provides America's workforce with overseas experience. In fact, in September 2006, the Peace Corps was recognized by *Business Week* as one of the top 50 best places to launch a career. Returned Peace Corps Volunteers also contribute to America's legacy of service by offering their time and skills to community volunteer programs around the country as well as through Peace Corps programs such as Crisis Corps, Fellows/USA, and Peace Corps Week.

The Peace Corps is providing valuable assistance in the global fight against the HIV/AIDS

pandemic. Since Volunteers live and work at the grassroots level in communities and speak the local language, they are powerful builders of human capacity and conveyors of HIV/AIDS education and prevention messages. The agency established the Office of AIDS Relief within the Office of the Director to lead the Peace Corps' HIV/AIDS efforts and to coordinate the agency's participation in the President's Emergency Plan for AIDS Relief (PEPFAR). With Volunteers working exclusively on HIV/AIDS in PEPFAR focus countries and Volunteers weaving HIV/AIDS prevention messages into their work throughout the world, the agency is an important partner in carrying out efforts to stem the tide of this pandemic.

The agency celebrated its 45th anniversary by looking back at its historic milestones, but also by looking forward. The year marked a fitting time for the Peace Corps to formalize its partnership with two prominent international voluntary service organizations. The Peace Corps signed memoranda of understanding with both the Japanese International Cooperation Agency (JICA) and the German Development Service (DED). Previous collaborations with these two organizations had been localized to individual posts and no formal system existed for participants to best tap into the potential benefits of a structured collaboration. One key area that these and other international voluntary service organizations are focusing on is capturing the impact of the Volunteer's service on the host country.

Similarly, in FY 2006, the Peace Corps embarked on a broader effort to develop increasingly sophisticated research methods for measuring outcomes. The strategic research and information team, composed of leaders within the organization with backgrounds in data use and

⁴ This 7,749 is an "on board" count of all Peace Corps Volunteers and trainees, Crisis Corps Volunteers, and United Nations Volunteers from all funding sources serving under the Peace Corps as of September 30, 2006. It includes 111 Volunteers funded by the President's Emergency Plan for AIDS Relief, as well as 10 Volunteers funded through an interagency agreement with the U.S. Agency for International Development on tsunami relief efforts in Thailand. The "on board" count for posts includes posts in which the Peace Corps is active or suspended, but not closed.

management, is actively developing a plan for greater outcome measurement as well as a new structure to increase the agency's research, evaluation, and strategic planning functions. This challenge will continue to be a focus of the agency in the years ahead.

One of the agency's greatest challenges is balancing the need to keep Volunteers as safe as possible while maintaining the integrity of the Volunteer experience. Safety and security messages and training are integrated into every stage of the Volunteer's service. From application to close of service, Volunteers receive the best information available about safety risks and how they can minimize those risks. While Volunteer service is inherently risky and Volunteers must take much responsibility for their own safety, the Peace Corps has an extensive, well-established support system geared toward Volunteer safety and security. The agency has committed considerable staff and resources to the area of safety and security and will review its efforts to ensure that it is providing the best possible programmatic support to overseas posts.

In an effort focused on the efficiency and effectiveness of Peace Corps operations, the agency launched a program of internal management assessments of posts in FY 2006. The goal of the internal management assessment program is to partner with regional and posts' senior leadership to strengthen and improve post management. Assessment teams have pursued meaningful solutions to improve posts' operations and to enhance Volunteer service and programmatic impact. Seven post assessments were conducted this year leading to specific recommendations, some of which have agency-wide implications. The assessment teams will strategically choose more posts to visit in future fiscal years.

Overall, the Peace Corps' mission and efforts around the globe are as important as ever. The agency will continue to strive to operate at an optimum level to ensure more Americans are given the opportunity to serve as Peace Corps Volunteers to carry out the agency's mission of world peace and friendship.



Education Volunteer, South Africa: All Peace Corps Volunteers are encouraged to integrate some form of HIV/AIDS education or awareness into their primary assignments.



Overview | Mission

The Peace Corps' mission is to promote world peace and friendship. While much has changed in the world since the Peace Corps' founding in 1961, its mission has not. The Peace Corps' three core goals are as relevant today as they were 45 years ago:

- 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.

The Peace Corps aims to carry out its mission and goals by assisting interested countries with their development needs while providing an effective and satisfying Volunteer experience for a diverse group of Americans in a safe and secure environment, and by building an operational infrastructure that efficiently and effectively supports the Peace Corps Volunteer in the 21st century.

Since the program's inception, more than 187,000 Americans have served as Volunteers, and the agency has partnered with 139 countries throughout the world. These Volunteers foster positive relationships with host country nationals, dispel myths about Americans, and promote sustainable development. They also bring messages back to the American people about life overseas, the people the Volunteers have served, and the cultures they have experienced.

The women and men who serve as Volunteers reflect the rich diversity of the United States and represent some of the finest characteristics of the American people: a strong work ethic, a

generosity of spirit, a commitment to service, and an approach to problems that is both optimistic and pragmatic. They are afforded no special privileges and often live in remote, isolated communities. They speak local languages and learn the cultures and customs of the people they serve. In this process, Volunteers share and represent the culture and values of the American people, and in doing so earn respect and admiration for the U.S. among people who may have never met an American.

The Peace Corps publishes its current strategic plan in the Congressional Budget Justification (CBJ), which is submitted to Congress each year. The CBJ is available to the public on the agency's website, www.peacecorps.gov.⁵ The key strategic goals outlined in the agency's strategic plan focus on:

- Delivering a trained and diverse group of Volunteers to interested countries to transfer tangible skills and promote cross-cultural understanding;
- Ensuring Volunteers have a quality experience by providing relevant health, safety, and programmatic support;
- Increasing the exposure of Americans to other cultures by sharing Volunteer experiences through a variety of avenues; and
- Meeting the needs of applicants and Volunteers with efficient and effective support.

The Peace Corps organizational structure supports the agency's efforts to carry out its mission. Peace Corps Volunteers serve in posts throughout the world. Thus, the Peace Corps' organizational structure at headquarters divides these posts into three regions that provide operational support to the overseas posts:

⁵ The FY 2007 Congressional Budget Justification can be accessed at the following URL: http://www.peacecorps.gov/policies/pdf/peacecorps_cbj_2007.pdf

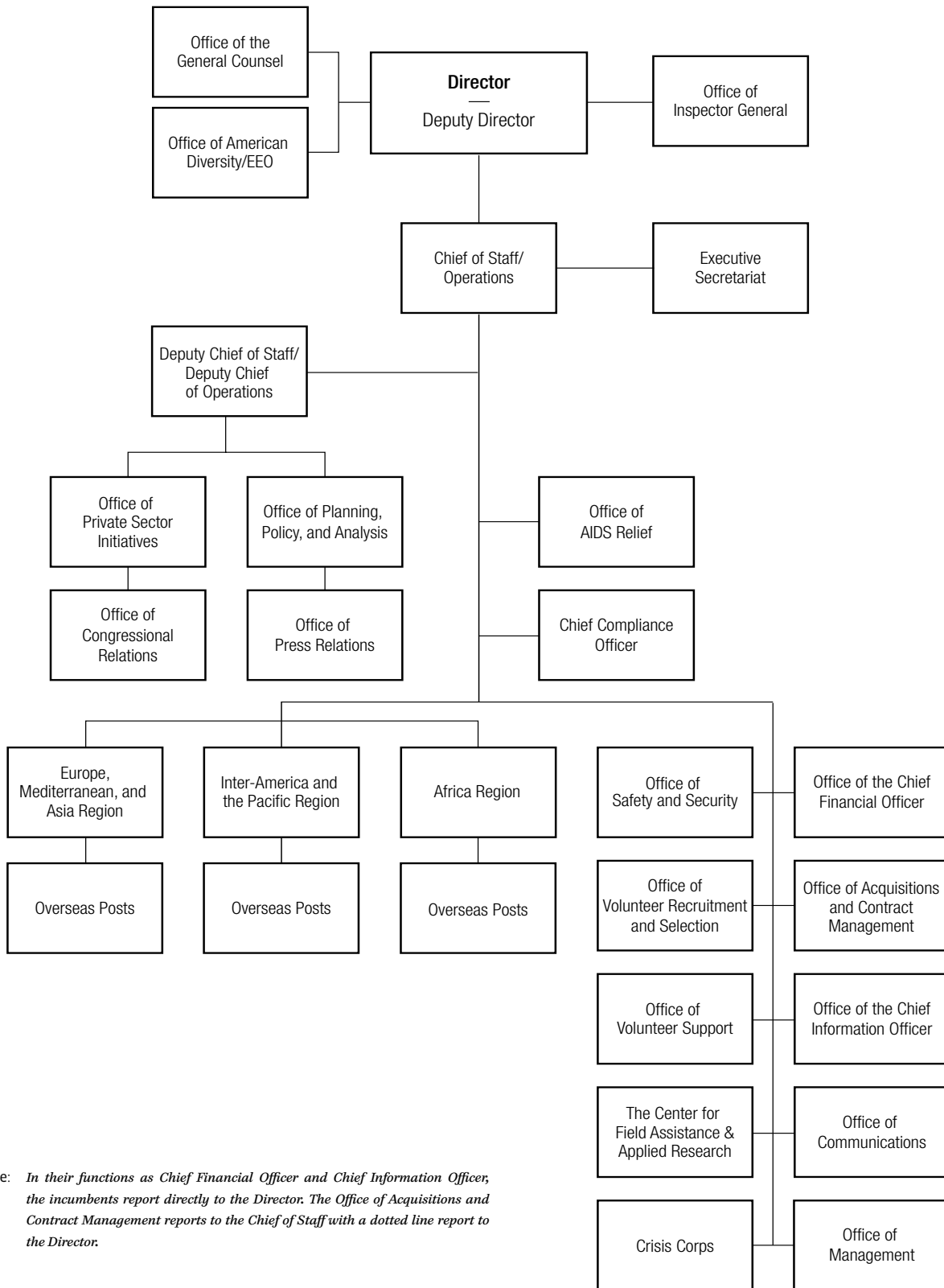
the Europe, Mediterranean, and Asia region; the Inter-America and the Pacific region; and the Africa region. Offices such as Volunteer Recruitment and Selection, the Office of Safety and Security, Volunteer Support, and the Center for Field Assistance and Applied Research serve as functional and management structures to ensure Volunteers are recruited, screened, and supplied to posts and effectively supported with safety, programming, training, and other resources. The Office of Domestic Programs provides assistance to returned Peace Corps Volunteers and helps reach the American public in support of the agency's third goal of promoting a better understanding of other cultures by sponsoring activities that reach into classrooms and communities throughout the United States. Offices such as the Office of the Chief Financial Officer, Office of the Chief Information Officer, and Management provide financial, information technology, and administrative support agency functions. The agency's full organization chart is represented in the graphic on the following page.

Global development indicators suggest that nations face significant challenges in the areas of agriculture, education, business, information technology, health and HIV/AIDS, the environment, and youth development. The Peace Corps, in partnership with interested countries, provides skilled Americans who work to transfer their knowledge about these areas and to build greater understanding between cultures. Thus, the Peace Corps provides practical assistance to developing countries by sharing America's most precious resource—its people. The Peace Corps combines development with people-to-people relationships that Volunteers forge with host country colleagues and communities. This serves as a crucial foundation for peace and friendship for years to come. Indeed, the core values of the Peace Corps since its establishment on March 1, 1961, remain relevant, vital, and strong.



Agriculture Volunteer, Tonga: Peace Corps Volunteers continue to carry out the 45 year old mission of the agency by transferring their skills and building cross-cultural understanding with the peoples served.

Graphic | Peace Corps Organization



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.*



Key Performance Goals and Results

Performance Goals and Results Summary

In fall 2005, the agency embarked on an effort to revise the 2003–2008 strategic plan to provide an interim adjustment for fiscal years (FY) 2006–2008. Improvements were made to better align the plan to the Peace Corps' three goals and internal processes, including new and modified strategic objectives with outcome-oriented targets and indicators. This effort was undertaken following the FY 2005 review of the agency via the Program Assessment Rating Tool (PART). While the Peace Corps received an "effective" rating, the PART review process also included recommendations for improvement, which led to the modifications. The Peace Corps completed, and OMB approved, a revised strategic plan, which was included in the FY 2007 Congressional Budget Justification.

Thus, FY 2006 is the first year for the agency to report out on its current set of ambitious but achievable performance goals and indicator targets outlined in the strategic plan. The Peace Corps utilizes performance goals and measures that focus on providing skilled Volunteers to meet host country needs, supporting the health and safety of the Volunteer, and ensuring that Volunteers reflect the face of America to host countries. The measures also look at the efficiency and effectiveness of programs to recruit, train, and support Volunteers as they carry out their work, as well as the exposure of Americans to other cultures through Peace Corps programs. In FY 2006, the agency was on or above target for five of the eight performance goals and 26 of the 33 performance indicators. These measures are addressed at length in the Performance section of the PAR.

As of the end of FY 2006, 7,749 Americans were serving in 73 countries through 67 posts as Peace Corps Volunteers encouraging sustainable development and cross-cultural understanding at the grassroots level. While fielding more than

7,700 Volunteers is a significant achievement, the Peace Corps did not meet its target number of Volunteers in the field due to the suspension of operations in Bangladesh, Chad, and East Timor during FY 2006. However, the agency broadened its international reach by entering into the Kingdom of Cambodia in FY 2006 for the first time in the agency's history. The agency also announced plans to reenter Ethiopia in FY 2007 with Volunteers who will focus on health and HIV/AIDS. Additionally, the agency may enter one other new country during FY 2007. With requested funding levels and the infusion of Volunteers into existing and new countries, the agency is well-placed to meet its FY 2007 targets.

The agency was slightly below target on the number of Peace Corps applicants representing diverse ethnicities and people over 50. While the agency has set ambitious goals in these categories, more efforts are planned to help meet the targets. This includes pilot recruitment efforts by regional recruitment offices around the country. These offices will also target specified associations and gatherings to help boost applications from Americans over 50 and from Americans of diverse ethnicities. Additionally, a long-time informal partnership between the Peace Corps and the Hispanic Association of Colleges and Universities was formalized in FY 2006 with an agreement that strengthens the cooperative relationship.

Media outreach efforts are strong, and the agency exceeded its goals in FY 2006 for press coverage of diverse Volunteers or in outlets covering diverse audiences, as well as public service announcement (PSA) placements in minority- and diversity-g geared media. To reach more diverse audiences, the agency released a new radio PSA that appeals to radio stations with an urban format (reaching a wider African-American audience) and Spanish language versions of the PSA for both television and radio.

Performance goals (8) and brief description	Under	On	Over
1.1 Volunteers serving			
1.2 Transfer skills and understanding			
1.3 Represent American diversity			
2.1 Quality healthcare			
2.2 Volunteer safety			
3.1 Interactions with Americans to build cross-cultural understanding			
4.1 Efficient application process			
4.2 Maintain resignation rate			
Total Performance Goals	3	1	4

The Peace Corps has various survey instruments to capture Volunteer feedback on key indicators of the agency’s efficiency and effectiveness in delivering different services. The agency received high percentages of positive responses from Volunteers, which allowed the agency to meet or surpass various performance goals. Messages on health, safety, and cultural awareness are woven throughout the agency’s recruitment and training materials. The Peace Corps has management, programming, training, safety, administrative, and medical staff strategically positioned to care for the needs of Peace Corps Volunteers. Staff continually trains, supports, and interacts with Volunteers to build their technical, language, and cross-cultural skills and to ensure they can carry out their mission in a safe and healthy manner.

The Peace Corps surveys Volunteers at different stages of their service enabling the agency to receive continual feedback. As the agency strives for constant improvement, the survey results can benefit currently serving and future Volunteers. The biennial Peace Corps Volunteer survey provides an important snapshot of Volunteer satisfaction during the same period of time worldwide. The close-of-service survey, implemented throughout FY 2006, allows Volunteers to provide feedback as they complete their time in the field. In FY 2005, the Peace Corps also put a revised feedback mechanism in place for Volunteers who choose to terminate their service early, which has yielded important data for analysis. By gathering feedback from

both Volunteers and staff via a resignation reasons form, the agency receives valuable insight about why some Volunteers choose to conclude their service early.

There are numerous steps in the application process to become a Peace Corps Volunteer. This enables the agency to recruit and thoroughly screen applicants for skills and medical and suitability issues prior to approving and inviting them to serve as Volunteers. This application process was divided into the various stages for which the Peace Corps has processing responsibilities to best analyze its efficiencies. The agency is pleased to have exceeded the FY 2006 goal of response time to applicants. Through its enterprise architecture (EA) team and other committees, the agency remains committed to streamlining the processes that enable Americans to obtain information, apply, join, and complete service as Peace Corps Volunteers.

Despite activities and events associated with the agency’s 45th anniversary and Peace Corps Week, the agency narrowly missed its targeted number of interactions of returned Peace Corps Volunteers (RPCVs) with the American public, in part due to the challenge of formally capturing the breadth of participation. RPCV activities help carry the message of understanding of other cultures as they share their stories and experiences with schools, community groups and elsewhere across the country. While 45th anniversary events took place throughout the world, the events across the United States, in

particular, have produced significant positive exposure for the agency. During this anniversary year, the agency released a special video and *A Life Inspired: Tales of Peace Corps Service*, a compilation of short stories from Volunteers all over the world. In addition to a special recognition ceremony on Capitol Hill and the numerous dignitaries who visited Peace Corps headquarters throughout the year, the first-ever John F. Kennedy Service Awards were presented to six recipients who demonstrated exemplary service and leadership in fulfilling the agency's mission.

Performance Reporting Procedures

In FY 2006, the Peace Corps made significant strides to improve its performance reporting process. Throughout FY 2006, the agency worked to enhance its internal controls and documentation of processes surrounding strategic performance reporting to address the auditor's finding in the FY 2005 Performance and Accountability Report of insufficient controls. Enhanced documentation now allows for greater continuity and reliability in reporting and helps mitigate the effect staff changes have on consistent performance reporting. The new reporting process was tested utilizing the offices' documented reporting processes during the mid-year budget review process.

Addressing mid-year performance results during this time allowed the agency to take another positive step forward in aligning performance and budgeting. This formal process includes a presentation to the Director in which offices account for their budget and performance results. An integrated mid-year review allows for funding and human resources to be reallocated to correct a course if there are challenges in meeting performance goals or to validate positive actions taken to meet performance targets.

The Peace Corps' FY 2006 performance results are based on reliable, actual data that are complete as of the production of the results at the close of the fiscal year. However, the data are limited by instances of unforeseen challenges with technology and data that flow in beyond the reporting dates. Overall, the Peace Corps has made great progress in documenting and streamlining its performance reporting process at the agency and can provide solid results on performance measures.

Environment Volunteer, Morocco

Peace Corps staff continually train, support, and interact with Volunteers to build their technical, language, and cross-cultural skills and to ensure they can carry out their mission in a safe and healthy manner.





Actions to Address Current Challenges and Future Challenges

Actions to Address Current Challenges

Programming and Training

A key component of placing Volunteers overseas is to ensure that they have a well-designed job and sufficient training to carry out their duties. Thus, agency efforts to enhance programming and training, through solid project plans and well-trained Volunteers and staff, help produce a positive Volunteer experience.

The agency increased the number of field and headquarters staff overseeing programming and training in fiscal year (FY) 2006. The agency funded eight new programming and training officers worldwide and increased funding for staff exchanges, which allowed programming and training staff in the field to share best practices. Additionally, the Peace Corps sent experts as part of internal management assessment teams to seven posts to review operations to enhance Volunteer service and programmatic impact.

In FY 2006, the Center for Field Assistance and Applied Research (the Center) provided programming support to posts to build their capacity to design and manage successful projects to make Volunteer service more effective and satisfying. The Center provided in-depth constructive feedback on 37 project plans and reviewed and provided feedback on each of the 224 annual project status reports.

In FY 2006, the Center implemented training systems to support overseas staff and Volunteers. These trainings included two overseas staff training sessions—extended professional development courses—attended by 96 overseas staff. Attendees participated in programming and training-related sessions designed to build capacity at posts to better meet host country development needs. The trainings included special sessions for all training managers in which

the Center rolled out a systematic approach to training design and evaluation. The Center also conducted field-based workshops for training managers in the field who were unable to attend these events. These workshops reached all training managers in the Africa and Inter-America and Pacific regions, and included follow-up support to the training managers at 10 of 18 posts in the Europe, Mediterranean, and Asia region. Furthermore, the three Peace Corps regions held various sub-regional staff development workshops for programming and training staff, which helped staff share best practices and review topics such as effective monitoring and reporting systems for projects.

The Peace Corps' newly established Office of AIDS Relief provided direct field support for HIV/AIDS projects to five posts. Posts received additional feedback and support for their HIV/AIDS programming through the planning and budgeting process. Sixteen posts received assistance with their HIV/AIDS programming strategies and plans for their involvement with President's Emergency Plan for AIDS Relief (PEPFAR).

When Peace Corps staff are well-trained and have highly honed skills, they provide better programming support and deliver better training to Volunteers. Volunteers receive training throughout their Peace Corps service, beginning with a two-day staging in the U.S. before they leave for post. This is followed by a two- to three-month intense pre-service training, in-service or mid-service trainings and other training events throughout their service. Volunteers learn important competencies related to health, safety, cross-cultural, language, and technical skills. Through annual training status reviews and information gleaned from the Volunteer survey, the Peace Corps continues to review its training, enabling it to deliver top-quality skills training to Volunteers in the field.

Leadership development

To provide a source of well-prepared managers and leaders, the agency created the Peace Corps Leadership Development Academy (LDA). Launched in fall 2005, this 12-month program provides employees with the opportunity to develop the leadership skills necessary to manage other employees, think critically, and develop strategic performance metrics. LDA creates an environment of self-discovery and learning and provides opportunities for participants to apply these learned skills to improve the future of the Peace Corps. The program created opportunities for participants to learn critical leadership competencies including teamwork, problem solving, decisiveness, resource management, innovation, and creativity.

An action research project allows these developing leaders to critically assess key issues and recommend important changes that may shape the future of the agency. Using shadowing assignments with senior staff along with ongoing professional development opportunities, the participants were exposed to critical issues facing the Peace Corps.

LDA also features an outside mentoring program that promotes retaining potential leaders through personal developmental guidance and training. Mentoring helped participants build learning partnerships with staff at other federal agencies and increase their knowledge of the background and importance of federal careers. This tie-in with other agencies addresses the President's Management Agenda directive to actively identify and develop potential leaders for the federal government to be competitive in the 21st century. Not only does LDA expand the skills of the participants so they are poised to assume positions of greater leadership for the Peace Corps at headquarters and in the field, but it prepares them for leadership positions at other federal agencies later in their careers.

Succession Planning

In FY 2006, the agency initiated a program of internal management assessments of Peace Corps posts. The goal of the internal management assessment program is to partner with regional and post senior leadership to strengthen and improve post management. Assessment teams have pursued meaningful solutions to improve the efficiency and effectiveness of post operations and to enhance Volunteer service and programmatic impact. These assessments are collaborative, timely for posts and the regions, relevant to senior staff at selected posts and in the region, build consensus, and are responsive to post and regional needs.

Seven post assessments were conducted this year. Assessment teams visited Albania, Bolivia, Dominican Republic, the Federated States of Micronesia and Palau, Jordan, Mozambique, and Tanzania.

The assessments addressed issues such as:

- Taking full advantage of technology advances to streamline core business processes;
- Developing strategies to strengthen management and leadership;
- Planning strategically for country director transitions;
- Evaluating regional offices in geographically challenging posts; and
- Recruiting strategically.

Additionally, the Peace Corps began the practice of bringing outgoing country directors back to headquarters for an exit interview to ensure that the agency is apprised of post-specific issues that will need to be addressed by the incoming country director. As the key leader and

manager at post, good succession planning for country directors can have a lasting impact on a post. The assessment team has made further recommendations regarding handover reports for various staff to enable a smooth and information-filled transition for country director successors.

Furthermore, the Peace Corps finalized a continuity of operations (COOP) plan in case the agency has to operate in an extreme emergency situation. Its Office of Safety and Security also completed a COOP annex for pandemic influenza and developed a fully functional alternate relocation site using existing Peace Corps facilities. Both the COOP plan and the relocation site were successfully tested in 2006 during the Peace Corps' participation in the biennial government-wide Forward Challenge COOP exercise. The Peace Corps' COOP plan not only meets federal requirements, but has prepared the agency to continue to safeguard the safety and security of the Peace Corps Volunteers in the event of a COOP emergency.

Development and Retention of Institutional Knowledge

The agency developed and began institutionalizing a system to ensure accurate and consistent performance reporting. Throughout FY 2006, the Peace Corps enhanced its internal controls and processes documentation surrounding strategic performance reporting in response to the auditor's finding in the FY 2005 PAR of insufficient controls. The enhanced documentation allows for greater continuity and reliability in reporting and helps mitigate the effects of staff changes on consistent performance reporting. The documentation process was a positive way to develop and retain institutional knowledge.

Furthermore, enhancements to the agency's information technology (IT) infrastructure are

creating systems and information to help develop and retain institutional knowledge. For instance, in the current fiscal year, the Peace Corps has released a new version of the Volunteer information database application (VIDA), which allows posts to manage their Volunteers using a standard system, process, and reports. This version of VIDA includes a new "whereabouts" report for traveling Volunteers and enhancements to improve emergency action plan (EAP) support and system usability for posts. The new VIDA version allows for the development and tracking of programmatic data at post in a supportable and manageable manner. This type of information was previously maintained in files and the memories of individuals at post. Once the individual departed post, so did his or her knowledge as well as the familiarity with the paper files. The paper format was not useful as there was no consistent format or process for capturing the data. Now all posts use the same tool, which provides consistency across posts and allows critical data to be available to future generations of staff.

Future Challenges

While the Peace Corps is on strong footing, there are always challenges to carrying out the agency's mission in the most efficient and effective manner worldwide. In looking ahead, the agency must address the following areas of challenge:

- Volunteer delivery system,
- Strategic research, evaluation, and planning functions, and
- Financial processes to ensure the agency meets the goal of receiving an unqualified opinion on its financial statements by FY 2009.

The Peace Corps' mission is as vital now as ever, and the agency will continue to undertake efforts to meet future challenges that will ensure the agency operates at an optimum level to support its Volunteers as they carry out their work around the world.



Education Volunteer, Mongolia: Peace Corps Volunteers represent the diverse face of America, promoting a better understanding of Americans on the part of the peoples served.



Financial Summary

Overview

Fiscal year (FY) 2006 was a time of substantial improvement and maturation for the Peace Corps' financial systems, organization, and processes. The Office of the Chief Financial Officer (OCFO) completed its reorganization and continues to document its processes and strengthen the internal controls for each process. A reengineered Integrated Planning and Budget System (IPBS) facilitated timely financial management decisions. Most financial statements are now produced directly from the financial system, Odyssey, whereas an offline process had been used in prior years. Accounting for capital assets significantly improved and resulted in identifying (and recording) existing assets and adjusting the value of numerous previously recorded assets.

Analysis of the Peace Corps' Financial Statements

The Peace Corps' financial statements were prepared from its financial systems and processes using the most reliable, and complete data available. The Peace Corps' financial systems were designed to conform to government-wide standards. The Peace Corps has made tremendous strides in the past year in improving financial management to include capitalizing on a fully integrated financial management system and reengineering key processes. However, there are always portions of financial processes that warrant improvement or refinement. The letter from the chief financial officer provides details of enhancing Peace Corps' future financial management.

The agency had total assets of \$173 million as of September 30, 2006, and \$176 million as of September 30, 2005. The agency made significant

improvements in its accounting for capital assets during this past year. These improvements include refining the methodology for costing internally developed software, identifying and capitalizing previously unrecorded assets, giving recognition to estimated salvage values for the agency's vehicle fleet, and increasing the capitalization threshold for general property.

Budgetary resources available for use by the agency totaled \$344 million in FY 2006 and \$338 million in FY 2005, of which appropriated funds (net of rescission) totaled \$319 million and \$317 million, respectively.

The agency has developed and implemented an agency-wide internal control program. It is spearheaded by a senior assessment team that meets at least quarterly, ensures self-assessments, advises corrective action plans when warranted, and monitors the progress of the corrective actions.

Improper Payments Information Act (IPIA)

The Peace Corps was not identified under Section 57, "Programs for which Erroneous Payment Information is Requested," in OMB Circular A-11. No specific improper payments were identified internally during this fiscal year or by the independent auditors that would reach the defined IPIA threshold of 2.5 percent and \$10 million. The Peace Corps does recognize the inherent risk associated with improper payments and performed a risk assessment during this fiscal year in the global accounts payable area. All payments are reviewed by a minimum of three levels—the approver, the verifier, and the certifying officer—prior to payment/processing. In FY 2007, the agency expects to perform statistical sampling to further validate the improper payment rate.

Limitations of the Principal Financial Statements

The principal financial statements have been prepared to report the agency's financial position; disclose the net cost of operations and changes in net position; and provide information on budgetary resources and financing for fiscal years ended September 30, 2006, and 2005 pursuant to the requirements of 31 U.S.C. 3515(b). While these statements have been pre-

pared from the agency's records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same records.

The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.



Business Volunteer, Tonga: While Peace Corps Volunteers assist host countries in meeting their own needs for information technology (IT) training, the agency is investing in appropriate IT infrastructure to ensure better management, reporting, security, and efficiency of operations.



Management Assurances

Federal Managers' Financial Integrity Act Statement of Qualified Assurance

The Peace Corps assessed the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting and compliance with applicable law and regulations in accordance with the Federal Managers' Financial Integrity Act (FMFIA), Section 2. Based on this assessment, the Peace Corps is able to provide a qualified statement of assurance for FY 2006 that the internal controls are adequate and effective and meet the objectives with the exception of one material weakness. The material weakness is the lack of adequate controls over capital assets (Property, Plant, and Equipment (PP&E)). During the fiscal year 2006 financial statement audit, prior year material weaknesses were reassessed and modified to reflect the current control environment. These modified prior year material weaknesses are described in the *Independent Auditor's Report on Internal Control*.

The Peace Corps conducted its assessment of whether the financial management systems conform to government-wide financial systems requirements in accordance with FMFIA, Section 4. Based on this assessment, the Peace Corps is able to provide a qualified statement of assurance for FY 2006 that the agency's financial management systems conform to government-wide financial systems requirements in accordance with FMFIA, with the exception of two non-conformances. Specifically, the Peace Corps' financial management system lacks a contingency plan and has not yet obtained accreditation and certification.

Internal Control

In FY 2006, the agency implemented an internal control program that involves all senior managers guided by a senior assessment team (SAT).

The SAT is led by the chief financial officer and includes other members of top agency management. Each office throughout the agency conducted risk assessments for all business areas and prepared and monitored corrective action plans for those areas designated as high risk, whether from self assessment or findings from the inspector general or external auditors. The final aspect of the agency's program, development and utilization of testing plans, will be fully operational next year for all high-risk areas. Peace Corps managers signed individual assurance statements for FY 2006 attesting either to the adequacy of the internal controls or that material weaknesses existed in their area. Assurances were based on the managers' personal knowledge of day-to-day operations, existing controls, and other related reviews and evaluations. Identified weaknesses were considered to be manageable within the control of the agency except as indicated otherwise.

The Peace Corps has an enterprise architecture (EA) program within the Office of the CIO to modernize the systems and infrastructure to support the agency's mission in the 21st century. The EA program establishes the analysis and governance framework support to implement the Clinger-Cohen Act of 1996; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*; OMB Circular A-130, *Management of Federal Information Resources*; the Federal Information Security Act; and various other legislative and regulatory requirements. In FY 2006, the EA program delivered numerous accomplishments including completing a consolidated enterprise systems inventory and creating an end-to-end view of the Volunteer delivery system (VDS), the main business line of the agency. Through its EA program, the Peace Corps is pursuing cross-program and enterprise-wide initiatives strategically and methodically to better meet its mission and goals.

The Peace Corps continued to monitor its compliance with congressional mandates, regulations, and law, as well as its own policies. For both programmatic review and compliance with laws and regulations, the Office of Inspector General (OIG) conducts program evaluations, audits, and investigations. They also recommend program improvements, improved levels of economy and efficiency, and means to comply with Peace Corps' policies. During FY 2006, the OIG conducted 14 program evaluations and 15 audits at headquarters and in 21 countries. The agency continues to utilize a system of compliance with OIG report recommendations that includes follow-up to verify corrective actions have been taken. The agency also constantly updates its policy manual, and its policy review board assists with policy review, revision, and formulation.

Summary of Material Weaknesses and Non-Conformances

One material weakness and two non-conformances were identified within the Peace Corps for the fiscal year ending September 30, 2006. The material weakness relates to internal control and financial reporting, adequate controls over capital assets (PP&E), and is further described in Appendix 1. Tremendous strides were made

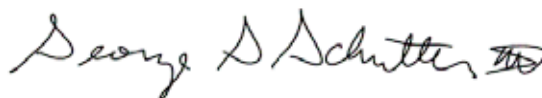
in gaining control over PP&E in accordance with the corrective action plan during FY 2006. The agency anticipates completing the remaining PP&E efforts by March 2007. The other two non-conformances—completeness of a disaster recovery strategy and enterprise-wide financial system accreditation and certification—did not conform to the objectives of FMFIA for financial management systems and are described further in Appendix 1. Although much agency effort was expended toward these two areas of non-conformance, complete financial system certification and accreditation and the contingency plan are not anticipated until March 2007. During the fiscal year 2006 financial statement audit, prior year material weaknesses were reassessed and modified to reflect the current control environment. These modified prior year material weaknesses are described in the *Independent Auditor's Report on Internal Control*.

Summary

The Peace Corps has made great progress in fiscal year 2006 and is pleased to provide a qualified statement of assurance, with the exception of one material weakness and two non-conformances, that the internal controls and financial management systems meet the objectives of FMFIA.



Ronald A. Tschetter
 Director
 November 15, 2006



George A. Schutter III, CPA, CPCM
 Chief Financial Officer
 November 15, 2006



President's Management Agenda Summary

The Peace Corps has considered its strategic and performance goals, indicators, and targets within the context of the President's Management Agenda (PMA) and its management initiatives. The Peace Corps can be held accountable for significantly, quantifiably, and annually improving the way the agency works. Systems are in place to permit candid discussions regarding where the agency is successful, where it falls short, and what is being done to improve performance. The Peace Corps is providing higher levels of service—levels now more comparable to the private sector—and properly accounting for where and how it spends taxpayers' money.

Strategic Management of Human Capital

Work at the Peace Corps is carried out by staff working under a term-limited hiring authority, which has been in place since 1965. Most staff is limited to five years of regular employment, with certain exceptions that allow staff to exceed the five year limit and return to the agency for another term after a hiatus. The Peace Corps has continued to improve its human resource management (HRM) working within federal procedures and its unique term-limited appointments. The launch of the Peace Corps' Leadership Development Academy, a 12-month program to ensure that potential future leaders will have the necessary skills to lead Peace Corps, should help build the skills of individuals for positions of greater leadership during their term appointment or upon return to the agency later in their careers.

The most sweeping HRM enhancement has been implementing, as a pilot program, an automated human capital management system based on enterprise architecture. The human capital management system has reduced hiring time frames in many cases, changed the span of control among offices, and increased staff who provide service to citizens, both on a full-time equivalent (FTE) level and on a volunteer level.

The Human Resources Office is automating significant portions of the HRM system. The Office of Overseas Executive Selection and Support (OESS) was the first Peace Corps office to pilot the automated system. OESS currently takes applications for the agency's key country director positions through both the automated system and an alternative electronic application. More than half of the applications in fiscal year (FY) 2005–2006 came via the automated system.

Planned possible actions for the next fiscal year include the Personnel Action Request/National Finance Center front-end system interface integration, automated SF-52 processing of Personnel Action Requests processing, the development of a management escalation plan regarding shared management information that simultaneously informs the vendor of outstanding issues, more training, focused marketing, and surveys.

Competitive Sourcing

The agency has a full-time staff of approximately 1,000 employees located at Peace Corps headquarters, regional recruiting offices, and in the over 70 countries in which Volunteers serve. The Peace Corps uses approximately 2,000 contractor staff, both domestically and overseas; more than 90 percent of its overseas staff serves under personal service contracts. Over the years, the Peace Corps has also outsourced many of its functions to private firms and other government agencies. Through various outsourcing initiatives, the Peace Corps has achieved a 2:1 ratio of outsourced positions to every Peace Corps employee. These outsourcing initiatives have been driven by business case decisions and include information technology (IT)-managed services, mail services, medical services, medical records support, finance and accounting support, and Volunteer training and support.

In July 2006, the Peace Corps established a strategic sourcing council as the governing body for improvements in the acquisition process and competitive sourcing efforts. The council reviews, evaluates, and approves acquisition-related improvements and competitive sourcing initiatives that improve operational efficiency, improve services, or reduce cost. There were no competitive sourcing efforts implemented in FY 2006, nor are there any planned for FY 2007. As the council gains momentum, however, competitive sourcing ideas and initiatives are expected to surface.

Improved Financial Performance

This past year was one of substantial maturation for financial systems, for the organization of the Office of the Chief Financial Officer (OCFO), and for key agency-wide financial processes, including the internal control program and the Integrated Planning and Budget System (IPBS). This year, the OCFO made extensive progress by executing strategically minded plans built with tactical detail in financial management organizational structure, technology, documentation, and tools needed to achieve stated goals. The finalization of the reorganization of the OCFO established seven directorates, each with a clearly defined function, based on the results of business process analyses. CFO Bulletin e-mail communication links continued to be sent to Peace Corps staff, including country directors and administrative officers at posts. The Peace Corps' IPBS was reengineered to align with posts' field project designs, the agency's Volunteer recruitment and delivery cycles, and Congressional planning and budget cycles. The information submitted by posts and domestic offices is used by the Peace Corps to make decisions on allocating resources with more focus on rewarding performance and ensuring that results are verifiably measured. Moreover, the agency developed and implemented an agency-wide internal control program that incorporates input from a senior assessment team that meets quarterly, reviews self-assessments and correc-

tive action plans, and monitors the progress of corrective actions.

These efforts have resulted in several improvements, including generating three of the five quarterly financial statements directly from the financial system (previously these statements were dependent on an external report generator) and implementing, or making scheduled progress on, actions to correct all external audit findings from the FY 2003 Gap Analysis and the FY 2004 and FY 2005 financial statement audits.

This coming fiscal year will include further refinements in standardizing and systematizing account reconciliations, analysis to decision-makers, procedures for capital assets, and internal control testing. The agency's goal remains to continuously improve financial processes and data integrity, culminating in an unqualified opinion on its financial statements no later than FY 2009.

Expanded E-government

Expanded e-government is key to fostering a citizen-centered government with a greater volume of service at lower costs. The Peace Corps' e-government initiatives are geared toward overcoming agency bureaucratic divisions and increasing productivity and the ease of electronic access for citizens, which facilitates program and operation transparency. The Peace Corps has witnessed annual progress in its systems maturation, from a low-tech operating environment to a high-tech enabled agency.

The Volunteer delivery system (VDS) is a continuous cycle of Volunteer recruitment, screening, and placement that allows the Peace Corps to deliver suitable, trained Volunteers to meet host country needs. The Peace Corps has aligned the VDS to speed up the application process and to reach minority groups more effectively. Internal communication was streamlined and overall response times to applicants was reduced. Recent enhancements include an online status check;

automatically generated e-mails to questions posed by applicants; online reference checks, medical history form, and reference submissions; downloadable forms necessary to complete applications; and online training materials. These enhancements have produced cost savings because application packages are no longer printed, compiled, and mailed to applicants. This solution will be further integrated with wireless technology, collaborative efforts, and enhanced Web-based solutions, including the Peace Corps website, the Office of Private Sector Initiatives' website, and the agency's Intranet. Additional plans for FY 2007-2009 include adding country-specific resources to the electronic process for invitees.

In the current fiscal year, the Peace Corps released a new version of the Volunteer information database application (VIDA), which allows posts to manage their Volunteers using a standard system, process, and reports. This version of VIDA included a new "whereabouts" report for traveling Volunteers and enhancements to improve emergency action plan (EAP) support and system usability for posts. The agency implements VSAT technology in countries where the telecommunications infrastructure does not support stable telephone and Internet services. (VSAT stands for "very small aperture terminal," an earthbound station used in satellite communications of data, voice, and video signals.) In FY 2006, this technology was implemented in Botswana, Cameroon, Cape Verde, The Gambia, Mozambique, Namibia, Swaziland and Zambia.

The Peace Corps continues to implement IT security policy and disaster recovery plans to secure data stored and processed on agency computers. This enables the agency to be compliant with federally mandated continuity of operations (COOP) plan requirements. The agency continues to move its legacy systems away from older mainframe technologies to Web-enabled distributed environments, providing vast potential for e-government solutions and service delivery. Some recent e-government invest-

ments include developing an improved vehicle fleet plan for posts with established criteria, automated leases, and property agreements; institutionalizing a state-of-the-art electronic, integrated capital property inventory tool; automating space review and usage, including new offices, as needed; updating computerized acquisition and shipping processes; revamping internal and external mail delivery systems; issuing and maintaining data on security badges; and introducing "Prospect Manager," a software application to help recruiters track information on prospective Volunteers.

Planned activities for FY 2007-2009 include:

- Addressing the results of a Health Insurance Portability and Accountability Act (HIPAA) gap analysis and recommending systems and processes for compliance;
- Reengineering processes in the VDS to further enhance and 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 and Internet; and
- Streamlining crime reporting processes through the enhancement of an electronic system with real-time incident reporting capabilities.

Budget and Performance Integration

In FY 2006, the Peace Corps embarked on a major initiative to reengineer the IPBS, its primary program and resource management planning mechanism. The newly reengineered IPBS includes more context for planners about how the Peace Corps system is integrated into the federal process. Posts and domestic offices are encouraged to maintain their strategic plans unless unexpected contingencies emerge. They

now must report back on results from last year's strategic plan goals for the first time with data that can be rolled into the *Performance and Accountability Report* submission. Budget holders and managers have increased flexibility and responsibility to manage their own budgets. More attention is paid to Volunteer-year charts, which are submitted by posts each quarter. Re-programming has been defined and thresholds for budget adjustments have been revised. Posts and major offices will perform internal monthly reviews of budget execution, and the OCFO will review the budget execution of major offices and posts quarterly.

Another key advance for the agency was the alignment of performance reviews with the mid-year budget review process. This formal process includes a presentation to the Director in which offices are held accountable for their budget and performance results. An integrated mid-year review allows for resources—both funding and human—to be reallocated to undertake a correction in course if there are challenges in meeting performance goals or to validate positive actions taken to meet the performance targets.

In FY 2005, the Peace Corps received its first Program Assessment Rating Tool (PART) review and received an “effective” rating. The resulting PART improvement plan outlined the need for the agency to identify new strategic objectives with outcome-oriented targets and indicators more closely aligned to the Peace Corps' mission statement. In fall 2005, the agency embarked on an effort to revise its 2003–2008 strategic plan to provide an interim adjustment for fiscal years 2006–2008. Improvements were made to better align the plan to the Peace Corps' three goals and internal processes, including new and modified strategic objectives with outcome-oriented targets and indicators. The Peace Corps completed, and OMB approved, the revised version of the agency's strategic plan, which was included in the FY 2007 Congressional Budget Justification (CBJ). Throughout FY 2006, the agency worked to enhance its internal controls and documentation of processes surrounding strategic performance reporting. The enhanced documentation allows for greater continuity and reliability in reporting and helps mitigate the effects of staff changes on consistent performance reporting.



Education Volunteer, Mongolia: *Peace Corps Volunteers educate new generations of children in the countries where they serve.*



PERFORMANCE SECTION



Performance Report

The Peace Corps' mission of promoting world peace and friendship is accomplished through the work of Peace Corps Volunteers as they transfer skills and build cross-cultural understanding in partner countries throughout the world. The agency operates in host countries that have invited the Peace Corps to assist in meeting their development needs. Through their work, Peace Corps Volunteers build bridges of understanding between Americans and host country nationals.

The Peace Corps uses performance goals and measures that focus on providing skilled Volunteers to meet host country needs, supporting the health and safety of the Volunteer, and ensuring that Volunteers reflect the face of America to host countries. The measures also look at the efficiency and effectiveness of efforts to recruit, train, and support Volunteers as they carry out their work, as well as the exposure of Americans to other cultures because of the Peace Corps. These goals and measures provide a clear picture of the agency's most important performance results.

In fiscal year (FY) 2006, the Peace Corps made significant strides in improving its performance reporting process. In fall 2005, the agency began to revise its 2003–2008 strategic plan to provide an interim adjustment for fiscal years 2006–2008. Improvements were made to better align the plan to the Peace Corps' three goals and internal processes, including new and modified strategic objectives with outcome-oriented targets and indicators. The Peace Corps completed, and OMB approved, the revised version of the agency's strategic plan, which was included in the FY 2007 Congressional Budget Justification.

Program Assessment Rating Tool

The interim adjustment was in response to the Peace Corps' first-ever Program Assessment Rating Tool (PART) review, which occurred in FY 2005. The Peace Corps received an "effective"

rating, which indicates that the agency has set ambitious goals, achieved results, is well-managed, and improves efficiency. The PART review process also includes recommendations for improvement, called the PART improvement plan. The Peace Corps' improvement plan outlined the need to identify new strategic objectives with outcome-oriented targets and indicators more closely aligned to the agency's mission statement. In response, the Peace Corps produced the interim adjustment to the strategic plan described above.

The improvement plan also refers to the agency's need to better measure Volunteers' effectiveness in carrying out the Peace Corps' second goal of promoting a better understanding of Americans on the part of the peoples served. The agency continues to work to identify alternate appropriate measures of this goal. Moreover, the Peace Corps conducted a review of field efforts and tasked a research team with exploring an appropriate data collection tool.

In summer 2006, the agency embarked on a broader effort to develop increasingly sophisticated research methods for measuring outcomes. The strategic research and information team, composed of leaders within the organization with backgrounds in data use and management, is actively developing a plan for greater outcome measurement and a new structure to increase the agency's research, evaluation, and strategic planning functions.

Office of Inspector General Evaluations

The Peace Corps' Office of Inspector General (OIG) regularly conducts program evaluations of the effectiveness of programs that support Peace Corps Volunteers. Evaluators analyze the management and program operations of the Peace Corps at both overseas posts and domestic offices. They identify best practices and recommend program improvements and means to comply with Peace Corps' policies. During FY 2006, the

OIG conducted 14 program evaluations in 13 countries. Challenges cited in program evaluations relate to technical and local language training, Volunteer behavior issues, and support to Volunteers in their sites.

Performance Reporting Process

Throughout FY 2006, the agency enhanced its internal controls and documentation of processes surrounding strategic performance reporting in response to the auditor's finding in the FY 2005 *Performance and Accountability Report* (PAR) of insufficient controls. The enhanced documentation allows for greater continuity and reliability in reporting and helps mitigate the effects of staff changes on consistent performance reporting. The new reporting process was tested using documented reporting processes during the mid-year budget review.

Addressing mid-year performance results alongside the budget reviews allowed the agency to take another positive step in aligning performance with budgeting. This formal process includes a presentation to the Director in which offices are held accountable for their budget and performance results. An integrated mid-year review allows for funding and human resources to be reallocated to undertake a correction in course if there are challenges in meeting performance goals or to validate positive actions taken to meet performance targets.

Due to the interim adjustment to the agency's strategic plan, the FY 2006 performance results include many new or revised goals and indicators. This makes providing past fiscal year data particularly challenging. Thus, the results include past fiscal year data for a sampling of performance goals. The Peace Corps' FY 2006 performance results are based on reliable, actual data that are complete as of the production of the results at the close of the fiscal year. However, the data are limited by instances of unforeseen challenges with technology as well as the handling of data that flow in beyond the reporting dates. Overall, the Peace Corps has made great progress in documenting and streamlining its performance reporting process at the agency and can provide solid results on performance measures.

Performance Summary

FY 2006 is the first year for the agency to report out on the current set of ambitious but achievable performance goals and indicator targets outlined in the strategic plan. In FY 2006, the agency was on or above target for five of the eight performance goals and 26 of the 33 performance indicators. In some cases results were more healthy than anticipated; in other areas results fell short of the goal. Overall, the agency will continue to work to achieve its strategic goals and to serve the Volunteer, host country nationals, and the American people.

Performance Section

Performance Goal and Brief Description	Performance Goal Against Target	Performance Indicators Against Target		
		Under	On	Over
1.1 Volunteers serving	Under	0	3	1
1.2 Transfer skills and understanding	Over	0	2	2
1.3 Represent American diversity	Under	2	0	3
2.1 Quality healthcare	Over	1	1	1
2.2 Volunteer safety	On	0	1	2
3.1 Interactions with Americans to build cross-cultural understanding	Under	2	1	2
4.1 Efficient application process	Over	0	0	5
4.2 Maintain resignation rate	Over	2	2	0
Total Performance Goals=8	3 Under 1 On 4 Over	7	10	16

Note: The three categories of performance measurement are under, on, or over target. A number that is under target is any number below the target; a number that is on target is any number that is exactly on target or a maximum of 2 percent higher; and a number that is over target is any number that is more than 2 percent higher than the target.

FY 2006 Performance Results

STRATEGIC GOAL 1

Assist interested countries with their identified needs by gradually expanding the number of trained Volunteers serving overseas; broadening the impact on the lives of men and women in their host communities by transferring tangible skills; and helping to promote an understanding of Americans, including representing American diversity, at a rate consistent with annual funding.

Outcome Goals:

- 1.1 Assist interested countries with their identified needs by gradually expanding the number of trained Volunteers serving overseas from 7,733 in FY 2004 to 8,000 in FY 2008, at a rate consistent with annual funding.
- 1.2 Broaden the impact of Volunteers on the lives of men and women in their host communities by transferring tangible skills, as measured by increasing Volunteers reporting in the Peace Corps' close-of-service survey that they were "adequately" to "exceptionally" effective in transferring knowledge and skills to members of their host community, from 80 percent in FY 2006 to 82 percent by FY 2008.
- 1.3 Represent American diversity in Peace Corps host communities by increasing numbers of Peace Corps applicants representing diverse ethnicities and people 50 and over by 4 percent, from FY 2005 level of 24 percent to 28 percent by FY 2008.

Performance Goal 1.1.1

Increase the number of Peace Corps Volunteers to 7,850 by FY 2006.

FY 2006 Goal	FY 2006 Actual
7,850	7,749

Results			
FY 2002	FY 2003	FY 2004	FY 2005
6,678	7,533	7,733	7,810

Results and Analysis:

As of September 30, 2006, the Peace Corps fielded 7,749 Volunteers working around the globe to carry out the mission of the agency.⁶ While fielding more than 7,700 Volunteers is a significant achievement, the Peace Corps did not meet its target number of Volunteers in the field due to events in Bangladesh, Chad, and East Timor during FY 2006, which necessitated suspending operations in those countries. The Peace Corps plans to reach targeted Volunteer levels in FY 2007, including the infusion of Volunteers into a newly established Peace Corps program in Cambodia and in a reopened program in Ethiopia.

Performance Indicators 1.1	FY 2006 Target	FY 2006 Results
i. Number of new country entries	1	1
ii. Percentage of Peace Corps focus countries participating in the President's Emergency Plan for AIDS Relief (PEPFAR)*	100%	100%
iii. Number of Crisis Corps Volunteers (all funding sources)	100	223
iv. Overall visits to website	8.3 million	8.3 million

* This is a measure of whether the Peace Corps is partnering with PEPFAR in all of the nine PEPFAR focus countries in which the agency currently has a presence.

⁶ This 7,749 is an "on board" count of all Peace Corps Volunteers and trainees, Crisis Corps Volunteers, and United Nations Volunteers from all funding sources serving under the Peace Corps as of September 30, 2006. It includes 111 Volunteers funded by the President's Emergency Plan for AIDS Relief, as well as 10 Volunteers funded through an interagency agreement with the U.S. Agency for International Development on tsunami relief efforts in Thailand.

Results and Analysis:

In accomplishing the agency’s goals for modest expansion, the Peace Corps continues to respond to the numerous countries requesting a Peace Corps presence by opening new programs that focus on meeting the unique needs of the host country. In FY 2006, the Peace Corps opened a program in the Kingdom of Cambodia. This historic new country entry enables Volunteers to work for the first time in Cambodia focusing on issues of education and health.

The Peace Corps continues to be a valuable participant in the President’s Emergency Plan for AIDS Relief (PEPFAR). The Peace Corps has a presence in nine of the 15 PEPFAR focus countries.⁷ All nine of these posts actively participated in PEPFAR during FY 2006, expanding and enhancing their ongoing efforts in the fight against HIV/AIDS. In addition, seven other posts participated in the PEPFAR program, and Volunteers throughout the world integrated HIV/AIDS awareness messages into their work. Peace Corps Volunteers, by living and working at the grassroots level in communities and speaking the local language, are uniquely suited to share culturally appropriate messages in HIV/AIDS education and prevention. In the 2006 Peace Corps Volunteer survey, 55 percent of Volunteers reported being engaged in HIV/AIDS activities as part of their Peace Corps work, which represents a major increase over the 2004 survey in which 25 percent reported involvement.

In FY 2006, the Peace Corps’ Crisis Corps program sent its 1,000th Volunteer into service since the program’s inception in 1996. Returned Peace Corps Volunteers continue to put their specialized skills to work on short-term assignments ranging from disaster relief to HIV/AIDS prevention. It was a very active year for the Crisis Corps program, and the number of natural disasters and infusion of funds from various sources accounts for the agency being significantly over its targeted goal. Crisis Corps deployed 138 Volunteers to the Gulf Coast region for recovery assistance to those impacted by Hurricanes Katrina and Rita, which was funded by, coordinated with, and under the authority of the Federal Emergency Management Agency. Crisis Corps also sent 21 Americans to Southeast Asia through an interagency agreement with the U.S. Agency for International Development to provide relief to those affected by the devastation wrought by the tsunami. Throughout FY 2006, Crisis Corps fielded an additional 51 Volunteers, plus 13 PEPFAR-funded Crisis Corps Volunteers for a total of 223 Volunteers from all funding sources.

The overall visits to the agency’s website, www.peacecorps.gov, increased from 7.9 million in FY 2005 to 8.3 million in FY 2006. The agency was on target with its aggressive FY 2006 goal and expects solid growth next fiscal year through enhancements of website content, such as reaching out to diverse audiences, revising its “kids” site, creating a “teens” site, and incorporating new technology such as really simple syndication (RSS) feeds. The number of Web applications and online donations, two key outcomes of Peace Corps’ Web presence, continued to make solid gains in FY 2006.

Performance Goal 1.2.1.

Incrementally increase the percentage of respondents to the Peace Corps close-of-service survey reporting the effectiveness of transferring knowledge and skills to members of their host community as “adequately” to “exceptionally” to 80 percent by FY 2006.*

FY 2006 Goal	FY 2006 Actual
80%	83%

* This is a new performance goal as of FY 2006. No data from past fiscal years is available.

⁷ PEPFAR has identified 15 focus countries. The Peace Corps has posts in nine of these focus countries—Botswana, Guyana, Kenya, Mozambique, Namibia, South Africa, Tanzania, Uganda, and Zambia. The other focus countries are Ethiopia, Haiti, Ivory Coast, Nigeria, Rwanda, and Vietnam.

Results and Analysis:

One of the Peace Corps' main objectives is for Volunteers to transfer skills to members of the communities in which they live and work in order to make a meaningful and sustainable difference in the lives of those they serve. Volunteers are instructed on methods to build the capacity of the host country nationals with whom they work and to help teach solutions that will be sustainable within the community. According to the Volunteers surveyed upon completion of their service, via the new close-of-service (COS) survey implemented in FY 2006, more than 83 percent of Volunteers stated that they have effectively transferred knowledge and skills to members of their host community.

Performance Indicators 1.2	FY 2006 Target	FY 2006 Results
i. Number of individuals assisted by Volunteers (e.g., students, farmers, community members) as reported via the prior year's project status report annual review	2,165,000	2,187,000
ii. Number of service providers trained by Volunteers (e.g., teachers, health clinic workers, agriculture extension agents) as reported via the prior year's project status report annual review	113,800	126,300
iii. Number of community-initiated, Volunteer-led, Partnership Program projects	430	435
iv. Increase the extent Volunteers report that they have helped host country nationals gain a better understanding of the United States and its people, as reported by the Peace Corps close-of-service survey	90%	95%

Results and Analysis:

The agency was slightly over its targets for the numbers of individuals assisted and service providers trained by Volunteers. The Center for Field Assistance and Applied Research, through its annual project status review process, compiles annual data and reviews observations related to programming and training as submitted by the field. The Peace Corps accomplishes its goal of transferring skills to people of interested countries by working to build the capacity of men, women, girls, and boys so they can manage their own development in a sustainable manner. Volunteers help build capacity by increasing the knowledge, improving the skills, and promoting behavior change of individuals and families in the countries they serve. Capacity-building efforts are targeted toward individuals, service providers, and organizations, who can, in turn, teach fellow community members.

The number of Partnership Program projects was on target with the FY 2006 goal. Partnership projects are Volunteer-led, community-initiated projects that can only be funded if they meet the Peace Corps' defined standards of sustainability, community involvement, and community need. Through Volunteers, Partnership Program projects help communities realize goals ranging from acquiring equipment for sports teams to building latrines in schools.

One of the key goals of each Volunteer is to help promote a better understanding of Americans on the part of the host country community in which the Volunteer is serving, and the Peace Corps reached its performance indicator in this regard. Volunteers, by sharing about themselves, their families, and their life in the United States, help build a bridge of cross-cultural understanding. By living and working in local communities and speaking the local language, Volunteers forge relationships with their host country community members, and they model a spirit of friendship, understanding, and volunteerism on behalf of Americans.

Performance Goal 1.3.1.

Incrementally increase the number of Peace Corps applicants representing diverse ethnicities and people 50 and over by 2 percent from an FY 2005 level of 24 percent to 26 percent by FY 2006.

FY 2006 Goal		FY 2006 Actual	
26%		24%	
Results			
FY 2002	FY 2003	FY 2004	FY 2005
25.0%	25.9%	26.1%	24.5%

Results and Analysis:

The Peace Corps, while working to gradually expand the number of Volunteers, is also attempting to increase the number of underrepresented ethnic and age groups applying to the Peace Corps. This effort ensures that the Peace Corps continues to do its best to reflect the diverse face of the United States. While the agency matched its FY 2005 level of 24 percent, it is slightly below the FY 2006 target of 26 percent. There continues to be a strong emphasis on recruiting applicants of diverse ethnicities and those over 50, including employing pilot recruitment programs.

Performance Indicators 1.3	FY 2006 Target	FY 2006 Results
i. Percentage of applicants over the age of 50	7.8%	7.2%
ii. Percentage of applicants of diverse ethnicities	19%	17.5%
iii. Total visitors to website who access minority recruitment pages and/or scarce skills, family pages	430,000	442,624
iv. Number of articles placed in newspapers and other media that focus on diverse Volunteers and/or target diverse audiences	175	240
v. Total number of public service announcements (PSA) placements in minority- and diversity-g geared media	3,500	5,300

Results and Analysis:

In FY 2006, the agency experienced a slight decrease in the percentage of applicants over 50 as well as applicants of diverse ethnicities. Several approaches will be used to increase the diversity of the Peace Corps' applicant pool, including presentations at conventions targeting older and diverse populations, increased press attention, increasing the number of older recruiters hired, and pilot projects for diversity recruitment.

One way to enhance recruitment efforts targeting diverse audiences is to raise awareness about diverse Volunteers serving in the Peace Corps through media exposure. The agency exceeded the target number of articles that focused on diverse Volunteers and/or appeared in publications written for diverse audiences, which often show images and tell stories about Peace Corps Volunteer service.

Visitors to the website who accessed minority recruitment pages and/or scarce-skills and family pages were just above the performance goal. The growth in this area is the result of more outreach into minority communities with specific content for those populations.

The Peace Corps accomplished 5,300 placements for its PSAs in minority- and diversity-g geared media for FY 2006, which is substantially above the goal. Significant factors contributing to this success were the development of a new radio PSA that appeals to radio stations with an urban format (reaching a wider African-American audience) and including Spanish language versions of the PSA for both television and radio.

STRATEGIC GOAL 2

Ensure a quality Volunteer experience by increasing the quality of healthcare and managing the safety and security risk factors in each of the communities where the Volunteers live.

Outcome Goals:

- 2.1** Increase the percentage of Volunteers indicating feeling “adequately” to “exceptionally” satisfied with their in-country healthcare from FY 2002 level of 75 percent to 82 percent by FY 2008.
- 2.2** Increase the percentage of Volunteer survey respondents indicating they feel safe most of the time (“usually safe” to “very safe”) where they live from FY 2002 level of 86 percent to 88 percent by FY 2008.

Performance Goal 2.1.1.

Incrementally increase the percentage of respondents to the biennial Peace Corps Volunteer survey indicating feeling “adequately” to “exceptionally” satisfied with their in-country healthcare from the FY 2002 level of 75 percent to 80 percent by FY 2006.

FY 2006 Goal		FY 2006 Actual	
80%		92%	
Results			
FY 2002	FY 2003	FY 2004	FY 2005
90%	N/A*	87%	N/A*

* There are no results reported for these years because the Peace Corps Volunteer survey is conducted every other year.

Results and Analysis:

The health, safety, and security of every Volunteer is the Peace Corps’ highest priority and is reflected as such in the agency’s planning. The 2006 Peace Corps Volunteer survey demonstrates that the vast majority of Volunteers are satisfied with the healthcare they receive while they live and work in their communities around the world.

Performance Indicators 2.1	FY 2006 Target	FY 2006 Results
i. Percentage of Volunteers medically evacuated to Washington, D.C., reporting they are satisfied with their medical evacuation care as measured by the medevac survey	90%	81%
ii. Percentage of Volunteer respondents reporting feeling “adequately” to “exceptionally” prepared, both physically and mentally, to meet the challenges of Peace Corps service as measured by the Peace Corps close-of-service survey	90%	91%
iii. Incidence of <i>falciparum</i> malaria in Africa region (measure is in cases per 100 Volunteer/trainee years)	Less than 6.0	2.1

Results and Analysis:

Peace Corps Volunteers serve in challenging environments throughout the world, and the health of Volunteers is one of the agency’s top priorities. In extreme circumstances, a Volunteer may need to be medically evacuated to Washington, D.C., and the satisfaction of these Volunteers with the care they receive continues to be a focus of the agency. During FY 2006, the data from the medevac survey given those Volunteers reported that the agency fell short of its goal and the FY 2005 results of 93 percent satisfaction. This decline may be attributable to a shift in the agency’s approach to handling Volunteers requiring medical evacuations by utilizing closer regional hubs for their care. In FY 2005, 240 Volunteers were medically evacuated to Washington, D.C., and 176 received care at regional centers overseas. In FY 2006, the percentage shifted appreciably; 192 were served in medical evacuation centers overseas and 187 received care in Washington, D.C. Moreover, those brought to Washington, D.C., were often the most serious cases, which can lead to the termination of a Volunteer’s service for medical reasons. While the lower numbers may reflect displeasure with the circumstances, the agency will

nonetheless undertake efforts to address the concerns of medical evacuees, including closely scrutinizing the feedback received in the surveys.

The Peace Corps focuses on equipping Volunteers so that they have the tools they need to deal with the changes they will face in their communities. This training on physical and emotional health is a focus of pre-service training and is reinforced throughout a Volunteer’s term of service. The close-of-service survey results from FY 2006 reported that the vast majority of Volunteers are satisfied with the preparation they receive during training to meet the mental and physical challenges of Peace Corps service. Furthermore, Volunteers in malaria-prone areas are thoroughly trained on the proper protocols and the importance of taking their malaria prophylaxis, which accounts for an incidence rate that is well below the target level.

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 (“usually safe” to “very safe”) where they live by 1 percent from FY 2002 level of 86 percent to 87 percent by FY 2006.

				FY 2006 Goal	FY 2006 Actual
				87%	88%
Results					
FY 2002	FY 2003	FY 2004	FY 2005		
86%	N/A*	88%	N/A*		

* There are no results reported for these years because the Peace Corps Volunteer survey is conducted every other year.

Results and Analysis:

The safety and security of the Volunteer is the agency’s highest priority. Safety and security information is incorporated into all aspects of Volunteer recruitment, training, and service. The Peace Corps Volunteer survey results indicate that an overwhelming majority of Volunteers feel safe where they live.

Performance Indicators 2.2	FY 2006 Target	FY 2006 Results
i. Percentage of posts receiving safety and security report recommendations annually	85%	85%
ii. 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%	94%
iii. 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%	92%

Results and Analysis:

As a measure of the impact that the safety and security support staff has had on Volunteer safety, the agency’s Office of Safety and Security determined that 85 percent of posts would be visited by safety and security officers to assess and make recommendations for improvements to their Volunteer safety support systems. By the end of FY 2006, the office had achieved this goal. Additional visits were made to assist in staff training, crisis management, and collaboration with embassies on physical security recommendations or office relocations; follow-up on previous recommendations; and other safety and security programmatic support.

An important goal related to a Volunteer’s perception of safety and security was to increase the percentage of Volunteer respondents to 85 percent who feel that the safety and security information received during pre-service training was adequate to very effective. This was also greatly surpassed with survey data revealing that 94 percent reported favorably. By including region- and post-specific safety

and security information in all Welcome Books, invitees become aware of the overall security environment of prospective posts. Additionally, the information provides them with an understanding of the agency's approach to safety and security. Receiving this information before leaving home enables invitees to better absorb the messages that are included in staging and pre-service training.

Additionally, 91 percent of Volunteers reported that they were somewhat to completely satisfied with the support provided by Peace Corps staff regarding their safety and security, which is well above the 85 percent goal. The presence of regional Peace Corps safety and security officers in the field, safety and security coordinators at each post, and safety and security desk officers at headquarters has improved communication, coordination, and oversight of safety and security systems. The agency is encouraged by the positive perceptions Volunteer have of their security, training, and support. The Peace Corps will continue to focus on this important issue, remaining vigilant to maximize Volunteer security overseas.



Youth Development Volunteer, Romania: Volunteers enhance their safety and security by integrating into the communities in which they live and work.

STRATEGIC GOAL 3

Increase the exposure of Americans to other cultures by sharing Volunteer experiences and stories in numerous venues, including the classroom, special events, community visits, and through electronic means, as well as engaging those who have completed their service in ongoing Peace Corps-supported volunteer opportunities.

Outcome Goal:

3.1 Increase the number of interactions with Americans to further the Peace Corps' goals through Peace Corps supported activities to 27,456 (aggregate of indicators i. through iv.) by FY 2008.

Performance Goal 3.1.1.

Increase the number of interactions with Americans to further the Peace Corps' goals through Peace Corps supported activities to 24,382 in FY 2006.*

FY 2006 Goal	FY 2006 Actual
24,382	23,377

* This is a new performance goal as of FY 2006.
No data from past fiscal years is available.

Results and Analysis:

While the number of interactions with Americans to further Peace Corps goals fell just under the targeted goal, education activities such as Peace Corps' Coverdell World Wise School and Fellows USA programs had healthy levels of participation. Expanded opportunities for Peace Corps Volunteers and returned Peace Corps Volunteers (RPCVs) to share their experiences with Americans as well as improved efforts to capture such interactions should allow the agency to meet its goal in FY 2007.

Performance Indicators 3.1	FY 2006 Target	FY 2006 Results
i. RPCV interactions with the American public in communities and on campuses nationwide during Peace Corps Week and throughout the year through activities supported by the Peace Corps	14,550	14,387
ii. Donors supporting Peace Corps Volunteer projects through private sector contributions	5,500	4,588
iii. U.S. educators connecting with Peace Corps Volunteers through the Peace Corps' Coverdell World Wise Schools correspondence match program	4,000	4,037
iv. Fellows/USA participants serving in communities nationwide	332	365
v. Visits per year to the Peace Corps' Coverdell World Wise School website that contains lesson plans, Volunteer stories, and other educational resources for use in the classroom and beyond	1.26 million	2 million

Results and Analysis:

Even with high levels of participation during Peace Corps Week and events associated with the agency's 45th anniversary, the agency missed its targeted number of interactions of RPCVs with the American public by less than two percent. The activities of RPCVs help carry the message of understanding of other cultures as they share their stories in schools, community centers, and elsewhere in the United States. The agency will continue to look at ways to encourage even greater RPCV participation, provide them tools to realize the Peace Corps' third goal, and improve efforts to capture the breadth of RPCV participation through activities supported by the Peace Corps.

The number of donors supporting Peace Corps Partnership projects failed to meet the FY 2006 target. The average donation amount increased, which led to a corresponding decrease in donors required to meet project needs. The Office of Private Sector Initiatives continues to shift its outreach strategy to

reach more schools and civic groups, even though groups of people are counted as one donor. This, and the decrease in the amount of funding required by Volunteer-led projects, will make expanding donor numbers a continued challenge. Regardless, the office will continue to reach out to a wide variety of donors as required to meet Volunteer project funding needs.

The number of educators connecting with Peace Corps Volunteers through the Coverdell World Wise Schools (CWWS) program met the target performance level. After experiencing database difficulties that hampered optimum program matching, the program implemented an aggressive strategy to increase educator enrollment, which helped provide atypical teacher enrollment gains since mid-year. The CWWS program will continue with its marketing strategy, enabling Volunteers to match with teachers, which helps to bring their experiences alive to students nationwide.

The CWWS website, a key avenue for connecting with schoolchildren across America, exceeded its targeted number of visits per year. An aggressive marketing campaign supplemented by a regular e-newsletter and fresh content has driven CWWS website traffic to historic highs.

The Peace Corps' Fellow/USA program not only exceeded the target for participants, but experienced the highest enrollment since the program's inception in 1985. The addition of 10 new university partners and two new programs in FY 2004 and FY 2005 has led to unexpectedly strong enrollments in FY 2006. Fellows/USA participants use the knowledge, skills, and competencies they developed during their Peace Corps service to benefit the American people by simultaneously working in underserved U.S. communities as they pursue graduate degrees.



The Corcoran School, Syracuse, New York: Peace Corps Volunteers promote cultural awareness of the countries in which they served to schoolchildren and community groups, giving Americans the opportunity to learn from their experiences.

STRATEGIC GOAL 4

Increase the retention level of Americans interested in the Peace Corps by better facilitating the process of obtaining information, applying, joining and completing their Volunteer service.

Outcome Goals:

- 4.1** Improve the responsiveness of the Volunteer application process by streamlining the application process and decreasing the Peace Corps' response time to applicants by 7 percent from 156 days (aggregate of below indicators of timeliness) in FY 2005 to 146 days in FY 2008.
- 4.2** Maintain the overall 12-month Volunteer's resignation rate (with resignation officially defined as a decision made by a Volunteer/trainee that he/she no longer wishes to continue in Peace Corps service) at 10 percent or less.

Performance Goal 4.1.1.

Decrease the Peace Corps' response time to applicants by 2 percent from 156 days in FY 2005 to 154 days in FY 2006.*

FY 2006 Goal	FY 2006 Actual
154	138

* This is a new performance goal as of FY 2006.
No data from past fiscal years is available.

Results and Analysis:

The agency is pleased to have exceeded its FY 2006 goal of response time to applicants by being 16 days faster than the 154-day goal. The application process for becoming a Peace Corps Volunteer has numerous stages, which enables the agency to recruit and thoroughly screen applicants for skills, medical, and suitability issues prior to approving and inviting them for Peace Corps service. The Peace Corps' application process was broken down into its various stages to better analyze efficiencies. Cumulatively, these processing days allow the agency to identify its overall responsiveness to applicants.

Performance Indicators 4.1	FY 2006 Target	FY 2006 Results
i. Number of days from receipt of application to nomination	66	62
ii. Number of days from nominee's completed health status review to medical kit sent	9	8
iii. Number of days from receipt of completed medical kit to medical qualification	32	30
iv. Number of days from medical qualification to invitation	47	38
v. Percentage of applicants who submit their Volunteer applications over the Internet	84%	91%

Results and Analysis:

The 11 regional recruitment offices (RROs) located throughout the United States increased the efficiency of their application processing methods, which led to fewer days from application to nomination than the FY 2006 target.

The Placement Unit has processed medically qualified applicants and issued invitations to those individuals in a timely manner. This part of the Volunteer delivery system (VDS) includes finalized information from the Office of Medical Services (OMS), posts, and applicants before the official invitation is issued. The ease in using the online application and electronic references have produced better-than-expected results. In fact, the agency surpassed its goal of applicants submitting their applications over the Internet—91 percent applied online, which was 7 percent over the FY 2006 target and 8 percent over the FY 2005 level.

Additionally, OMS staff, including those sending the medical kits and the screening nurses responsible for determining medical qualification, exceeded their targeted turnaround times, allowing the agency to meet its FY 2006 goals.

Performance Goals 4.2.1.

Maintain the overall 12-month Volunteer’s resignation rate at 10 percent or less in FY 2006.

FY 2006 Goal		FY 2006 Actual	
<10%		8.8%	
Results			
FY 2002	FY 2003	FY 2004	FY 2005
9.0%	8.0%	9.0%	8.6%

Results and Analysis:

Retaining Volunteers is an area the Peace Corps has examined and analyzed carefully. The agency’s target to keep resignations for FY 2006 below 10 percent was achieved. Offices throughout the agency benefited from a more thorough analysis of early terminations in general, with a focus on resignations (officially defined as a decision made by a Volunteer/trainee that he/she no longer wishes to continue in Peace Corps service). A revised qualitative data instrument was implemented beginning in FY 2005 to collect more meaningful data on reasons Volunteers choose to resign. The agency continues to monitor early terminations (particularly resignations), and to use both quantitative and qualitative data to assist in improving recruiting, training, programming, and all other aspects of the Volunteer experience.

Performance Indicators 4.2	FY 2006 Target	FY 2006 Results
i. Percentage of sites described “very well,” “well,” or “adequately” prepared in the biennial Volunteer survey	80%	78%
ii. Percentage of Volunteer respondents reporting their pre-service training to manage cultural differences as “adequate,” “effective,” or “very effective” as measured by the biennial Volunteer survey	90%	91%
iii. Percentage of Peace Corps project and training programs reviewed annually to provide feedback for improvement to posts as reported via the prior year’s project status report/training status report review process	95%	94%
iv. Percentage of Peace Volunteer respondents reporting their pre-service training as “adequate,” “effective,” or “very effective” in preparing them to maintain their mental/emotional health, as measured by the biennial Volunteer survey	84%	85%

Results and Analysis:

The Peace Corps strives to retain Volunteers throughout their term of Peace Corps service by managing a quality program. However, life circumstances, such as family emergencies, sometimes cause Volunteers to resign early. These performance indicators were chosen in light of the difficulties Volunteers face that can lead to resignation, including challenges in adapting to the local culture, dealing with emotional or mental health issues, and struggling with the work environment.

The Peace Corps met its goal on training Volunteers to manage cultural differences. The most safe and secure Volunteers are those who are well-integrated into their communities. The Peace Corps provides extensive training on cross-cultural awareness, enabling Volunteers to learn to function well in their new communities. Additionally, the agency provides Volunteers with extensive language training to help them adapt to their new environment and communicate with their host country community members.

The Center for Field Assistance and Applied Research monitors the production and quality of programming and training (including the quality of materials provided to posts) with the regions through the annual project status report (PSR) review process. These evaluations provide feedback to posts on overall possible project improvements. Cohesive projects enable Volunteers to have well-defined work at their sites, which fits into a larger project goal addressing the identified needs of the host country. The agency reviewed and provided feedback on all Peace Corps posts that submitted annual reports; however, it was unable to review all plans during the PSR review process due to unexpected closures of Peace Corps posts during the year. Additionally, the agency was slightly under its goal for the adequacy of site preparation. Site development is a key function of post staff to effectively place Volunteers in communities. The agency will undertake efforts to review and improve programming and training and ensure that best practices on site development are shared and emphasized throughout the overseas posts.

The agency met its goal on preparing Volunteers to meet their mental/emotional health needs during their service. In FY 2006, the agency undertook efforts to equip Peace Corps medical officers in areas of mental health and Volunteer resiliency, including presenting information on mental and behavioral health at continuing medical education programs in all three of the Peace Corps regions overseas.



Information Technology Volunteer, Philippines: The Peace Corps provides support to Volunteers to meet their physical, emotional, language, and programmatic needs to help ensure Volunteers have a positive experience.

FINANCIAL SECTION AND NOTES





Letter from the Chief Financial Officer

The fiscal year 2005 letter from the chief financial officer included a comment that the past three fiscal years (FY 2003–2005) were a time of transition for financial systems and for personnel. In that vein, this past year was a year of substantial maturation for financial systems, for the organization of the Office of the Chief Financial Officer (OCFO), and for key agency-wide financial processes—the internal control program and the Integrated Planning and Budget System (IPBS). The financial management process is not complete, but significant progress will facilitate future refinements. Our goal remains to continuously improve financial processes and data, culminating in an unqualified opinion on our financial statements no later than FY 2009.

This effort to improve data integrity and regularly produce reliable, relevant, and timely financial reports will encompass:

- Intensifying an internal control/quality assurance program, to include internal (self) and independent testing and metric monitorship;
- Increasing the use of financial management systems' functionality and automated tools to facilitate reconciliations and analysis;
- Publishing current policy, procedural, and technical documentation;
- Developing, monitoring, and testing action plans to correct deficiencies identified by self assessments, the inspector general, and independent auditors; and
- Increasing agency-wide functional and technical training that, at a minimum, addresses requisite core competencies.

This past year, the OCFO made extensive progress by executing strategically minded plans built with tactical detail in the areas of organizational structure, technology, documentation, and tools needed to achieve the above goals. These included:

- Finalizing the reorganization of the OCFO. The reorganization, based on results of business process analyses, established seven directorates, each with clearly defined functions.
- Continuing the numbered CFO Bulletin e-mail communication link to Peace Corps staff, including country directors and administrative officers at posts. Sixteen bulletins covering a wide range of subjects were disseminated through the end of FY 2006, educating field activities on sound financial management procedures. This information is also accessible to all staff via the CFO webpage.
- Reengineering the IPBS so it aligns the post's field project design and Volunteer recruitment and delivery cycles with Congressional planning and budget cycles. The information submitted by posts and domestic offices is used by the Peace Corps to decide how and where to allocate resources, and it focuses on rewarding performance and ensuring that results are verifiably measured. Budget holders and managers have increased flexibility to manage their own budgets and are held more accountable through increased oversight.

- Strengthening the management process to capture all capital assets.
- Developing and implementing an agency-wide internal control program that incorporates a senior assessment team that meets at least quarterly, ensures self-assessments, advises corrective action plans when warranted, and monitors the progress of corrective actions.
- Publishing five OCFO position papers covering accounting and reporting policies.

These efforts have produced several tangible improvements, including:

- Generating three of the five quarterly financial statements directly from the financial system (previously these statements were dependent on an external report generator).
- Implementing, or making scheduled progress on, actions to correct all external audit findings from the FY 2003 Gap Analysis and the FY 2004 and FY 2005 financial statement audits.
- Refining the value of fixed assets on the financial statement, including a downward adjustment of \$9.7 million to the net book value of internal use software and identifying (and recording) assets not capitalized at acquisition.
- Expanding reconciliations of the fund balance with Treasury with the corresponding Treasury's Governmentwide Accounting (GWA) account statement application; and accelerating the identification and resolution of statement-of-differences items.
- Intensifying validation of open obligations, which resulted in the return of millions of dollars in budgetary resources to the agency for current operations.
- Correcting general ledger anomalies, incompatibilities, and imbalances with corresponding subsidiary ledger data on a regular basis and, where applicable, modifying the system logic that caused the condition.
- Intensifying the review of outstanding travel advances, which resulted in more timely settlements and collections of residual balances.
- Strengthening the audit trail for the payment of international personal service contractors by incorporating that function into the accounts payable module.
- Strengthening the agency's cash management by increased monitoring of post-level cashiering functions. Ongoing monitoring and feedback resulted in all but three posts being certified as fully compliant with the agency's reporting and reconciliation requirements for cashiers and their supervisors.

Equally important are efforts to provide timely, quality service to our customers—the Volunteers, budget holders, other staff members, and vendors. These efforts include searching for the optimum payment methods by category of payee, accelerating the payment of travel claims, and increasing the inventory of readily available data query reports.

This coming fiscal year will bring further refinements in standardizing and systematizing account reconciliations, procedures for capital assets, and internal control testing, as well as providing analysis to decision makers.

The FY 2004 and FY 2005 financial statement audits identified several weaknesses that are summarized in Appendix 2 along with the status of completion for each identified audit weakness.

The OCFO is committed to excellence in financial management. We honor that commitment by preparing annual financial statements in accordance with generally accepted accounting principles (GAAP) for federal government entities and by subjecting the statements to an independent audit. The Peace Corps' financial statements were prepared from its financial systems and processes using the most reliable and complete data available.



George A. Schutter III, CPA, CPCM
Chief Financial Officer
November 15, 2006



George Schutter, the agency's Chief Financial Officer, addresses staff at Peace Corps headquarters.

Peace Corps
Balance Sheet
As of September 30, 2006 and 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>	
			Unaudited
Assets			
Intragovernmental			
Fund Balance with Treasury (Note 3)	\$ 134,516	\$ 127,662	
Accounts Receivable (Note 5)	980	1,712	
Total Intragovernmental	\$ 135,496	\$ 129,374	
With the Public			
Cash and Other Monetary Assets (Note 4)	\$ 65	\$ 139	
Accounts Receivable, Net (Note 5)	183	39	
General Property, Plant and Equipment, Net (Note 6)	32,980	41,697	
Prepaid Volunteer Living Allowances (Note 7)	3,813	3,668	
Other Assets (Note 8)	430	660	
Total Assets With the Public	\$ 37,471	\$ 46,203	
Total Assets	\$ 172,967	\$ 175,577	
Liabilities			
Intragovernmental			
Accounts Payable	\$ 442	\$ 2,035	
Other (Note 10)	2	1,229	
Unfunded FECA Liability (Note 9 & 10)	24,157	24,606	
Total Intragovernmental	\$ 24,601	\$ 27,870	
With the Public			
Accounts Payable	\$ 9,595	\$ 14,266	
Federal Employee and Veteran Benefits (Note 9)	116,451	126,651	
Contingent Liability (Note 10 & 12)	500	125	
Non-Entity Funds	27,379	25,720	
Unfunded Employment Related Liability (Note 9 & 10)	9,840	6,796	
Accrued Funded Payroll and Leave (Note 10)	3,241	3,144	
Unfunded Annual Leave (Note 9)	6,673	6,534	
Total Liabilities With the Public	\$ 173,679	\$ 183,236	
Total Liabilities	\$ 198,280	\$ 211,106	
Net Position			
Unexpended Appropriations - Earmarked Funds	\$ -	\$ -	
Unexpended Appropriations - Other Funds	95,035	84,896	
Cumulative Results of Operations - Earmarked Funds	-	-	
Cumulative Results of Operations - Other Funds	(120,348)	(120,425)	
Total Net Position	\$ (25,313)	\$ (35,529)	
Total Liabilities and Net Position	\$ 172,967	\$ 175,577	

The accompanying notes are an integral part of these statements.

Peace Corps
Statement of Net Cost
For the Years Ended September 30, 2006 and 2005
(In Thousands)
-unaudited-

	<u>2006</u>	<u>2005</u>
Program Costs:		
Gross Costs	\$ 312,563	\$ 320,727
Less: Earned Revenues	5,532	3,325
Net Program Costs	\$ 307,031	\$ 317,402
Net Cost of Operations	\$ 307,031	\$ 317,402

The accompanying notes are an integral part of these statements.

Peace Corps
Statement of Changes in Net Position
As of September 30, 2006 and 2005
(In Thousands)
-unaudited-

	<u>2006</u>			<u>2005</u>	
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total	Consolidated Total
Cumulative Results of Operations					
Beginning Balances	\$ -	\$ (120,425)	\$ -	\$ (120,425)	\$ (169,898)
Adjustments					
Corrections of Errors	-	(6,492)	-	(6,492)	47,386
Beginning Balances, As Adjusted	\$ -	\$ (126,917)	\$ -	\$ (126,917)	\$ (122,512)
Budgetary Financing Sources:					
Appropriations Used	\$ -	\$ 308,206	\$ -	\$ 308,206	\$ 316,580
Transfers-In/Out Without Reimbursement	-	-	-	-	(3,593)
Other Financing Sources (Non-Exchange):					
Transfers-In/Out Without Reimbursement	-	702	-	702	1,805
Imputed Financing	-	4,692	-	4,692	4,697
Total Financing Sources	\$ -	\$ 313,600	\$ -	\$ 313,600	\$ 319,489
Net Cost of Operations	-	(307,031)	-	(307,031)	(317,402)
Net Change	\$ -	\$ 6,569	\$ -	\$ 6,569	\$ 2,087
Cumulative Results of Operations	\$ -	\$ (120,348)	\$ -	\$ (120,348)	\$ (120,425)
Unexpended Appropriations:					
Beginning Balances	\$ -	\$ 84,896	\$ -	\$ 84,896	\$ 94,453
Adjustments					
Corrections of Errors	-	(2)	-	(2)	(2,475)
Beginning Balances, As Adjusted	\$ -	\$ 84,894	\$ -	\$ 84,894	\$ 91,978
Budgetary Financing Sources:					
Appropriations Received	\$ -	\$ 322,000	\$ -	\$ 322,000	\$ 320,000
Appropriations Transferred In/Out	-	1,100	-	1,100	-
Other Adjustments	-	(4,753)	-	(4,753)	(10,503)
Appropriations Used	-	(308,206)	-	(308,206)	(316,580)
Total Budgetary Financing Sources	\$ -	\$ 10,141	\$ -	\$ 10,141	\$ (7,083)
Total Unexpended Appropriations	\$ -	\$ 95,035	\$ -	\$ 95,035	\$ 84,895
Net Position	\$ -	\$ (25,313)	\$ -	\$ (25,313)	\$ (35,530)

The accompanying notes are an integral part of these statements.

Peace Corps
Statement of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(In Thousands)
-unaudited-

	<u>2006</u>	<u>2005</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 20,356	\$ 23,081
Budgetary Authority		
Appropriation	322,000	320,000
Spending Authority From Offsetting Collections (Gross)		
Earned		
Collected	6,802	4,926
Change in Receivables from Federal Sources	376	(525)
Change in Unfilled Customer Orders		
Advance Received	-	(27)
Without Advance from Federal Sources	(2,064)	905
Subtotal	<u>\$ 327,114</u>	<u>\$ 325,279</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	\$ 1,100	-
Permanently Not Available		
Cancellations of Expired and No-Year Accounts	1,533	7,945
Enacted Reductions	3,220	2,560
Total Budgetary Resources	<u><u>\$ 343,817</u></u>	<u><u>\$ 337,855</u></u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	\$ 319,258	\$ 314,001
Reimbursable	3,522	3,498
Subtotal	<u>\$ 322,780</u>	<u>\$ 317,499</u>
Unobligated Balance		
Apportioned	\$ 7,716	\$ 14,252
Unobligated Balance Not Available	13,321	6,104
Total Status of Budgetary Resources	<u><u>\$ 343,817</u></u>	<u><u>\$ 337,855</u></u>
CHANGE IN OBLIGATED BALANCES		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 82,624	\$ 72,542
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,126	1,718
Total Unpaid Obligated Balance, Net	80,498	70,824
Obligations Incurred, Net	322,780	317,499
Less: Gross Outlays	317,433	309,162
Change in Uncollected Customer Payments from Federal Sources	(1,688)	380
Obligated Balance, Net, End of Period:	-	-
Unpaid Obligations	87,971	63,405
Less: Uncollected Customer Payments from Federal Sources	438	602
Total Unpaid Obligated Balance, Net, End of Period	<u>\$ 87,533</u>	<u>\$ 62,803</u>
NET OUTLAYS		
Net Outlays		
Gross Outlays	\$ 317,433	\$ 309,162
Less: Offsetting Collections	6,802	4,899
Less: Distributed Offsetting Receipts	-	-
Net Outlays	<u><u>\$ 310,631</u></u>	<u><u>\$ 304,263</u></u>

The accompanying notes are an integral part of these statements.

Peace Corps
Statement of Financing
For the Years Ended September 30, 2006 and 2005
(In Thousands)
- unaudited -

	<u>2006</u>	<u>2005</u>
<i>Resources Used to Finance Activities</i>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 322,780	\$ 317,499
Less: Spending Authority from Offsetting Collections and Recoveries	5,114	5,279
Obligations Net of Offsetting Collections and Recoveries	\$ 317,666	\$ 312,220
Less: Offsetting Receipts	-	-
Net Obligations	\$ 317,666	\$ 312,220
Other Resources		
Transfers In/Out Without Reimbursement	702	1,805
Imputed Financing from Costs Absorbed by Others	4,692	4,697
Net Other Resources Used to Finance Activities	\$ 5,394	\$ 6,502
Total Resources Used to Finance Activities	\$ 323,060	\$ 318,722
<i>Resources Used to Finance Items Not Part of Cost of Operations</i>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits but Not Yet Provided	11,448	1,864
Resources that Fund Expenses Recognized in Prior Periods	10,650	7,177
Resources that Finance the Acquisition of Assets	4,801	5,017
Total Resources Used to Finance Items Not part of the Net Cost of Operations	\$ 26,899	\$ 14,058
Total Resources Used to Finance the Net Cost of Operations	\$ 296,161	\$ 304,664
<i>Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</i>		
<i>Components Requiring or Generating Resources in Future Periods:</i>		
Increase in Annual Leave Liability	139	3,318
Other (+/-)	3,419	1,245
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	\$ 3,558	\$ 4,563
<i>Components Not Requiring or Generating Resources</i>		
Depreciation and Amortization	\$ 6,658	\$ 8,190
Revaluation of Assets or Liabilities (+/-)	527	-
Other (+/-)	127	(15)
Total Components Not Requiring or Generating Resources	\$ 7,312	\$ 8,175
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	\$ 10,870	\$ 12,738
Net Cost of Operations	\$ 307,031	\$ 317,402

The accompanying notes are an integral part of these statements.

-Unaudited-**Note 1 Significant Accounting Policies****a) Reporting Entity**

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

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

b) Basis of Presentation

The financial statements present the financial position, the net cost of operations, and changes in net position along with budgetary resources and financing activities of the agency pursuant to the requirements of 31 U.S.C. 3515 (b). They have been prepared using Peace Corps' books and records in accordance with agency accounting policies, the most significant of which are summarized in this note. The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," issued July 2006. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

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

The statements are subdivided in two categories: intragovernmental and public. The intragovernmental balances, revenues, and costs reflect financial transactions between the Peace Corps and other federal agencies. Public activities are those with nongovernmental customers, including Volunteers, contributors, employees, contractors, and vendors.

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

c) Basis of Accounting

Accounting principles encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Under the budgetary basis, however, fund availability is recorded based upon legal considerations and constraints. The agency receives financing sources through direct appropriations from the general fund of the U.S. Treasury to support its operations. This financing source—appropriations used—is recognized to the extent that ap-

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proprietion authority has been applied against received goods and services.

d) Fund Accounting Structure

The agency's financial activities are accounted for by federal account symbol. They include accounts for appropriated funds and other fund groups described below for which the Peace Corps maintains financial records.

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

Special or Trust Funds—These funds consist of receipts and expenditures by the government for carrying out specific purposes and programs in accordance with terms of the statute that designates the fund as a special fund or trust fund. The balances in the agency's trust funds are non-entity assets and are included in the financial statements.

Deposit Funds—These funds consist of monies held temporarily by the Peace Corps as an agent for others. These include allowance and allotment accounts for employees and Volunteers. The balances in these funds are non-entity assets and are included in the financial statements.

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

e) Budget Authority

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

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

f) Revenues and Other Financing Sources

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

g) Fund Balance with the U.S. Treasury

The fund balance with Treasury consists of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, and special funds that periodically are direct-financing reimbursements to the appropriated funds.

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

The funds that make up post cashiers' imprest funds belong to the U.S. Treasury through DOS's accountability. These funds are routinely used to pay for small-value purchases of goods and services and are also used to make an occasional emergency payment. Per agreement with the DOS, the Peace Corps is responsible to pay for any losses incurred by the cashiers that would normally fall on the account holder. All international payments made by DOS on behalf of the Peace Corps are charged to the Peace Corps and reduce the applicable Peace Corps appropriation unexpended balance in U.S. Treasury records. As of September 30, 2006, cashier imprest funds represented by cash on hand, checks on hand, interim advances, and cashier checking account balances totaled approximately \$3.7 million in U. S. dollar equivalents (USD).

At any point in time, the posts have USD and local currency checks in their possession that are awaiting delivery to

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the payees. These checks were recorded as disbursements on Peace Corps and U.S. Treasury records in the month the checks were issued. As of September 30, 2006, these checks totaled approximately \$2.5 million in U. S. dollar equivalents.

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

h) Foreign Currency

Accounting records for the agency are maintained in U.S. dollars, while a significant amount of the overseas expenditures are in foreign currencies. For accounting purposes, overseas obligations and disbursements are recorded in U.S. dollar equivalents 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 U.S. Department of State Financial Service Centers in Charleston, South Carolina; and Bangkok, Thailand.

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

i) Accounts Receivable

Accounts receivable include amounts due from other federal entities and from current and former employees and Volunteers. The agency recognizes an allowance for doubtful accounts consistent with the U.S. Department of Treasury's requirement that agencies write-off any account that has been delinquent for more than two years. An exception to this write-off policy will be for accounts with approved payment plans in place and for which the debtor is meeting the terms of the plan.

j) Advances and Prepayments

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

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

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

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

A capital asset inventory of all Peace Corps PP&E assets recorded in the property management database was taken in fiscal year 2005. To establish existing PP&E where historical cost information necessary to comply with the recognition or measurement provisions had not been maintained, estimates were used based on either 1) cost of similar assets at the time of acquisition; or 2) a value based on the asset's condition and fair market value. Additional sub-categories of PP&E were identified during FY 2006 and their values were capitalized.

The agency capitalizes all property, plant, and equipment with the exception of General property, plant, and equipment that has an acquisition cost of \$10,000 or greater, a useful life of two years or more, are not intended for sale in the ordinary course of business, and are intended to be used or available for use by the entity. For General property, plant, and equipment, purchases are capitalized at \$25,000 or greater for individual items and \$500,000 or greater for bulk purchases. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. No salvage values were estimated in calculating accumulated depreciation through FY 2005 but it was determined that further analysis was required. This practice was reviewed at the end of FY 2006 and a policy determination was made that an estimated salvage value of 40% was warranted for the agency's vehicles based on their resale value in recent years.

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The agency does not own any real property. Nonexpendable personal property is depreciated over 3 to 15 years. The agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Deferred maintenance amounts are immaterial with respect to the financial statements. Software purchased for \$10,000 or developed for internal use at a cost of \$25,000 or greater is capitalized and amortized over its expected life (currently 3 to 9 years).

l) Capital Leases

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

m) Accounts Payable and Other Liabilities

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

n) Employee Benefits

- I. *Federal Employees Compensation Act (FECA) Accrued Claims*—The agency records the direct dollar costs of compensation and medical benefits paid on its behalf by the U.S. Department of Labor (DOL) for employees under the agency's jurisdiction.
- II. *Future Workers Compensation Benefits*—FECA provides income and medical costs protection to federal employees injured on the job or who have incurred a work-related occupational disease, and to beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The U.S. Department of Labor (DOL) administers the FECA program. DOL initially pays valid claims and bills the agency on an annual basis.
- III. *Accrued Leave*—A liability for annual leave is accrued as leave is earned and paid when leave is taken or employment terminates. Accrued annual leave is paid from future funding sources and is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.
- IV. *Employee Health Benefits and Life Insurance*—The agency's employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGSIP). The agency matches the employee contributions to each program to pay for current benefits.
- V. *Post-Retirement Health Benefits and Life Insurance*—Agency employees who may be eligible to participate in the FEHBP and the FEGSIP could continue to do so during retirement. The Office of Personnel Management (OPM) has provided the agency with cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The agency recognizes a current cost for these and other retirement benefits (ORBs) at the time of employment with the agency. The ORB expense is financed by OPM and offset by the agency through the recognition of an imputed financing source on the Statement of Financing.
- VI. *Employee Retirement Benefits*—Peace Corps direct hire employees participate in one of three retirement systems: Civil Service Retirement System (CSRS), Federal Employees' Retirement System (FERS), or the Foreign Service Retirement and Disability System (FSRDS). The following table provides data for each of these plans:

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

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Note: The agency contributes 1 percent of the employee's basic pay; it will also match an employee's contributions up to 4 percent of his or her basic pay.

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

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

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

o) Commitments and Contingencies

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

p) Use of Estimates

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

q) Interest on Late Payments

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

r) Intragovernmental Net Costs

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

s) Adjustments to Maintain Inherent Account Relationship Integrity

At the fiscal years ending 2004, 2005, and 2006, the trial balance was reviewed and it was determined that there existed out-of-balance conditions. These conditions were attributed to various factors, such as timing differences between the posting of proprietary account entries and budgetary account entries, incorrect use of transaction codes by users, or systemic issues that were identified but still unresolved.

In order to correct the relationships between the proprietary and budgetary accounts, a high-level analysis was performed. Cash balances on the books were aligned to agree with budgetary account balances. Additionally, cash balances were adjusted to align with the U.S. Treasury fund balance to permit the agency to pass edit checks and submit *FACTS II* reports to Treasury.

-Unaudited-**Note 2 Non-Entity Assets**

Non-entity assets are composed of trust and deposit funds. These funds are not available for Peace Corps' use and not part of Peace Corps resources. The Peace Corps has a fiduciary responsibility to monitor collections, status, and distribution. Below, as information, are the U.S. Treasury fund balances of non-entity, fiduciary assets. All the non-entity assets are non-governmental.

Non-Entity Fund Assets	September 30, 2006	September 30, 2005
	<i>(in thousands)</i>	<i>(in thousands)</i>
Trust Funds		
Gifts and Contributions (Cash)	\$ 603	\$ 665
Advances from Foreign Governments	3	55
FSN Separation Liability Trust Fund	8,817	9,091
Deposit Funds		
Volunteer Readjustment Allowance	16,849	15,933
Volunteer Payroll Allotment Account (Payroll Savings Bond Account)	(7)	(24)
Other Fund Types (Special Fund Accounts)	1,114	
Total Nonentity Assets	\$ 27,379	\$ 25,720
Total Entity Assets per Balance Sheet	\$ 145,588	\$ 149,857
Total Assets	\$ 172,967	\$ 175,577

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

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

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

Note 3 Fund Balance with Treasury

Fund Balances	September 30, 2006	September 30, 2005
	<i>(in thousands)</i>	<i>(in thousands)</i>
Appropriated Funds	\$ 107,137	\$ 101,942
Total Nonentity Assets (Note 2)	27,379	25,720
Total	\$ 134,516	\$ 127,662
Status of Fund Balance with Treasury		
	September 30, 2006	September 30, 2005
	<i>(in thousands)</i>	<i>(in thousands)</i>
(1) Unobligated Balance		
(a) Available	\$ 7,716	\$ 14,252
(b) Unavailable	13,321	6,104
(2) Obligated Balance Not Yet Disbursed		
Fund Balance with Treasury	\$ 134,516	\$ 127,662

The fund balance with Treasury is equal to the unobligated balance of funds plus the obligated balance not yet dis-

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bursed.

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

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

Note 4 Cash and Other Monetary Assets

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Total Cash and Other Monetary Assets	\$ 65	\$ 139

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

Note 5 Net Accounts Receivable

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Accounts Receivable—Intragovernmental	\$ 980	\$ 1,712
Accounts Receivable with the Public	183	39
Total Accounts Receivable, Net	\$ 1,163	\$ 1,751

Intragovernmental receivables are due from other federal agencies for services provided per reimbursable agreements. Accounts receivable from the public are due from nonfederal entities, consisting primarily of receivables from employees. The allowance will be established in the financial records if the total amount exceeds \$30,000; otherwise, the amount is considered immaterial. An allowance was not established as of September 30, 2006.

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

Components of Fixed Assets as of September 30, 2006: <i>(in thousands)</i>	Useful Life in Years	Cost	Accumulated Depreciation	Net Book Value
General Property, Plant, and Equipment	5–10	\$ 2,864	\$ 2,103	\$ 761
Vehicles	5	15,519	5,578	9,941
IT Hardware	3–15	8,266	4,336	3,930
Leasehold Improvements	10	180	31	149
Internal-Use Software	3–9	26,881	8,682	18,199
Total		\$ 53,710	\$ 20,730	\$ 32,980

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

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For quarter ending September 30, 2006, Peace Corps fixed assets include internally developed software and those assets that are reflected as active in the end of year property management databases. These assets are located at headquarters in Washington, D.C., the eleven regional offices, and the overseas posts.

Values for all assets other than internally developed software were obtained from data extracted from the databases. Values for internally developed software were developed from the most reliable available data for each system. The net book value of internally developed software initially recorded in the September 30, 2005 financial statements was overstated by \$9.7 million. This is the most material aspect of the corrections (a net decrease of \$6.6 million) to the FY2005 values discussed above. An analysis to determine the true cost has been completed and the net book value was reduced accordingly with adjustments made to the FY2006 accounts. There are no restrictions on the use or convertibility of General Property, Plant and Equipment owned by Peace Corps.

Note 7 Prepaid Volunteer Living Allowances

	September 30, 2006	September 30, 2005
	<i>(in thousands)</i>	<i>(in thousands)</i>
Prepaid Volunteer Living Allowances	\$ 3,813	\$ 3,668

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

Note 8 Other Assets

	September 30, 2006	September 30, 2005
	<i>(in thousands)</i>	<i>(in thousands)</i>
Intragovernmental		
Travel Advances to Employees	43	10
Total Intragovernmental	\$ 43	\$ 10
Relocation Advances to Employees	78	66
Prepayments to Foreign National Personal Service Contractors (FNPSCs)	5	5
Travel Advances to Employees	304	579
Total Other Assets	\$ 430	\$ 660

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

Prepayments to Foreign National Personal Service Contractors—Payments of the foreign national personal service contractors' biweekly payrolls are made prior to the end of the pay period so that the direct deposits or checks are received by the last day of the pay period.

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

-Unaudited-**Note 9 Liabilities Not Covered by Budgetary Resources**

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Intragovernmental Liabilities		
Unfunded FECA Liability	\$ 24,157	\$ 24,606
Public Liabilities		
Unfunded Annual Leave	6,673	6,534
Other Unfunded Employment-Related Liability	9,840	6,796
Federal Employee and Veterans Benefits	116,451	126,651
Total Liabilities Not Covered by Budgetary Resources	\$ 157,121	\$ 164,587

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

Unfunded Annual Leave (U.S. Employees)—A liability for annual leave is accrued as leave is earned and paid when leave is taken or when the individual terminates. The balance represents the estimated value of annual leave for U.S.-hired employees earned but not used on September 30, 2006. Payments are charged to the appropriation current at the time of payment.

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

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

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

-Unaudited-**Note 10 Other Liabilities**

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Intragovernmental Liabilities		
Advances from Others	\$ 2	\$ 1,229
Unfunded FECA Liability	24,157	24,606
Total Other Intragovernmental Liabilities	\$ 24,159	\$ 25,835
Public Liabilities		
Accrued Funded Payroll and Leave	\$ 3,241	\$ 3,144
Unfunded Leave	6,673	6,534
Other Unfunded Employment Related Liability (PSC Severance)	9,840	6,796
Contingent Liability	500	125
Total Other Public Liabilities	\$ 20,254	\$ 16,599
Total Other Liabilities	\$ 44,413	\$ 42,434

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

Contingent Liability—See Note 12.

Non-current Liabilities - Unfunded FECA Liability, Unfunded Leave, Other Unfunded Employment Related Liability, and Contingent Liabilities are non-current liabilities. The remainder are current liabilities.

Note 11 Leases

The agency does not have any capital or noncancellable leases with terms longer than one year.

Note 12 Commitments and Contingencies

In the opinion of the management and legal counsel, the likelihood that the agency is liable for contingent liabilities related to administrative proceedings, legal actions, or claims is probable and measurable as of this statement date in the amount of \$500,000.

Disclosure is required if there is a reasonable possibility that a loss may be incurred. The likelihood of a reasonable possibility of a loss related to administrative proceedings, legal actions, or claims is estimated to be \$950,000 as of September 30, 2006. The likelihood of potential losses from overseas cashiers is estimated to be \$27,000 as of September 30, 2006.

Obligations related to canceled appropriations for which the agency has contractual commitments for pay-out are estimated to be \$67,004 as of September 30, 2006.

-Unaudited-**Note 13 Imputed Financing**

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Federal Employees Health Benefit Program (FEHBP)	\$ 3,645	\$ 3,386
Federal Employees Group Life Insurance Program (FEGSIP)	12	12
Civil Service Retirement System (CSRS)	834	792
Federal Employees Retirement System (FERS)	-0-	299
Foreign Service Retirement and Disability System (FSRDS)	201	208
Total Imputed Costs	\$ 4,692	\$ 4,697

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

Note 14 Exchange Revenues

	September 30, 2006 <i>(in thousands)</i>	September 30, 2005 <i>(in thousands)</i>
Intragovernmental Earned Revenues	\$ 4,853	\$ 3,325
Earned Revenues from the Public	678	-0-
Total Exchange Revenues	\$ 5,531	\$ 3,325

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

Other Accompanying Information*Disclosure on Contributions*

1. Media Contributions Received—The agency received \$5.4 million in print, radio, and television media contributions through public service announcements in the first 11 months of fiscal year 2006.
2. Host Country Contributions—The agency received cash and in-kind contributions from host countries.

	September 30, 2006 <i>(in thousands)</i>
Host Country Contributions (HCC) U. S. Treasury Foreign Currency Accounts (USD Equivalents)	\$840

In-kind contributions estimated at \$4.2 million in fair market value were received at posts through the fourth quarter of fiscal year 2006 for services, supplies, equipment, and facilities.

-Unaudited-**Required Supplementary Information**

Disclosure on Trading Partners

Peace Corps		
Intragovernmental Assets by Trading Partner		
As of September 30, 2006		
<i>(in thousands)</i>		
Trading Partner	Fund Balance with Treasury	Accounts Receivable
U.S. Treasury	\$134,516	
U.S. Agency for International Development		\$ 778
U.S. Department of State		\$ 81
U.S. Department of Homeland Security		\$ 81
Other		\$ 40
Total	\$134,516	\$ 980

Peace Corps			
Intragovernmental Liabilities by Trading Partner			
As of September 30, 2006			
<i>(in thousands)</i>			
Trading Partner	Accounts Payable	Other	Unfunded FECA
General Services Administration	\$ 163		
U.S. Department of Homeland Security	\$ 150		
Other	\$ 129	\$2	\$24,157
Total	\$ 442	\$2	\$24,157

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


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

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45th
Peace
Corps
Anniversary

1961-2006: a legacy of service at home and abroad

To: Ronald A. Tschetter, Director
 From: H. David Kotz, Inspector General 
 Date: November 15, 2006
 Subject: Audit of Peace Corps' Fiscal Year (FY) 2006 Financial Statements

This letter transmits the three reports of Urbach Kahn and Werlin LLP (UKW) on the results of its audit of the FY 2006 Peace Corps' financial statements, each titled, as follows: *Independent Auditor's Report on the Financial Statements*; *Independent Auditor's Report on Internal Control*; and *Independent Auditor's Report on Compliance with Laws and Regulations*.

As required by the Accountability of Tax Dollars Act of 2002, Peace Corps prepared financial statements in accordance with Office of Management and Budget (OMB) Circular No. A 136, *Financial Reporting Requirements*, and subjected them to audit. The Chief Financial Officers Act of 1990 requires the Inspector General, or an independent external auditor as determined by the Inspector General, to audit the financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by the Office of Inspector General, UKW, an independent certified public accounting firm, performed the audit of Peace Corps' FY 2006 financial statements in accordance with *Government Auditing Standards*, OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, and applicable sections of the *U.S. Government Accounting Office (GAO)/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual*.

Opinion on the Financial Statements

In its report dated November 10, 2006, UKW issued a qualified opinion on the balance sheet as of September 30, 2006 and disclaimed an opinion on the balance sheet as of September 30, 2005 and for the related statements of net cost, changes in net position, financing, and budgetary resources for the years ended September 30, 2005 and 2006.

Except for not maintaining adequate accounting records and sufficient supporting documentation for certain obligations recorded, the balance sheet as of September 30, 2006 presents fairly in all material respects the financial position of Peace Corps in conformity with accounting principles accepted in the United States. Peace Corps had not maintained adequate accounting records and sufficient supporting documentation for material balances presented in the balance sheet as of September 30, 2005; UKW was not able to sufficiently extend auditing procedures to determine the extent to which the statements of net cost, changes in net position, financing and budgetary resources may have been affected by this condition.

Matters Pertaining to the Effectiveness of Internal Control

In planning and performing its audit, UKW considered Peace Corps' internal controls over financial reporting, including testing controls necessary to achieve the objectives in OMB Bulletin No. 06-03. UKW identified matters relating to significant deficiencies in the design or operation of Peace Corps internal controls that in its judgment, could adversely impact Peace Corps' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Specifically, these matters were categorized as material weaknesses and reportable conditions per definitions of the American Institute of Certified Public Accountants. 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 may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions.

Although Peace Corps has made progress in its overall financial management during FY 2006, UKW reported the following four material weaknesses in its Independent Auditors Report on Internal Control:

- Peace Corps did not have adequate controls over its financial management structure, monitoring processes, and financial reporting.
- Peace Corps did not have adequate controls over its accounting business processes.
- Peace Corps was not able to substantiate material prior period account balances.
- Peace Corps did not have adequate controls over its information systems control environment.

Results of Tests of Compliance with Laws and Regulations

Peace Corps management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether Peace Corps' financial statements are free of material misstatements, UKW performed tests of compliance with certain provisions of laws and regulations, noncompliance of which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 06-03, including requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996.

UKW's test of compliance with specific laws and regulations, exclusive of FFMIA disclosed no instances of noncompliance with laws, regulations and provisions of contracts and grants that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03. However, UKW's tests disclosed instances where Peace Corps financial management systems did not substantially comply with Federal financial management system requirements as required in FFMIA.

Office of Inspector General's Evaluation of UKW's Audit Performance

To fulfill our responsibilities under the Chief Financial Officers Act, and related legislation for ensuring the quality of the audit work performed, we monitored UKW's engagement to audit Peace Corps' FY 2006 financial statements by:

- Reviewing UKW's approach and planning of the engagement;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the engagement throughout the audit process;
- Reviewing UKW's reports to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 06-03;
- Coordinating the issuance of the reports; and
- Performing other procedures that we deemed necessary.

UKW is responsible for the attached auditor's reports, dated November 10, 2006, and the opinions and conclusions therein. The OIG is responsible for technical and administrative oversight regarding UKW's performance under the terms of the contract.

Should you or your staff have any questions, please contact me, or Camilla Barror, Technical Audit Manager at 202-692-2921, or Gerald Montoya, Assistant Inspector General for Audits at 202-692-2907. We appreciate the courtesies and cooperation extended to UKW and to the OIG staff during the conduct of the audit and review.

Attachments

cc: Jody Olsen, Deputy Director
David Liner, Chief of Staff
George Schutter, Chief Financial Officer

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

Director
Peace Corps

Inspector General
Peace Corps

We have audited the accompanying Balance Sheets of Peace Corps, an independent executive branch agency of the United States government, as of September 30, 2006 and 2005, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. These financial statements are the responsibility of the management of Peace Corps. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Peace Corps had not maintained adequate accounting records and sufficient supporting documentation for material balances presented in the Balance Sheet as of September 30, 2005, and we were unable to sufficiently extend our auditing procedures to determine the extent to which the Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years ended September 30, 2006 and 2005 may have been affected by this condition.

Additionally, Peace Corps had not maintained adequate accounting records and sufficient supporting documentation to determine the proper classification of certain obligations recorded during the year ended September 30, 2006. We were unable to extend our auditing procedures to determine the extent of misclassification of the status of obligations on the Balance Sheet as of September 30, 2006 and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year then ended.

Because of the matters discussed in the third paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the Balance Sheet as of September 30, 2005 and the Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years ended September 30, 2006 and 2005.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS, CONTINUED

In our opinion, except for not maintaining adequate accounting records and sufficient supporting documentation for certain obligations recorded during the year, the Balance Sheet referred to above presents fairly, in all material respects, the financial position of Peace Corps as of September 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and Required Supplementary Information, is not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Other Accompanying Information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 10, 2006 on our consideration of Peace Corps' internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read in conjunction with this report.

Urbach Kahn & Werlin LLP

Washington, DC
November 10, 2006

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL**

Director
Peace Corps

Inspector General
Peace Corps

We have audited the Balance Sheets of the Peace Corps, an independent executive branch agency of the United States government, as of September 30, 2006 and 2005 and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. We have issued our report thereon, dated November 10, 2006, in which we issued a qualified opinion on the Balance Sheet as of September 30, 2006, and disclaimed an opinion on the Balance Sheet as of September 30, 2005 and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years ended September 30, 2006 and 2005 for the reasons noted in that report.

In planning and performing our audit, we considered Peace Corps' internal control over financial reporting by obtaining an understanding of Peace Corps' internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our engagement procedures. We limited our internal control testing to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

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

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

1. Peace Corps did not have adequate controls over its financial management structure, monitoring processes and financial reporting.
2. Peace Corps did not have adequate controls over its accounting business processes.
3. Peace Corps was not able to substantiate material prior period account balances.
4. 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. 06-03. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other less significant matters involving the internal control and its operation, which we have reported to the management of Peace Corps in a separate letter, dated November 10, 2006.

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

Urbach Kahn & Werlin LLP

Washington, DC
November 10, 2006

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 1 (Material Weakness)

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

During fiscal year (FY) 2006, Peace Corps continued to improve its financial management structure and monitoring processes, control environment and financial reporting process. The restructuring of the Office of the Chief Financial Officer was completed in 2006; however, additional refinements in roles and responsibilities within the accounting and financial reporting division are needed to ensure timely and reliable financial reporting. Peace Corps also still does not have a fully effective monitoring control over the financial reporting process. Specifically, improvements are needed in management review and analysis controls to ensure the propriety of the financial statements, related footnotes and the annual Performance and Accountability Report. The presentation and disclosure of Peace Corps' financial statements were not initially in accordance with Office of Management and Budget (OMB) Circular A-136, *Federal Reporting Requirements* and applicable government accounting standards. Numerous corrections and changes were made to the draft financial statements after they were submitted to OMB. We also found:

- Ownership roles for specific financial statement lines, general ledger accounts and subsidiary ledgers need further refinement
- Monitoring roles of the Accounting and Financial Reporting division were defined but the specific responsibilities and procedures need to be clarified and documented
- Accountability for ensuring that support for account balances is available and is adequately reviewed for accuracy, completeness and compliance with accounting standards and internal policies needs enhancement. It was not always clear who was primarily responsible for explaining discrepancies in account reconciliations and amounts supporting the financial statements. Furthermore, the deficiencies in the account balances and in the adequacy of documentation identified in the audit were not always researched and resolved prior to our inquiry.

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 1 (Material Weakness), CONTINUED

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

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

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

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

A. Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- *All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness)*

Most of these issues were affected by Peace Corps' continuing emphasis on validating historical data supporting key financial statement balances, rather than fully focusing on the effectiveness of routine financial reporting business processes.

Recommendations

We recommend that the Chief Financial Officer of Peace Corps:

1. Refine roles and document specific responsibilities in the Accounting and Financial Reporting division to ensure every financial statement line item and the related footnote is assigned to members of the division, with specific quality control procedures related to internal and external financial reporting. These quality control procedures include monitoring the information supporting the financial statements to ensure it fully matches the reported balances and is readily available.
2. Ensure the key responsibilities of the Accounting and Financial Reporting division are appropriately assigned and clearly communicated with performance goals to ensure all monthly and quarterly procedures necessary to produce financial statements in compliance with applicable accounting and reporting standards.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness)

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

Business Processes Over Fund Balance with Treasury Reconciliations Were Not Sufficient

Peace Corps did not assign responsibility for compiling and reviewing an overall Fund Balance with Treasury (FBWT) reconciliation. While Peace Corps made significant improvements in internal control over FBWT during FY 2006, we found critical portions of the FBWT reconciliation and reporting process were being performed by several people in different departments, and these reconciliations were not linked, compared, nor consolidated.

Additionally, Peace Corps was unable to completely identify and substantiate all unreconciled items between detailed cash activity from their general ledger and the Governmentwide Account (GWA) Systems Report, *Expenditure Activity*, which is an independent confirmation from Treasury that reflects year-to-date and current month cash activity in appropriation, trust, revolving, clearing and deposit fund accounts. Peace Corps manually adjusted its general ledger balance by approximately \$800,000 (net) to agree with Treasury's balance at September 30, 2006. This adjustment included more than \$4.1 million in debit and credit adjustments.

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

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

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

Business Processes Over General Property, Plant and Equipment Were Not Sufficient

In FY 2005, Peace Corps could not adequately support its reported General Property, Plant and Equipment (PP&E) financial statement balance. During FY 2006, Peace Corps completed a full physical inventory and validation of its capitalized property balances. However, there were not effective internal controls and processes in place for compiling, verifying and ensuring the completeness of their listings of capital assets. During the FY 2006 audit, we found:

- Some values recorded in the PP&E listing were based on budgeted cost, not actual cost, causing inaccurate asset values and double counting of some assets
- Some assets on the listing could not be validated by invoices or physical verification
- Management estimates used to support cost values for assets that were not supported by invoices were not consistently calculated and supported

Peace Corps performed additional procedures to validate and support their property balances and we were able to extend our procedures over the adjusted property schedules to ensure the propriety of the PP&E balances reported in the final September 30, 2006 Balance Sheet. We were unable to extend procedures to ensure the propriety of the PP&E balances on the September 30, 2005 Balance Sheet.

We identified the following causes of the conditions described above:

- Peace Corps does not yet have procedures in place to adequately record additions and disposals for all categories of PP&E
- Peace Corps does not have adequate policies and procedures in place relating to retaining documentation supporting asset values
- Peace Corps did not perform sufficient existence, accuracy and completeness checks on its PP&E listing as part of the capital property validation, accounting and financial reporting processes

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

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

Asset Recognition

All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:

- *Amounts paid to vendors;*
- *Transportation charges to the point of initial use;*
- *Handling and storage costs;*
- *Labor and other direct or indirect production costs (for assets produced or constructed);*

Management Processes for Estimating Accrued Liabilities Needs Improvement

In FY 2006, Peace Corps properly recorded all invoices received by the year-end as Accounts Payable. Additionally, they posted several manual journal entries to record additional liabilities for goods and services received but not billed related to obligations over \$250,000. However, our review found some errors in the amounts accrued and inconsistent processes for documenting the amounts to be accrued.

Additionally, Peace Corps has not established an effective accrual process to identify and record additional liabilities for goods and services that were received before September 30, 2006, which were related to obligations under \$250,000. Peace Corps had not performed sufficient validation of its methodology to ensure that unrecorded liabilities for obligations less than \$250,000 would not be material to the financial statements. We were unable to extend our procedures to determine the adequacy of the Accounts Payable balance as of September 30, 2005. We were able to extend our auditing procedures to ensure that these unrecorded liabilities as of September 30, 2006 were not likely to be material.

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

3.4 Liabilities

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

Business Processes Over Obligations and Disbursements Were Not Sufficient

Obligations

Controls over the obligation process were not operating effectively. Policies and procedures to ensure consistent recording of obligations and retention of adequate supporting documentation need to be refined and implemented. Our tests of internal control over obligations found:

- Several obligations were recorded after the goods/services were received
- Signed personal service contracts were not filed at headquarters (HQ)
- Obligations related to contracts requiring additional HQ delegated authority were recorded by the overseas Posts prior to receiving the additional delegated authority as required.

In connection with our testing of unliquidated obligation balances as of June 30, 2006, we found:

- Documentation for some obligations was incomplete, inadequate or not provided timely
- Some obligations were posted incorrectly and corrections were not recorded timely
- Recorded obligation amounts did not match the supporting documentation provided

Disbursements

Controls over the disbursement process were not operating effectively. Policies and procedures for processing disbursements and sufficient retention of supporting documentation need to be refined. Our tests of controls found instances where disbursements were not recorded timely.

In connection with our testing of unliquidated obligation balances as of June 30, 2006, we noted that documentation for some disbursements was incomplete, inadequate or untimely.

These issues were the result of misunderstandings by Post personnel regarding the requirements for documenting, supporting and retaining evidence for the various types of obligation transactions.

As a result of the errors and missing documentation found in our testing of unliquidated obligations as of June 30, 2006, we were unable to rely on internal controls in order to reduce the extent of our year end procedures. Our testing also found the balance may have been materially misstated. We were unable to extend our auditing procedures to determine the extent to which these matters may have had on the classification of the status of obligated balances on the September 30, 2006 Balance Sheet.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

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

The Peace Corps Overseas Financial Management Handbook, Section 33.1.1, states:

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

Recommendations

We recommend that the Chief Financial Officer of Peace Corps:

Fund Balance with Treasury

3. Ensure the responsibility for monitoring and combining the different FBWT component reconciliations and performing an overall FBWT reconciliation is assigned to the Accounting and Financial Reporting division.
4. Reconcile the complete Odyssey general ledger cash balance to Treasury's GWA Report monthly to validate that the Fund Balance with Treasury is properly reported. Management should determine whether differences are Peace Corps or Treasury errors and approves applicable corrections.
5. Perform daily reconciliations of Department of State transactions (SF 1221, *Statement of Transactions*) in order to quickly identify and correct disbursement and collections discrepancies.

General Property, Plant and Equipment

6. Establish policies and procedures for headquarters and Post property managers and financial reporting personnel relating to retaining documentation supporting asset values.
7. Clarify the roles and responsibilities of the property accounting and financial reporting personnel for performing accuracy and completeness checks on the capitalized property listings.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 2 (Material Weakness), CONTINUED

8. Develop and implement detailed procedures for recording capitalized property additions, disposals and depreciation on an on-going basis.

Accrued Liabilities

9. Develop and test a cost efficient methodology to estimate accrued liabilities for obligations below the management determined \$250,000 threshold.
10. Develop and implement a standardized accrual calculation worksheet to ensure complete and consistent period-end accruals.

Obligations and Disbursements

11. Establish a policy containing documentation requirements for the various types of Peace Corps obligations. This guidance should include procedures for documenting estimates used to obligate funds, documentation retention timeframes and filing instructions to ensure support for transactions is readily available.
12. Review and refine controls over obligation entries to ensure obligations are entered prior to goods and services being performed, where possible, for the correct amount, and that if they are entered incorrectly, the error will be found and corrected timely.
13. Ensure signed copies of all contracts entered into by Posts are kept on file at headquarters, in addition to the original at Post.
14. Ensure additional delegation of authority is received by Posts, consistent with the Overseas Financial Management Handbook, prior to entering into applicable contracts at Posts.
15. Evaluate the disbursement process to identify the cause(s) of disbursements not being processed timely. Revise policy and procedures as necessary to ensure all disbursements are posted timely

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 3 (Material Weakness)

PEACE CORPS WAS NOT ABLE TO SUBSTANTIATE MATERIAL PRIOR PERIOD ACCOUNT BALANCES

Our prior year engagement found that Peace Corps was unable to provide adequate accounting records and supporting documentation for the Accounts Payable, General Property, Plant and Equipment and Unliquidated Obligation balances reported in the prior year financial statements. During FY 2006, Peace Corps undertook significant efforts to improve the reliability of the balances reported on the Balance Sheet as of September 30, 2006. However, we were not able to extend our auditing procedures to verify the completeness or reliability of the Balance Sheet as of September 30, 2005 or determine the effect these matters may have had on the Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years ended September 30, 2006 and 2005.

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

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

Based on the results of our testing on the September 30, 2006 Balance Sheet, we are not making a recommendation related to this finding.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness)

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

Peace Corps made improvements within its information systems control environment during FY 2006. However, we identified the following significant internal control weaknesses related to the Peace Corps Financial Management System (Odyssey) and Peace Corps' Overseas Information Technology (IT) environment:

- The current Peace Corps Information Technology Disaster Recovery (ITDR) test plans had been updated to reflect the current Peace Corps environment. However, these disaster recovery plans had not been tested during FY 2006. Without testing the disaster recovery plan, Peace Corps cannot ensure that it will be able to timely recover its computer systems in the event of an emergency. Untested plans make it difficult to confirm the accuracy of individual recovery procedures and the overall effectiveness of the plans.
- The Peace Corps Financial Management System (Odyssey) and the FOR Post/HQ applications did not have contingency plans in place. Without contingency planning in place, the risk of loss of financial data and operations for an unnecessary, extended period of time is increased.
- The Odyssey system, along with the FOR Post/HQ applications, had not been certified and accredited. The system is currently in production and the Odyssey Interim Authority to Operate (IAO) has expired. Without completing the certification and accreditation (C&A) process, Peace Corps management cannot ensure the security of their information systems as required by OMB. In addition, without a complete C&A package (i.e. security plans, risk assessments, contingency plans), proper security may not be administered over the data within the agency's information systems.
- The Peace Corps' Africa Region Posts had insufficient resources for adequate software and hardware support and security training for IT personnel. We noted the following specific issues during testing conducted at overseas Posts. These issues are not planned to be corrected until the software refresh is completed for the Africa Region Posts:
 - A post anti-virus server was obsolete and was no longer supported by the vendor. However, the vendor will continue to send virus definition updates.
 - Windows NT was no longer supported as of December 31, 2005. As of November 2006, the vendor is only supplying critical security fixes to the platform and most third party vendors no longer support this platform for their products.
 - The Post back-up software is no longer supported.
 - The Post proxy server is no longer supported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness), Continued

The delay in the deployment of the overseas software refresh to the Peace Corps' Africa Posts increases the risk that security vulnerabilities and flaws will not be addressed in a manner for minimizing and preventing security risks.

- The Overseas Post Microsoft® Small Business Server (SBS) and workstations had 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 overseas Peace Corps data and its operations.
- Peace Corps is sharing and exchanging information maintained within Odyssey with external entities without a memorandum of understanding (MOU) stating the terms and conditions as to how the data may be used by each entity.
- Peace Corps had not developed test plan standards for all levels of testing for proposed Odyssey system configuration changes. Test plans help to ensure all critical scenarios of a new implementation or change have been adequately tested and define the responsibilities for each party, such as users, system analysts, programmers, and quality control.

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

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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness), Continued

Additionally, National Institute of Standards and Technology (NIST) Special Publication (SP) 800-34, *Contingency Planning Guide for Information Technology Systems*, states:

Testing helps to evaluate the viability of plan procedures, determine the ability of recovery staff to implement the plan, and identify deficiencies in the plan. Testing should occur at least annually and when significant changes are made to the IT system, supported business process(s), or the IT contingency plan. Each element of the contingency plan should be tested first individually and then as a whole to confirm the accuracy of recovery procedures and the overall effectiveness.

The Peace Corps Manual Section (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.

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

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

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

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

Recommendations

We recommend the Peace Corps Director ensure that:

16. The IT Recovery Plans/Contingency Plans are tested at least annually, or as soon as possible, after any significant interim change is made to the Peace Corps' operating environment.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

REPORTABLE CONDITION 4 (Material Weakness), Continued

17. The Contingency Plan for the Odyssey Financial Management System, including the FOR Post/HQ applications, is completed and tested at least annually, or as soon as possible after any significant interim change is made to the operating environment.
18. Full certification and accreditation for the Odyssey Financial Management System, including the FOR Post/HQ applications, is completed in accordance with Peace Corps policy and OMB Circular A-130 guidance.
19. 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.
20. A memorandum of understanding (MOU) is in place for each entity/agency system that shares information with Odyssey. The MOU should be signed and authorized by appropriate management officials, state the terms and conditions as to how the data may be used by each entity, and reviewed/updated on a periodic basis.
21. Test plan standards are developed for each level of testing performed for Odyssey system changes.

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

Director
Peace Corps

Inspector General
Peace Corps

We have audited the accompanying Balance Sheets of Peace Corps, an independent executive branch agency of the United States government, as of September 30, 2006 and 2005, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. We have issued our report thereon, dated November 10, 2006, in which we qualified our opinion on the Balance Sheet as of September 30, 2006 and disclaimed an opinion on the Balance Sheet as of September 30, 2005, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years ended September 30, 2006 and 2005 for the reasons noted in that report.

The management of Peace Corps is responsible for complying with laws, regulations, and provisions of contracts and grants applicable to Peace Corps. As part of obtaining reasonable assurance about whether the Balance Sheet as of September 30, 2006 was free of material misstatement, we performed tests of Peace Corps' compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Office of Management and Budget (OMB) Bulletin No. 06-03, *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, regulations, and provisions of contracts and grants applicable to Peace Corps.

The results of our tests of compliance with certain provisions of laws, regulations, contracts and grants described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance with laws, regulations, and provisions of contracts and grants that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether Peace Corps financial management systems substantially comply with the Federal financial management system requirements, applicable Federal accounting standards, and the United States Government 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 financial management systems (specifically the Odyssey system, which includes the FOR Post/HQ system) did not substantially comply with the first requirement discussed in the preceding paragraph related to Federal financial management system requirements.

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

Peace Corps financial management systems did not substantially comply with Federal financial management system requirements, including OMB Circulars A-127, *Financial Management Systems* and A-130, *Management of Federal Information Resources*, as they relate to information system security requirements. Peace Corps did not satisfy the provisions of OMB Circular A-130, Appendix III, Section (3), which requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. Specifically,

- The Peace Corps Financial Management System, Odyssey (including the FOR Post/HQ applications), did not have a contingency plan in place. Without contingency planning in place, the risk of loss of data and operations for an unnecessary, extended period of time within Peace Corps financial systems is increased.
- Odyssey (including the FOR Post/HQ applications) had not been certified and accredited. The system is currently in production and the Odyssey Interim Authority to Operate (IAO) has expired. Without completing the certification and accreditation process, senior level agency officials will not have taken the appropriate steps to ensure the security of their information systems as required by OMB. In addition, without a complete C&A package (i.e. security plans, risk assessments, contingency plans) proper security may not be administered over the data within the agency's information systems.

The Peace Corps Chief Information Officer is responsible for the financial systems within Peace Corps.

Specific conditions and recommended remedial actions attributable to these instances of noncompliance are more fully described in our Independent Auditor's Report on Internal Control, dated November 10, 2006.

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

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

Urbach Kahn & Werlin LLP

Washington, DC
November 10, 2006



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OTHER INFORMATION



The Inspector General's Statement on the Peace Corps' Management Challenges

As required by the Reports Consolidation Act of 2000 and Office of Management and Budget guidance, I am pleased to submit the following statement summarizing what I consider to be the most serious management challenges facing the Peace Corps. This statement has been compiled based on Office of Inspector General (OIG) audits, investigations, evaluations, and the general knowledge of the agency's operations.

Sincerely,

H. David Kotz
Inspector General
September 29, 2006

Challenge **The Safety and Security of Peace Corps Volunteers**

Although statistics provided to us by the agency seem to demonstrate that violent crime against volunteers is down, the sheer number of violent incidents that have been reported to us over the past year demonstrates that the safety and security of Peace Corps volunteers remains a management challenge. We also believe that there are many instances of violent crimes not being reported. There is considerable evidence of the agency's efforts to strengthen the systems supporting volunteer safety and security. In the coming fiscal year, we plan to undertake a comprehensive evaluation of the major components of Peace Corps' safety and security strategy and the impact of the agency's recent efforts in the safety and security arena.

Challenge **Information Technology Management**

The Peace Corps has been taking actions to improve and strengthen its information technology architecture and security management. However, significant issues remain outstanding, possibly exposing the agency to unacceptable information technology risks. The most notable are as follows:

- Many of the agency's information systems have not received their final certifications and accreditations authorizing that they are acceptable for use.
- A systems development and life cycle process and change management practices have not yet been fully or consistently institutionalized.
- Business continuity contingency planning and testing, while ongoing, has not reached the level where all the agency's critical activities could be recovered following a major disruption.

Challenge **Financial Management**

One of the larger challenges initially identified and continuing since fiscal year 2004 has been financial management and reporting. Much progress has been made in transitioning financial processes from one of a transactional, budget-based process to one with a financial management focus. Over the last year, much progress has been made toward this objective.

Presently, the agency continues to face challenges over its process of preparing and presenting the financial results of the agency on a routine basis that ensures financial reporting and information is consistent, reliable and repeatable over time.

Challenge **Post Imprest Fund Management**

Peace Corps is responsible for controlling and maintaining the imprest funds of approximately 70 of its overseas posts. Roughly \$75 million flow through these imprest funds for various needs. Over the last few years, the OIG has repeatedly found that oversight of the imprest funds has not been consistent with agency policy and procedures, leading to shortages and overages as well as embezzlements. Management of the imprest funds would be enhanced by strengthening existing Peace Corps policies and procedures to include training the administrative staff to understand the cashier role and functions, as well as providing hands-on training of cashiers.

Challenge **Post Management Responsibilities**

In addition to imprest fund management at the overseas posts, some administrative activities have been identified as challenges for the agency. The most significant of these, which would benefit by developing and implementing stronger control processes, are described below:

- *Post Property Control and Management* — Posts track inventories of their equipment and furniture on spreadsheets, permitting anyone to easily make un-authorized changes to those records which potentially could lead to the removal property without detection.
- *Post Purchase Cards* — Purchase cards are issued to each post facilitating convenient, relatively small purchases as needed for post operations. For example, one can easily purchase products available through the internet. However, internal controls over the use of post-issued purchase cards are weak, allowing for the possibility of unauthorized purchases to be made using Peace Corps funds. Without billing details, it is not possible for headquarters to know what had been purchased and if such purchases were in compliance with Peace Corps policy.

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

Appropriately managing resources from other agencies, such as those received through the President's Emergency Plan for AIDS Relief (PEPFAR) continues to be a management challenge. PEPFAR funding

is provided to participating U.S. government agencies through a planning process managed by the ambassador in each country. These funds are legislatively limited to support AIDS-related programs.

Although there has been progress in providing appropriate guidance to County Directors on how they may properly use PEPFAR funds, the greater influx of PEPFAR funds planned for fiscal year 2007 presents an ongoing challenge and may need additional guidance at the post level to ensure that these funds are not being misused.

Challenge **Staff Development**


The level of staff development at the Peace Corps, particularly related to overseas staff is a matter the agency should address. Lack of adequate training for host country staff as well the lack of the necessary task analysis, training and mentoring of the program staff represent a significant challenge for the agency. Over the past year, in order to determine how high performing overseas posts are able to achieve successful results, we assessed and analyzed both the posts identified with areas of concern, as well as those posts identified as exemplary. We found that the quality of the staff at posts is uneven, and identified inconsistencies in staff management as well. Also identified were that high-performing posts are able to improve their programs and training events by giving meticulous attention in the form of time and increased training for such tasks as site selection and preparation, quality volunteer training, and superior volunteer support.

Challenge **Support for Volunteers Working in Projects Dedicated to Assisting HIV/AIDS Victims**

In several posts where OIG has conducted program evaluations, we have become concerned about the lack of emotional and mental health support for volunteers who work with HIV/AIDS victims. Program and emotional support is often not adequate for those Peace Corps volunteers who, as a result of their work, attended funerals daily and were faced with death, many for the first time in their lives, nor was the support commensurate with the demands placed on these volunteers by their assignments and workload. Peace Corps staff are sometimes not prepared to provide this technical and emotional preparation and support. Host country staff bear the additional burden of social and cultural stigma making it difficult to even acknowledge the realities and consequences of HIV/AIDS. The agency's exposure to the potential consequences to the volunteers requires attention.



Agency Response to the Inspector General's Statement on the Peace Corps' Management Challenges

To: H. David Kotz, Inspector General
From: Ronald A. Tschetter, Director 
Date: November 1, 2006
Subject: Agency Response to the Inspector General's Statement on Management Challenges

Thank you for your statement of September 29, addressing the management challenges faced by the Peace Corps, as required by the Reports Consolidation Act of 2000 and OMB guidance.

The Office of Inspector General (OIG) carries out its work through audits, evaluations, and investigations in order to prevent and detect fraud, waste, abuse, and mismanagement and promote economy, effectiveness, and efficiency in government. The agency is pleased to work alongside the OIG, and remains committed to resolving outstanding issues and addressing recommendations.

Your statement highlights areas of challenge for the Peace Corps as the agency continues to strive for optimal performance while carrying out its mission in an ever-changing world. I would like to take this opportunity to address the issues raised as management challenges.

- **The Safety and Security of Volunteers**

The Peace Corps works in some of the least developed countries and in some of the most remote areas in the world. Our challenge is to operate in a way that minimizes risks and maximizes security while also providing a meaningful experience for Volunteers and their host communities. Safety and security issues are fully integrated into all aspects of Volunteer recruitment, training, and service, with emphasis on Volunteers taking personal responsibility at all times and assimilating into their communities.

The Peace Corps has been tracking crimes against Volunteers for the last 15 years in an effort to identify trends and inform policies and practices to improve Volunteer safety. To simplify the reporting process and provide information immediately and confidentially to appropriate staff, the agency overhauled its crime reporting process. The new, upgraded system of reporting crimes via the Crime Incident Reporting Form (CIRF) was implemented in fiscal year (FY) 2006. During the first six months of the implementation of this new system, the Office of Safety and Security — in its quest for accurate crime statistics — noticed what appeared to be underreporting in a segment of the Peace Corps reporting population. Consultations with affected posts led to immediate corrective action.

The underreporting of crimes remains a challenge for law enforcement in the United States and throughout the world. Anecdotal information suggests that a small percentage of Volunteer victims may avoid reporting a crime if they were acting against policy at the time or if they fear the consequences of reporting (e.g., site changes or investigations). One of the safety and security competencies that trainees must learn during their pre-service training is about the importance of reporting crimes, regardless of the circumstances, both to help the victim and to inform how to best protect Volunteers in the future.

The agency is interested in any further information to assist in pinpointing the causes of under-reporting to help decrease underreporting and to capture a more accurate picture of the safety issues Volunteers must manage in the field. The Office of Safety and Security is currently conducting an internal evaluation of the overseas safety and security program and welcomes recommendations from the OIG.

- **Information Technology Management**

The Peace Corps has strengthened its information technology architecture and security management; however, the agency still has steps to take to address the identified challenges.

Certifications and Accreditations

In FY 2006, the Office of the Chief Information Officer (OCIO) conducted a formal evaluation of the agency's information systems to baseline an inventory of systems requiring certification and accreditation. This inventory was conducted in accordance with the standards of OMB, the National Institute of Standards and Technology (NIST), and the Federal Information Security Management Act (FISMA). The inspector general reviewed the up-to-date inventory and agrees with the methodology and outcome.

Based on this inventory, the OCIO's Office of Information Technology (IT) Security developed a plan to conduct at least three certification and accreditation efforts each year beginning in FY 2007. To accomplish this, the OCIO acquired industry-standard software that will facilitate standardized, repeatable system certification and accreditation. Additionally, the OCIO developed initial system certification and accreditation scoring and acceptance criteria. The Office of IT Security also ensured all new applicable agency IT acquisitions included certification and accreditation requirements.

Systems Development and Life Cycle Process and Change Management Practices

The OCIO is in the review stages of version 4.1 of the systems development life cycle (SDLC). The latest version includes updates from the Office of IT Security to ensure compliance with the latest FISMA and NIST guidelines. Additionally, the OCIO project management office (PMO) is in the final stages of establishing a project review board. This board will ensure compliance with appropriate project management principles and institutionalize adherence to SDLC.

The OCIO change management process has been refined and put into operation under the director of IT architecture, standards and practices. This standard process is now clearly documented and followed during weekly meetings that review all IT changes planned for the Peace Corps' production environment. Agency-wide training is provided by the OCIO PMO quarterly as part of IT governance awareness. Additionally, OCIO account representatives provide training on an individual basis.

Business Continuity Contingency Planning and Testing

The OCIO is in the final review stages of a revised disaster/recovery plan that addresses the findings of a 2005 business impact analysis. This effort has included interviews with key user staff to better understand the requirements of the user community, to internally assess OCIO capabilities as well as those of our disaster/recovery contractor, and to review of industry progress in this area.

Our plan was modified to include the critical systems identified by the user community as well as the added capability of Peace Corps OCIO as a result of the domestic deployment of a global Active Directory. This added several critical systems to our infrastructure, including Active Directory, RSA and ISA servers, and Exchange 2003 in a clustered environment.

We have addressed these new requirements during negotiations with our disaster/recovery contractor and now have a substantially updated contract. This contract includes our first test of the new critical systems environment in December 2006. A comprehensive after-action report from this test will be a major input to our strategic decisions regarding disaster/recovery going forward.

- **Financial Management**

FY 2005 and FY 2006 were a period of maturation for the organization of the Office of the Chief Financial Officer (OCFO). Staff became increasingly familiar and confident with financial and other systems and the processes to improve the quality of input data and resulting reports. From the OCFO's standpoint, the financial statements are accurate and complete in all material aspects. This past year, the agency made tremendous strides in its recording, reconciling, and reporting. Most financial statements are now produced directly from the accounting system, whereas an off-line process was previously required.

Fiscal years 2007 and 2008 will be a period of further refinement as the agency ensures that each key financial management process is effectively supported by compliant policies, comprehensive procedures, and reconciliation and analysis tools. The results of each process will be monitored through a combination of metric management, peer group presentations, internal assessments, and independent testing.

- **Post Imprest Fund Management**

Oversight of posts' imprest funds was extremely active during FY 2006, and careful oversight will continue in future years. All cashiering support functions and cash management are now under the director of accounts receivable and cash management within the OCFO. Cash management internal controls, reporting, and monitoring have all been reviewed and improved. One specific initiative, the Post imprest fund certification program, automated the cash management reconciliation and reporting process. This program certifies posts as fully compliant with the agency's reporting and reconciliation requirements for cashiers and their supervisors, and includes periodic surprise cash counts. Through this initiative, the OCFO, in collaboration with the three regions and posts, validated all of the transaction data an overseas post uses to record cashiering activity. All but three posts' imprest funds—Mauritania, Uganda, and Zambia—have now been certified under this initiative.

- **Post Management Responsibilities**

Post Property Control and Management

The Office of Management is in the process of revising the *Peace Corps Manual*, Section 511, which governs property management, to include access control requirements. This revision assigns responsibilities and mandates periodic process reviews to ensure adherence and effectiveness. The Peace Corps is currently identifying business requirements that would enable the agency to procure an automated worldwide inventory management system. Access control capability is identified as a mandatory design feature requirement.

Post Purchase Cards

The primary objective of the purchase card program is to reduce the procurement process/administrative cost for small dollar purchases. To that end, the agency identified a documentation and transaction review approach that provides oversight, which is practical, cost effective, and in line with the intent of the government-wide program. To mitigate risk to the Peace Corps, each purchase cardholder reports to an approving official. The approving official is responsible for reviewing and certifying monthly each of the cardholder's purchase card transactions.

At the agency level, the Office of Acquisitions and Contract Management (OACM) has implemented monthly transactional reviews, which targets (1) purchases exceeding the micro-purchase limit, (2) split purchases, (3) suspected improper or fraudulent transactions, (4) unauthorized purchases, and (5) domestic purchases that were charged sales tax. While these reviews provide an opportunity for training, serious violations or card misuse will be tracked and reported as appropriate.

A new manual section codifying the purchase card program, including updated internal controls and a "don't buy list," is expected to be published during the first quarter of FY 2007. Upon publication of the new policy, OACM will develop computer-based training for the new processes and procedures. This training should be extremely beneficial for cardholders and approving officials serving at our overseas posts.

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

Effective control and management of funds from outside sources is important to the Peace Corps, and will remain a focus of the agency when working with funding through the President's Emergency Plan for AIDS Relief (PEPFAR). In an effort to provide clear expectations and guidance to the field, the Office of AIDS Relief worked with the OCFO and the regions to update and reissue Peace Corps guidance for PEPFAR proposals (June 2006). As part of this process, the OCFO devised a budget template for PEPFAR planning purposes, which is also used for allotment requests after funding is approved. The guidance and the template not only enable the agency to isolate PEPFAR funds from its own appropriated funds, but they allow each post to track PEPFAR funding according to program service (e.g., prevention, orphans and vulnerable children, etc.), which is an important step in establishing accountability. This document included guidelines for programming as well as for budget and acquisition, which the AIDS Relief Coordinator discussed directly

with 12 posts during a four-day PEPFAR conference in South Africa. Additionally, in FY 2006, the Office of AIDS Relief conducted a three-day training workshop for key staff on PEPFAR program and budget guidance.

The agency anticipates increased funding in FY 2007 and will work to ensure that staff has the training and guidance they need to effectively work with PEPFAR funds. To provide greater support to the posts receiving PEPFAR funds, the Office of AIDS Relief has begun the process to recruit and hire a staff member who will focus on administrative and budget issues.

- **Staff Development**

The agency recognizes staff development as both an opportunity and a challenge. This is especially true for overseas staff. Presently, the Peace Corps provides in-depth training to select overseas staff through its overseas staff training (OST). OST participants include country directors, administrative officers, and programming and training staff. The agency also conducts numerous continuing education workshops for various staff on a regional and sub-regional basis. Our committed staff overseas includes many who are new to the agency and others who have served the agency for long periods of time but may need increased training to navigate the ever-changing operating environment.

While the unevenness of staff abilities is a challenge, the agency aims to develop a continuum of training that is based on core and functional competencies that is delivered with appropriate learning and testing methods. The agency also looks to utilize technology to enhance online learning and collaboration. Timely and focused training can help the agency build the capabilities of its overseas staff and retain high-quality staff.

- **Support for Volunteers Working in Projects Dedicated to Assisting HIV/AIDS Victims**

The Peace Corps is aware of the challenges facing Volunteers when they take up an assignment in a country with a high HIV prevalence rate. This awareness was developed through direct communication from and interviews with Volunteers, country directors, Peace Corps medical officers, the Office of Special Services, and from OIG country reports. Effectively supporting Volunteers requires the work of offices across the agency to ensure that the ramifications of living and working in high HIV-prevalence areas are addressed in all aspects of recruitment, training, and support. In collaboration with other offices within the agency, the Office of AIDS Relief has been involved in the following efforts to address ways in which the Peace Corps can better support these Volunteers:

- Revising and publishing the HIV/AIDS brochure for recruitment purposes to include a new message on how “the road will not be easy”;
- Producing an HIV/AIDS video that includes content about the challenges (from the Peace Corps Director and from the Volunteers) of living in a high-prevalence country;
- Establishing a pilot program for certain applicants to receive HIV/AIDS technical training and hospice training;

- Conducting a review of the HIV/AIDS program in Tanzania, which offers a model of integrated support;
- Initiating development of a “resiliency skills” training module for Volunteers, which was tested in Ukraine.

Peace Corps/Tanzania’s model of supporting Volunteers is a promising one as the agency looks at best practices in this area. The post’s program includes training on coping skills, a peer support network, a proactive medical officer with counselors on hand for referrals, and sub-regional technical workshops. Additionally, an HIV/AIDS training toolkit has been in production over the past year (including a module on Volunteer support) and is expected to be ready for distribution in 2007. The agency will continue to carry out these and other efforts to ensure that Volunteers working with HIV/AIDS issues get the support that they need.



APPENDICES



Appendix 1: Material Weaknesses and Non-Conformances

The one material weakness relates to internal control and financial reporting for the business process Property, Plant & Equipment (PP&E), adequate controls over capital assets. Progress toward resolution of this weakness over the last fiscal year includes:

- Issuing CFO Bulletin 06-09 in March 2006 requiring supporting documentation and certification of FY 2005 overseas property.
- Issuing two CFO Policy Statements, 06-04 and 06-05, in August 2006 on accounting for PP&E and accounting for software.
- Reviewing and comparing payments and collections potentially involving capital assets to the corresponding property records to ensure compatibility.
- Assembling all existing documentation on the vehicle fleet at the headquarters and preparing a 2006 vehicle fleet management guide.
- Refining recorded capitalized estimates for Odyssey/FOR Post and adjusting the net book value downward by \$9.7 million.
- Determining that an estimated 40 percent vehicle salvage value was warranted and adjusting depreciation by \$3.8 million.
- Identifying and capitalizing an additional \$8.4 million of assets acquired in previous years involving information technology (IT) hardware and software, telecommunications equipment, aggregate purchases of furniture, and leasehold improvements.

The remaining efforts on the corrective action plan to mitigate this weakness should be completed by March 2007 and consist of the following:

- Refining and implementing a policy that correctly capitalizes and depreciates IT hardware and software and general PP&E.
- Improving and documenting completeness tests in all areas of PP&E.
- Ensuring that book values for PP&E are accurate and periodically reviewed and that the subsidiary ledgers are being updated regularly.
- Documenting methodology for capitalizing leases at post and headquarters.

The two non-conformances—completeness of a disaster recovery strategy and enterprise-wide financial system accreditation and certification—did not conform to the objectives of FMFIA that address government-wide financial management systems requirements. Achieving complete financial system certification and accreditation and implementation of the contingency plan are not anticipated until March 2007. Progress toward achieving conformance within these two areas over this last fiscal year includes drafting and reviewing the Peace Corps IT security documentation standards. The remaining efforts on the corrective action plan to eliminate these non-conformances include:

- Finalizing Peace Corps IT security documentation standards.
- Testing the disaster recovery plan.
- Finalizing the financial system certification documentation, including the system security plan, the disaster recovery plan, and the business continuity plan.
- Completing financial system certification and accreditation.



Appendix 2: Current Status of Prior Audit Recommendations

Current Status of Prior Audit Recommendations Directly Involving Financial Processes Summary :: Financial Notice of Findings—Fiscal Year (FY) 2006

Financial Management and Reporting

Description	Number	Severity	Status
Financial Management Control Structure	NoF-01-FIN-2004	High	<i>Near Completion</i>
Undelivered Orders	NoF-01-FIN-2005	High	<i>Near Completion</i>
Subsidiary Ledgers	NoF-03-FIN-2004	High	<i>Near Completion</i>
Financial Statements	NoF-03-FIN-2005	Medium	<i>Completed</i>
Check Donations	NoF-05-FIN-2005	Low	<i>Completed</i>
Advances/Receivables	NoF-07-FIN-2004	Medium	<i>In Progress</i>
FMFIA Compliance	NoF-07-FIN-2005	Medium	<i>In Progress</i>
Financial Management Structure and Monitoring Processes	NoF-10-FIN-2004	High	<i>Near Completion</i>
Host Country Contributions	NoF-14-FIN-2004	Medium	<i>Completed</i>

Property, Plant and Equipment (PP&E)

Description	Number	Severity	Status
Property, Plant, and Equipment	NoF-04-FIN-2004	High	<i>Near Completion</i>

Intra-governmental Reconciliation

Description	Number	Severity	Status
Distinction Between Federal and Non-Federal Transactions	NoF-02-FIN-2004	High	<i>Completed</i>

Accounts Payable and Other Liabilities

Description	Number	Severity	Status
Accounts Payable Manual Journal Entries	NoF-02-FIN-2005	High	<i>Near Completion</i>

Fund Balance with Treasury (FBWT)

Description	Number	Severity	Status
Fund Balance with Treasury	NoF-05-FIN-2004	High	<i>Near Completion</i>

Personnel Actions

Description	Number	Severity	Status
Failure to Monitor Personnel and Payroll	NoF-04-FIN-2005	Low	<i>In Progress</i>

Post Operations

Description	Number	Severity	Status
Overseas Post Accounting and Reporting Functions	NoF-08-FIN-2004	High	<i>Near Completion</i>
Purchase Cards	NoF-15-FIN-2004	Medium	<i>In Progress</i>
Reconciliation of Foreign Service National (FSN) Pay	NoF-16-FIN-2004	Medium	<i>In Progress</i>
Post Budgets	NoF-18-FIN-2004	Low	<i>Completed</i>
Prompt Payment Procedures	NoF-19-FIN-2004	Low	<i>Completed</i>

Status Key

Completed: Completed during FY 2006

Near Completion: Substantial progress on corrective action plan with completion by second quarter of FY 2007

In Progress: Portions of the corrective action plan have been completed while other portions remain to be completed

**Current Status of Prior Audit Recommendations Not Directly Involving Financial Processes
Summary :: Non-Financial Notice of Findings—Fiscal Year (FY) 2006**

Operational

Description	Number	Severity	Status
Professional Development Training	NoF-03-IT-LOW-2005	Low	<i>In Progress</i>
Performance Measures	NoF-06-FIN-2005	Medium	<i>Completed</i>
Medical Services	NoF-11-FIN-2004	Medium	<i>In Progress</i>

Information Technology

Description	Number	Severity	Status
Odyssey Security Plan System Owner	NoF-01-IT-LOW-2005	Low	<i>Near Completion</i>
Information Technology (IT) Recovery Plan	NoF-02-IT-HIGH-2003	High	<i>Near Completion</i>
Security Awareness Training	NoF-02-IT-LOW-2005	Low	<i>Completed</i>
Data and Resource Classification Rankings	NoF-04-IT-LOW-2005	Low	<i>Near Completion</i>
Lack of Formal Policies and Procedures for Odyssey Access	NoF-05-IT-LOW-2005	Low	<i>Near Completion</i>
Lack of Formal Policies and Procedures for Odyssey and Local Area Network Access	NoF-05-IT-MED-2005	Medium	<i>Near Completion</i>
Archiving, Deleting, and Sharing Odyssey Data Files	NoF-06-IT-LOW-2005	Low	<i>Near Completion</i>
FOR Post/FOR Headquarters Access	NoF-07-IT-LOW-2003	Low	<i>In Progress</i>
Memorandum of Understanding	NoF-07-IT-MED-2005	Medium	<i>Near Completion</i>

Information Technology (cont'd)

Description	Number	Severity	Status
FOR Post/FOR Headquarters Audit Logs	NoF-08-IT-MED-2003	Medium	<i>Near Completion</i>
Computer Room Diagram	NoF-08-IT-LOW-2005	Low	<i>Completed</i>
Network Diagram	NoF-09-IT-LOW-2005	Low	<i>Near Completion</i>
Inventory of System/Application Documentation	NoF-10-IT-LOW-2005	Low	<i>Near Completion</i>
FOR Post/FOR Headquarters No Contingency Plan	NoF-11-IT-HIGH-2003	High	<i>Near Completion</i>
Testing of Environmental Controls	NoF-11-IT-LOW-2005	Low	<i>Near Completion</i>
FOR Post/FOR Headquarters Segregation of Duties	NoF-12-IT-MED-2003	Medium	<i>Near Completion</i>
Data Center Emergency Procedures	NoF-12-IT-LOW-2005	Low	<i>Near Completion</i>
Continuity of Operations (COOP) Plan	NoF-13-IT-MED-2005	Medium	<i>Completed</i>
Testing of Odyssey Contingency Plans	NoF-14-IT-LOW-2005	Low	<i>Near Completion</i>
System Programmers	NoF-15-IT-MED-2005	Medium	<i>Near Completion</i>
Odyssey Audit Logs	NoF-16-IT-MED-2003	Medium	<i>Near Completion</i>
Test Plans	NoF-16-IT-MED-2005	Medium	<i>Near Completion</i>
Odyssey No Contingency Plan	NoF-17-IT-HIGH-2003	High	<i>Near Completion</i>
Odyssey System Change Test Results	NoF-17-IT-LOW-2005	Low	<i>In Progress</i>
FOR Post/FOR Headquarters Certification & Accreditation	NoF-20-IT-HIGH-2004	High	<i>Near Completion</i>
Overseas Small Business Server (SBS) Vulnerabilities	NoF-20/22-IT-HIGH-2003	High	<i>In Progress</i>
Overseas Post IT Budget	NoF-22-IT-HIGH-2004	High	<i>In Progress</i>
Odyssey Certification & Accreditation	NoF-23-IT-HIGH-2004	High	<i>Near Completion</i>
Odyssey Account Review	NoF-24-IT-MED-2004	Medium	<i>Near Completion</i>
Odyssey Segregation of Duties	NoF-26-IT-MED-2004	Medium	<i>Near Completion</i>
Overseas Posts: Disaster Recovery, Security, System and Physical Access and Backup Procedures	NoF-29-IT-MED-2004	Medium	<i>In Progress</i>
Overseas Posts: Overseas Architecture Changes	NoF-30-IT-MED-2004	Medium	<i>In Progress</i>

Status Key

Completed: Completed during FY 2006

Near Completion: Substantial progress on corrective action plan with completion by second quarter of FY 2007

In Progress: Portions of the corrective action plan have been completed while other portions remain to be completed

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